UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington D.C. 20549

FORM 10-K

(Mark One)

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934** for the fiscal year ended December 31, 2006.

☐ **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	**22-3270799**
(State or other jurisdiction of incorporation or organization)	(IRS Employer identification No.)
One University Plaza, Hackensack, New Jersey	**07601**
(Address of principal executive offices)	(Zip Code)

(201) 996-9000
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act: **None**

Securities registered pursuant to Section 12(g) of the Act:

Common Stock, par value $0.01 per share
(Title of class)

Indicate by checkmark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act of 1933. Yes ☐ or No ☒

Indicate by checkmark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.
Yes ☐ or No ☒

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 ☒ or No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐

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 Securities Exchange Act of 1934.
Large accelerated filer ☐ Accelerated filer ☒ Non-accelerated ☐

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 ☐ or No ☒

The aggregate market value of the registrant’s common stock, par value $0.01 per share (“Common Stock”), held by non-affiliates is $181.4 million, computed by reference to the price at which the Common Stock was last sold on June 30, 2006, as reported on the Nasdaq National Market.

The number of shares of Common Stock outstanding as of March 1, 2007 was 11,339,000 shares.

DOCUMENTS INCORPORATED BY REFERENCE

Document	Part of Form 10-K
Proxy Statement For 2006 Annual Meeting of Stockholders	Part III

I.D. SYSTEMS, INC.

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PART I.

In addition to historical information, this Annual Report on Form 10-K contains "forward-looking statements" (within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act"), and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act")) that involve risks and uncertainties. See "Risk Factors - Cautionary Note Regarding Forward-Looking Statements." I.D. Systems, Inc. has, or has applied for, trademark protection for I.D. Systems, Inc.®, Intelli-Listening®, MAC™, Vehicle Asset Communicator®, Battery ChaMP™, ChaMP™ and Wireless Asset Net®. This Annual Report on Form 10-K also contains additional trade names, trademarks and service marks of ours and of other companies. All trademarks and trade names appearing in this Annual Report on Form 10-K are the property of their respective holders.

Item 1. Business

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, and rental vehicles. Our patented Wireless Asset Net system, which utilizes radio frequency identification, or RFID, technology, addresses the needs of organizations to control, track, monitor and analyze their assets. Our solutions enable customers to achieve tangible economic benefits by making timely, informed decisions that increase the security, productivity and efficiency of their operations.

We have focused our business activities on two primary applications - industrial fleet management and security, and rental fleet management. Our solution for industrial fleet management and security 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 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. Based on revenues for 2006, our top customers are:

- U.S. Postal Service;
- Wal-Mart Stores, Inc.
- Ford Motor Company;

Interest in, and customer adoption of, RFID-based technologies have increased substantially in recent years. Our differentiated technology and targeted solutions have allowed us to benefit from this marketplace growth. We have increased our revenues from $923,000 in the fiscal year ended December 31, 2001 to $24.7 million in the fiscal year ended December 31, 2006, representing a compounded annual growth rate of 93%.

We were incorporated in the State of Delaware in 1993.

Our Solution

We design and implement solutions that focus primarily on the closed-loop asset management and security segment of the market for RFID and other wireless-based technologies. In this segment, RFID-based devices that provide on-board control, location tracking and data processing are integrated with enterprise assets to provide real-time visibility of, and two-way communications with, such assets. Our Wireless Asset Net system provides architectural and functional advantages that differentiate it from systems used for inventory and logistics tracking. For example, while inventory tracking systems rely on consistent radio frequency, or RF, connectivity to perform core functions, our system requires only periodic RF communications, and our on-asset devices perform their core functions autonomously. Unlike logistics tracking systems, which typically require substantial monthly expenditures for cellular or satellite communications, our system does not require customers to incur wireless communications costs and can track mobile assets indoors, where global positioning system, or GPS, receivers typically do not work.

Our Wireless Asset Net tracking and management system consists of three principal elements:

- miniature wireless programmable computers attached to assets;
- fixed-position communication infrastructure consisting of network computers with two-way RF capabilities, RF-based location-emitting beacons and application-specific network servers; and
- proprietary software, which is a user-friendly, Windows-based graphical user interface that utilizes client-server architecture and a database.

Each of these system elements processes and stores information independently to create a unique, patented system of “distributed intelligence,” which mitigates the risk that a single point of failure could compromise system integrity or data and asset security. Our on-asset hardware stores information locally so that it can autonomously and automatically control the asset and monitor asset activity regardless of the status or availability of other system components. Our on-asset hardware performs its functions even when outside the RF range of any other system component or if the facility computer network is unavailable. Our communication infrastructure independently processes data and executes programmable application logic, in addition to linking monitored mobile asset data automatically to our system’s database. Our server software populates the database and is designed to mitigate the effects of any computer outages that could affect real-time availability of the database. Finally, our client software interfaces only with the database, not directly with our communication infrastructure or on-asset hardware, which restricts access to, and limits corruption of, system information and minimizes network bandwidth usage.

We have focused our business activities on two primary applications - industrial fleet management and security and rental fleet management. In addition to focusing on these core applications, we have adapted, and intend to continue to adapt, our wireless solutions to meet our customers’ broader asset management needs.

Industrial Fleet Management and Security

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

To analyze and benchmark vehicle utilization and operator productivity, our system automatically records a wide range of activity and enables detailed performance comparisons to help management make informed decisions about vehicle and manpower allocations. This can lead to fleet and personnel reductions as well as increases in productivity from existing fleets. The system also provides real-time and historical visibility of vehicle movements.

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

- wirelessly uploading usage data from each vehicle;
- automatically prioritizing maintenance events based on weighted, user-defined variables;
- automatically sending reminders to individual vehicles or operators via the system's text messaging module;
- enabling remote lock-out of vehicles overdue for maintenance; and
- allowing maintenance personnel to locate and retrieve vehicles due for service via the system's graphical viewer software.

To help improve fleet safety and security, our system provides, among other things:

- compatibility with a variety of technologies that verify driver identity;
- wireless vehicle access control to ensure that only trained and authorized personnel use equipment as required by the Occupational Safety and Health Administration, or OSHA;
- electronic vehicle inspection checklists for paperless proof of OSHA compliance;
- automatic reporting of emerging vehicle safety issues;
- automatic on-vehicle intervention, such as alarms and the disabling of equipment, in response to user-definable safety and security parameters;
- remote vehicle deactivation capabilities, allowing a vehicle to be shut down manually or automatically under defined conditions;
- impact sensing to assign responsibility for abusive driving;
- geo-fencing to restrict vehicles from operating in prohibited areas or issue alerts upon unauthorized entry to such areas; and
- a graphical, icon-based view of vehicle safety/security/operational status on a facility map, filterable by a variety of conditions, both historically and in real time.

A specialized application of our solution in the industrial fleet management and security market is vehicle security, particularly at airports, seaports and other areas of critical infrastructure. The Transportation Security Act of 2001 mandates security for aircraft servicing equipment, including aircraft tow tractors, baggage tugs, cargo loaders, catering vehicles and fuel trucks. As of December 31, 2006, we had received more than $4.0 million in grants from the U.S. Department of Homeland Security for developing and deploying a version of our Wireless Asset Net system to address this mandate.

Rental Fleet Management

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

Products and Services

We offer our customers integrated wireless solutions to control, monitor, track and analyze their enterprise assets. Our solutions are comprised of hardware and software, as well as maintenance, support and consulting services.

Principal Products

On-Asset Hardware. With a variety of mounting and user-interface options, our on-asset hardware is designed to be installed quickly and easily and provide an autonomous means of asset control and monitoring. Our on-asset hardware:

- contains an integrated, computer, programmed with a product specific application, and an advanced wireless transceiver with a communication range of up to one-half mile;
- controls equipment access with a variety of electronic interface options;
- is compatible with many existing facility access security systems;
- generates paperless electronic safety checklists via a built-in display and keypad;
- wirelessly and automatically uploads and downloads data to and from other system components;
- performs monitoring and control functions at all times, independent of RF or network connectivity; and
- incorporates a multi-voltage power supply designed to control electrical anomalies.

Gateways. Each of our Wireless Asset Net system deployments requires at least one fixed-position communication device, which we refer to as a "gateway," to link the mobile assets being monitored with the customer's computer network. Our gateways conduct two-way RF communications with the assets being monitored and can communicate on either a local or wide area network. Gateways offer flexible configuration options and scalability. A single gateway is enough to operate an entire asset management system. For expanded, real-time data communication and location tracking, gateways can be added incrementally as needed. Gateways can allow system settings to be changed without physically interfacing with on-asset hardware, which can save significant time and money.

Each of our gateways:

- incorporates an integrated, computer, programmed with a product specific application, and an advanced wireless transceiver with a communication range of up to one-half mile;
- accommodates an unlimited number of on-asset hardware devices;
- automatically uploads and downloads data to and from other system components;
- employs built-in self-diagnostic capabilities; and
- is configurable to achieve a wide range of asset management goals.

Server Software. Each of our Wireless Asset Net system deployments requires at least one installation of our server software, which automatically manages data communications between the system's database and the gateways. Our server software:

- is Windows compatible;
- automatically processes data between our gateways and system databases;
- actively polls gateways to retrieve data on demand;
- supports passive listening to allow remote systems to dial in for data download;
- automates event scheduling, including data downloads, database archiving and diagnostic notifications;
- interfaces with certain existing external systems, including maintenance and training systems;
- supports remote control/management of event processes;
- automatically performs diagnostics on system components; and
- automatically e-mails event alerts and customizable reports.

Client Software. Our client software, referred to as the Wireless Asset Net console, provides an intuitive, easy-to-use, Windows-based interface. The console is deployed in a standard client-server network architecture. The console interfaces only with the database, not directly with our communication infrastructure or on-asset hardware, which restricts access to, and limits corruption of, system information and minimizes network bandwidth usage. An unlimited number of consoles can be used on a network at any given time.

The Wireless Asset Net console:

- shows the location, status and inventory of vehicles - in real time and historically - in each area of a facility;
- allows real-time, two-way text communications, including broadcast text paging to all operators simultaneously;

- searches, sorts and analyzes assets by drive time, idle time, location, status, group, maintenance condition and other parameters;
- displays and prints predefined and ad hoc reports; and
- allows remote access by management, customers and vendors through the Internet.

Additional Products

Battery ChaMP. Our Battery Charger Monitoring Point, which we refer to as Battery ChaMP, tracks data on industrial battery fast-charge and battery swap systems. The Battery ChaMP provides automatic data uploads, real-time system visibility and data collection for electric vehicle batteries and chargers. The Battery ChaMP:

- tracks vehicle operator compliance with battery charging requirements;
- enforces critical equalization charging schedules;
- monitors data necessary for battery warranty compliance; and
- simplifies battery life management.

AC Power Control Module. Our AC Power Control Module was developed to support installation of our Wireless Asset Net system on complex machinery, such as cranes. The AC Power Control Module is designed to:

- accommodate virtually any power input, from 6 volts DC to 480 volts AC;
- monitor up to four motors on a single machine; and
- collect data for maintenance management and asset utilization analysis.

Machine Asset Communicator. Our Machine Asset Communicator provides wireless monitoring and control of fixed machinery, such as adhesive-dispensing robots, rather than mobile assets. Our Machine Asset Communicator is designed to provide:

- automatic quality control checks;
- real-time alerts on out-of-specification machine parameters;
- automatic machine shut-down based on user-defined criteria; and
- electronic maintenance checklists.

Line Asset Communicator. Our Line Asset Communicator is a wireless messaging device that triggers automatic, real-time task requests via radio frequency. Our Line Asset Communicator is designed to automatically forward requests to the material handling resource that:

- has been designated as capable of performing the work requested;
- is available for work at the moment of request; and

- is physically closest to the site where the work must be performed.

The Line Asset Communicator is a key component of our OptiKan system, an optimized, wireless, electronic "kanban" system. "Kanban" refers to a method of signaling for parts replenishment on an assembly line, popularized by Japanese automobile manufacturers to achieve "just in time" production efficiencies. Our OptiKan system is designed to (i) eliminate dependence on line-of-sight parts replenishment calls, which can optimize material handling efficiency by reducing vehicle travel and eliminating unnecessary down time and (ii) provide a more dynamic, intelligent allocation of tasks to the material handling workforce that feeds the assembly line, which can both increase the timeliness and accuracy of parts replenishment and significantly reduce indirect labor costs.

Services

Maintenance Services. We provide a warranty on all hardware and software components of our system. During the warranty period, we either replace or repair defective hardware. We also make extended maintenance contracts available to customers and offer ongoing maintenance and support on a time and materials basis. Pricing for our extended maintenance and support contracts is dependent upon the level of service we expect to provide. Our maintenance and support services typically include remote system monitoring, help desk technical support, escalation procedure development and routine diagnostic data analysis.

Customer Support and Consulting Services. We have developed a framework for the various phases of system training and support that offers our customers both structure and flexibility. Major training phases include hardware installation and troubleshooting, software installation and troubleshooting, train-the-trainer training on asset hardware operation, preliminary software user training, system administrator training, information technology issue training, ad hoc training during system launch and advanced software user training. These services are priced based on the extent of training that the customer requests.

Following system launch and advanced training, we make additional, refresher training available for a fee, either at the customer’s site or at our offices. The customer may also elect to purchase additional training as part of a larger extended maintenance contract.

To help our customers derive the most benefit from our system, we supply a broad range of support documentation and provide initial post-launch data consulting. Our support documentation includes hardware user guides, software manuals, vehicle installation overviews, troubleshooting guides and issue escalation procedures. Our initial data consulting is intended to help the customer determine which reports and charts are most meaningful to different system users and which specific data may represent cost-saving or productivity-enhancing opportunities.

We have provided our consulting services on a limited basis, both as a stand-alone service to study the potential benefits of implementing a wireless fleet management system, and as part of the system implementation itself.

Sales and Marketing

Our sales and marketing objective is to achieve broad market penetration, with an emphasis both on expanding business opportunities with existing customers and on securing new customers. As of March 1, 2007, we had 12 employees devoted to sales and marketing and currently intend to expand our direct sales force to develop additional sales and marketing initiatives, including penetration of international markets.

We primarily market our systems directly to commercial and government organizations. To market to government organizations, we also pursue contract solicitations, capitalizing on tools such as our U.S. General Services Administration contract, which enables us to sell our products on an off-the-shelf basis to federal governmental agencies without further competitive bidding. To complement our direct sales activities, we recently began to sell through indirect sales channels, such as industrial equipment dealers. In addition, we are actively pursuing strategic relationships with key companies in our target markets — including original equipment manufacturers, complementary hardware and software vendors, and service providers — to further penetrate these markets by embedding our products in the assets our systems monitor and integrating our solutions with other systems.

We sell our systems to both executive and division-level management. Typically, our initial system deployment serves as a basis for potential expansion across the customer's organization. Ford, Walgreens, the U.S. Postal Service, Target and Wal-Mart Stores, Inc. are all examples of this progression.

- Ford initially implemented our system at one plant in 1999, which led to a blanket purchase order to deploy our system across its North American operations. As of December 31, 2006, we had implemented our system on an aggregate of approximately 5,000 vehicles at 38 Ford facilities.

- Walgreens initially deployed our system at a single distribution center in 2003 and, as of December 31, 2006, had deployed our system at eight distribution centers covering an aggregate of approximately 800 vehicles.

- The U.S. Postal Service used the implementation of our system at one of its facilities to form the basis of a solicitation for competitive bids for a powered vehicle management system. Based on our proposal for that program, the U.S. Postal Service awarded us a national contract in 2004 to deploy our system at up to 460 U.S. Postal Service facilities nationwide. As of December 31, 2006, the U.S. Postal Service had placed orders for deployment of our system in 65 of its facilities.

- Beginning in 2003, Target utilized our system on a limited number of vehicles at one of its facilities. After testing our product, Target placed orders with us to implement our system on more than 500 vehicles in Target's distribution facilities across the United States.

- Wal-Mart initially deployed our system at a single distribution center in 2005. After testing our system, Wal-Mart deployed our system in seven additional facilities.

We work closely with customers like these to help maximize the utilization and benefits of our system and demonstrate the value of enterprise-wide deployments.

Customers

We market and sell our wireless 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. Customers that have implemented our system include:

3M Company	Meijer, Inc.
Advanced Technology Institute	Nissan North America, Inc.
AeroVironment, Inc.	Northrop Grumman Corporation
American Axle & Manufacturing, Inc.	Premier Manufacturing Support Services, Inc.
Archer Daniels Midland Company	Rite Aid Corporation
Avis Rent A Car System, Inc.	Target Corporation
Canadian Tire Corporation, Limited	Toyota Motor Manufacturing Kentucky, Inc.
DaimlerChrysler Corp.	U.S. Department of Homeland Security
Deere & Company	U.S. Navy
Ford Motor Company	U.S. Postal Service
General Dynamics Corporation	Walgreen Co.
Golub Corporation	Wal-Mart Stores, Inc.
Longview Fibre Company	Weyerhauser Company
	WinCo Foods, Inc.

During the year ended December 31, 2006, the U.S. Postal Service and Wal-Mart Stores, Inc. accounted for 61% and 14% of our revenues, respectively. During the year ended December 31, 2005, the U.S. Postal Service and Ford accounted for 45% and 18% of our revenues, respectively. No other customer accounted for greater than 10% of our net revenues during these periods.

We strive to establish long-term relationships with our customers in order to maximize opportunities for new application development and increased sales. Our relationship with the U.S. Postal Service, summarized below, illustrates this effort.

- In 1995, under a U.S. Postal Service research and development contract, we finalized the development of our patented RFID-based asset tracking system and created a product called the FlexTag designed to track test packages through the U.S. mail distribution system.

- In 1997, we deployed the FlexTag test mail tracking system across several U.S. Postal Service facilities and, at the same time, began developing a related system for tracking and managing the industrial trucks that operate in those facilities.

- In 1998 and 1999, we deployed early versions of our Wireless Asset Net industrial vehicle management system at certain U.S. Postal Service facilities.

- In 2003, we introduced an upgraded version of the Wireless Asset Net system at a U.S. Postal Service facility in Buffalo, New York.

- In 2004, the U.S. Postal Service solicited bids for deployment of an enterprise-wide Powered Industrial Vehicle Management System (“PIVMS”), and subsequently awarded us a national contract to deploy our Wireless Asset Net technology as its PIVMS at up to 460 U.S. Postal Service facilities across the United States. As of December 31, 2006, we had implemented the PIVMS in 65 U.S. Postal Service facilities.

- In 2006, the U.S. Postal Service awarded us a development contract to integrate automated material flow management and human resource planning capabilities into the PIVMS.

Competition

The market for RFID solutions is rapidly evolving, highly competitive and fragmented. Our target markets are also subject to quickly changing product technologies, shifting customer needs, regulatory requirements and frequent introductions of new products and services. A significant number of companies have developed or are developing and marketing software and hardware for RFID-based and other wireless products that currently compete or will compete directly with our solutions. We compete with organizations varying in size, including many small, start-up companies as well as large, well capitalized organizations. While some of our competitors focus exclusively on providing RFID solutions, many are involved in RFID technology as an extension of a more expansive business strategy. Many of our larger competitors are able to dedicate extensive financial resources to the research and development and deployment of RFID solutions. As government and commercial entities expand the use of RFID technologies, we expect that competition will continue to increase within our target markets.

We distinguish ourselves from our competitors by focusing on two distinct applications - industrial fleet management and security, and rental fleet management. This focus has enabled us to direct product development efforts specifically suited for our target markets. Our on-asset device for industrial fleet management and security is designed to operate independently of other system components, allowing for continuous asset control and data gathering even when the vehicle is out of RF communication range. We believe that our proprietary technology as well as our experience in designing and developing products for our target markets distinguishes us within these markets.

In each of our markets, we encounter different competitors due to the competitive dynamics of each segment. In the industrial fleet management and security market, the wireless control, tracking and management of enterprise assets is relatively new. Although we are not aware of any current competitors that provide the precise capabilities of our systems, we are aware of competitors that offer subsets of our system capabilities or alternate approaches to the needs our products address. Those companies include both emerging companies with limited operating histories, such as Media Recovery and Access Control Group, and companies with longer operating histories, greater name recognition and/or significantly greater financial, technical and marketing resources than ours, such as Savi Technology, which was acquired by Lockheed Martin Company in June 2006, Symbol Technologies, which was acquired by Motorola, Inc. in January 2007, Intermec, Inc. and WhereNet Corp., which was acquired by Zebra Technologies Corporation in January 2007.

In the rental fleet management market, we compete primarily against handheld device companies that currently provide the solutions used by vehicle rental companies. Currently, our principal competitors in this market are handheld device providers, such as Motorola, and other RFID-focused companies, such as WhereNet. Although handheld device providers currently control the majority of the rental fleet market, we believe a shift to RFID represents a compelling opportunity for vehicle rental companies, given the potential for increased customer satisfaction and efficiency resulting from the use of an RFID system. Because of these potential benefits, we believe our focused RFID product development strategy, portfolio of intellectual property and proven system efficacy are key competitive advantages in this market.

Research and Development

As of March 1, 2007, including our executive vice president of engineering, our research and development group was comprised of 17 full-time employees. These employees have expertise in areas such as software and hardware design, wireless communications and mechanical and electrical engineering.

We have focused our research and development efforts on the evolution of our Wireless Asset Net system as a "universal system" to promote more widespread use of our technology for a broader range of equipment, with easier installations, maintenance and support, and with fewer configuration concerns. Using our universal platform, we have adapted our technology to meet the needs of several emerging markets, including rental fleet management, airport vehicle security, industrial battery charging management and remote automated machine monitoring. As a result of what we believe to be the end-user benefits inherent in these developments, including the important security implications of our technology in the airport environment, we have received funding from our customers, including the U.S. Department of Homeland Security, for programs that required adaptations of our system.

Our current research and development efforts are focused on:

- continuing to add to the functionality and reduce the costs of our system;
- expanding our system to meet the needs of potential markets and to provide new solutions to our customers; and
- improving our core products by utilizing continuing advances in technology.

We spent $2.6 million (includes $723,000 of stock based compensation), $1.6 million and $1.2 million for research and development during years ended December 31, 2006, 2005 and 2004, respectively.

Intellectual Property

Patents

We attempt to protect our technology and products through the pursuit of patent protection in the United States and certain foreign jurisdictions. We have built a portfolio of patents and patent applications relating to aspects of our technology and products. We have four U.S. patents and eight pending U.S. patent applications. With the timely payment of all maintenance fees, our U.S. patent that covers our Wireless Asset Net system (U.S. Patent Number 5,682,142) expires on October 28, 2014, our U.S. patent that covers our rental car fleet management system (U.S. Patent Number 6,898,493) expires on April 6, 2020, our U.S. patent that covers our Wireless Asset Net system (U.S. Patent Number 7,165,040) expires on April 28, 2023), and our U.S. patent that covers our Wireless Asset Net system (U.S. Patent Number 7,171,381) expires on December 20, 2019.

U.S. Patent Number 5,682,142, entitled "Electronic Control System/Network," is directed toward a network of programmable, location marking and processing, movable tag nodes and a fixed position tag node. The movable and fixed tag nodes communicate directly and are capable of location identification and logical control of environmental conditions without requiring a central processor.

U.S. Patent Number 6,898,493, entitled "Fully Automated Vehicle Rental System," is directed toward an automated vehicle rental system. The system uses vehicle monitors mounted in each rental vehicle for keeping track of vehicle data, such as mileage, fuel level and location of the vehicle. The system transmits the vehicle data to a central database for automatically completing the checkout of the vehicle.

U.S. Patent Number 7,165,040 and U.S. Patent Number 7,171,381, entitled "System and Method for Managing Remotely and Distantly Located Assets" and "System Architecture and Communications for an Asset Management System," respectively, are directed toward protection for wireless, bi-directional communications between intelligent asset monitoring devices and central data processing nodes. The patented systems enable monitoring and control of remote assets in environments where wireless communication networks are overburdened or not reliable. We have foreign patents in China, South Korea, Australia and Mexico covering our Wireless Asset Net system. We also have patent applications for our Wireless Asset Net system pending in Japan and Canada . Because of the differences in patent laws and laws concerning proprietary rights, the extent of protection provided by U.S. patents or proprietary rights owned by us may differ from that of their foreign counterparts.

Trademarks

We have, or have applied for, trademark protection for I.D. Systems, Inc.®, Intelli-Listening®, MAC™, Vehicle Asset Communicator®, Battery ChaMP™, ChaMP™ and Wireless Asset Net®.

We attempt to avoid infringing known proprietary rights of third parties in our product development and sales efforts. However, it is difficult to proceed with certainty in a rapidly evolving technological environment in which there may be numerous patent applications pending, many of which are confidential at the time of the application filing, with regard to similar technologies. If we were to discover that our products violate third-party proprietary rights, we may not be able to:

- obtain licenses to continue offering such products without substantial reengineering;
- reengineer our products successfully to avoid infringement;
- obtain licenses on commercially reasonable terms, if at all; or
- litigate an alleged infringement successfully or settle without substantial expense and damage awards.

Any claims against us relating to the infringement of third-party proprietary rights, even if without merit, could result in the expenditure of significant financial and managerial resources or in injunctions preventing us from distributing certain products. Such claims could materially adversely affect our business, financial condition and results of operations.

Our software products are susceptible to unauthorized copying and uses that may go undetected, and policing such unauthorized use is difficult. In general, our efforts to protect our intellectual property rights through patent, copyright, trademark and trade secret laws and contractual safeguards may not be effective to prevent misappropriation of the technology, or to prevent the development and design by others of products or technologies similar to or competitive with those developed by us. Our failure or inability to protect our proprietary rights could materially adversely affect our business, financial condition and results of operations.

Manufacturing

We outsource our hardware manufacturing operations to leading contract manufacturers, such as Flextronics International Ltd. This strategy enables us to focus on our core competencies — designing hardware and software systems and delivering solutions to customers — and avoid investing in capital-intensive electronics manufacturing infrastructure. Outsourcing also provides us with the ability to ramp up deliveries to meet increases in demand without increasing fixed expenses.

Our manufacturers are responsible for obtaining the necessary components and supplies to manufacture our products. While components and supplies are generally available from a variety of sources, manufacturers generally depend on a limited number of suppliers. In the past, unexpected demand for communication products caused worldwide shortages of certain electronic parts and allocation of such parts by suppliers that had an adverse impact on the ability of manufacturers to deliver products as well as on the cost of producing such products.

Due to the general availability of manufacturers for our products, we do not believe that the loss of any of our manufacturers would have a long-term material adverse effect on our business, although there could be a short-term adverse effect on our business.

We generally attempt to maintain sufficient inventory to meet customer demand for products, as well as to meet anticipated sales levels. If our product mix changes in unanticipated ways, or if sales for particular products do not materialize as anticipated, we may have excess inventory or inventory that becomes obsolete. In such cases, our operating results could be negatively affected.

Government Regulations

The use of radio emissions are subject to regulation in the United States by various federal agencies including the FCC and OSHA. Various state agencies also have promulgated regulations which concern the use of lasers and radio/electromagnetic emissions standards.

Regulatory changes in the United States and other countries in which we may operate in the future could require modifications to some of our products for us to continue manufacturing and marketing our products.

Our products intentionally transmit radio signals, including narrow band and spread spectrum signals, as part of their normal operation. We have obtained certification from the FCC for our products that require certification. Users of these products in the United States do not require any license from the FCC to use or operate our products.

In addition, some of our operations use substances regulated under various federal, state and local laws governing the environment and worker health and safety, including those governing the discharge of pollutants into the ground, air and water, the management and disposal of hazardous substances and wastes and the cleanup of contaminated sites. Certain of our products are subject to various federal, state and local laws governing chemical substances in electronic products.

The adoption of unfavorable regulations, or unfavorable interpretations of existing regulations by courts or regulatory bodies, could require us to incur significant compliance costs, cause the development of the affected markets to become impractical or otherwise adversely affect our ability to produce or market our products.

Employees

As of March 1, 2007, we had 89 full-time employees, of which 36 are engaged in customer service, 17 in product development (which includes engineering), 9 in operations, 12 in sales and marketing, and 15 in finance and administration. None of our employees are represented by union or collective bargaining agreements. We believe that our relationships with our employees are good.

Available Information

Our website is "www.id-systems.com." We make available on this website free of charge, our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports pursuant to Section 13(a) or 15(d) of the Exchange Act as soon as reasonably practicable after we electronically file such material with, or furnish such information to, the Securities and Exchange Commission ("SEC"). We also make available on this website, free of charge, our Code of Ethics for Senior Financial Officers, which applies to our principal executive officer, principal financial officer and principal accounting officer.

Item 1A. Risk Factors

We have incurred significant losses and have a substantial accumulated deficit. If we cannot maintain our profitability, the market price of our common stock could decline significantly.

Although we generated net income of $851,000 and $398,000 for the years ended December 31, 2005 and 2004, respectively, we incurred net losses of approximately $1.6 million and $1.2 million for the years ended December 31, 2006 and 2003, respectively, and have incurred additional net losses since inception. At December 31, 2006, we had an accumulated deficit of approximately $12.2 million. Although during 2006, our revenues increased, our expenses also increased, primarily as a result of our adoption of SFAS No. 123(R) and the increase in payroll and related expenses due to the hiring of additional personnel. Our ability to increase our revenues from the sale of our products will depend on our ability to successfully implement our growth strategy and the continued expansion of our markets. If our revenues do not continue to grow as they have in the past, or if our operating expenses continue to increase, we may not be able to become profitable as we were in 2005 and 2004 and the market price of our common stock could decline significantly.

We are highly dependent upon sales of our Wireless Asset Net system to a few customers. The loss of any of these customers, or any material reduction in the amount of our products they purchase, could materially and adversely affect our financial condition and results of operations.

During the year ended December 31, 2006, the U.S. Postal Service and Wal-Mart Stores, Inc. accounted for 61% and 14% of our revenues, respectively. During the year ended December 31, 2005, the U.S. Postal Service and Ford accounted for 45% and 18% of our revenues, respectively. Some of these and other customers operate in markets that have suffered business downturns in the past few years or may so suffer in the future. The loss of or any material reduction in the amount of our products that these customers purchase, or 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.

If the market for our technology does not continue to develop or become sustainable, expands more slowly than we expect or becomes saturated, our revenues will decline and our financial condition and results of operations could be materially and adversely affected.

Our success is highly dependent on the continued market acceptance of our Wireless Asset Net system. The market for our wireless products and services is new and rapidly evolving. If the market for our products and services does not continue to develop or become sustainable, expands more slowly than we expect or becomes saturated with competing products or services, our revenues will decline and our financial condition and results of operations could be materially and adversely affected.

If we are unable to keep up with rapid technological change, we may be unable to meet the needs of our customers, which could materially and adversely affect our financial condition and results of operations and reduce our ability to grow our market share.

Our market is characterized by rapid technological change and frequent new product announcements. Significant technological changes could render our existing technology obsolete. We are active in the research and development of new products and technologies and in enhancing our current products. However, research and development in our industry is complex and filled with uncertainty. For example, it is common for research and development projects to encounter delays due to unforeseen problems, resulting in low initial volume production, fewer product features than originally considered desirable and higher production costs than initially budgeted, any of which may result in lost market opportunities. In addition, these new products may not adequately meet the requirements of the marketplace and may not achieve any significant degree of market acceptance. If our efforts do not lead to the successful development, marketing and release of new products that respond to technological developments or changing customer needs and preferences, our revenues and market share could be materially and adversely affected. We may expend a significant amount of resources in unsuccessful research and development efforts. In addition, new products or enhancements by our competitors may cause customers to defer or forego purchases of our products. Any of the foregoing could materially and adversely affect our financial condition and results of operations and reduce our ability to grow our market share.

If we are unable to effectively manage our growth, our business may become inefficient and we may not be able to effectively compete, increase our revenues or control our expenses.

We have grown our business rapidly over the past few years. Between the fiscal years ended December 31, 2001 and 2006, our revenues increased at a compounded annual growth rate of 93%. We plan to significantly increase our operating expenses to expand our sales and marketing capabilities, broaden our customer support capabilities and fund greater levels of research and development. Our rapid growth has placed, and is expected to continue to place, a significant strain on our managerial, technical, operational and financial resources. To manage our expected growth, we will have to:

- retain existing personnel;
- hire, train, manage and retain additional qualified personnel, including sales and marketing and research and development personnel;
- implement additional operational controls, reporting and financial systems and procedures; and
- effectively manage and expand our relationships with customers, subcontractors and other third parties responsible for manufacturing and delivering our products.

The long and variable sales cycles for our solutions may cause our revenues and operating results to vary significantly from quarter to quarter, which could adversely affect the market price of our common stock.

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 revenue and results of operations to vary significantly and unexpectedly from quarter to quarter. These variations could materially and adversely affect the market price of our common stock.

If we are unable to protect our intellectual property rights, our financial condition and results of operations could be materially and adversely affected.

We rely on a combination of patents, copyrights, trademarks, trade secrets and contractual measures to protect our intellectual property rights. Third parties may seek to challenge, invalidate, circumvent or render unenforceable any patents or proprietary rights owned by us. If such challenges are successful, our business will be materially and adversely affected.

Our employees, consultants and advisors enter into confidentiality agreements with us that prohibit the disclosure or use of our confidential information. We also have entered into confidentiality agreements to protect our confidential information delivered to third parties for research and other purposes. Despite these efforts, we cannot assure you that we will be able to effectively enforce these agreements or our confidential information will not be disclosed, that others will not independently develop substantially equivalent confidential information and techniques or otherwise gain access to our confidential information or that we can meaningfully protect our confidential information.

Disputes may arise in the future with respect to the ownership of rights to any technology developed with advisors or collaborators. These and other possible disagreements could lead to delays in the collaborative research, development or commercialization of our systems, or could require or result in costly and time-consuming litigation that may not be decided in our favor. Any such event could materially and adversely affect our financial condition and results of operations.

Policing the unauthorized use of our intellectual property is difficult, and we cannot assure you that the steps we have taken will prevent unauthorized use of our technology or other intellectual property, particularly in foreign countries where the laws may not protect our proprietary rights as fully as in the United States. Accordingly, we may not be able to protect our proprietary rights against unauthorized third party copying or use. If we are unsuccessful in protecting our intellectual property, we may lose any technological advantages we have over competitors and our financial condition and results of operations could be materially and adversely affected.

We may become involved in an intellectual property dispute that could subject us to significant liability, divert the time and attention of our management and prevent us from selling our products, any of which could materially and adversely affect our financial condition and results of operations.

In recent years, there has been significant litigation in the United States and internationally involving claims of alleged infringement of patents and other intellectual property rights. Litigation may be necessary to enforce our intellectual property rights, defend ourselves against alleged infringement and determine the scope and validity of our intellectual property rights.

Any such litigation, whether or not successful, could result in substantial costs, divert the time and attention of our management and prevent us from selling our products. If a claim of patent infringement was decided against us, we could be required to:

- pay substantial damages to the party making such claim;
- stop selling, making, having made or using products or services that incorporate the challenged intellectual property;
- obtain from the holder of the infringed intellectual property right a license to sell, make or use the relevant technology, which license may not be available on commercially reasonable terms, or at all; or
- redesign those products or services that incorporate such intellectual property.

The failure to obtain the necessary licenses or other rights could preclude the sale, manufacture or distribution of our products and could materially and adversely affect our financial condition and results of operations.

The U.S. government's right to use technology developed by us with government funds could limit our intellectual property rights.

We have developed, and may in the future develop, improvements to our technology that are funded in part by the U.S. government. As a result, we do not have the right to prohibit the U.S. government from using certain technologies developed by us with such government funds or to prohibit third parties from using those technologies to provide products and services at the request of the U.S. government. Although such government rights do not affect our ownership of the technology developed using such funds, the U.S. government has the right to royalty-free use of technologies that we have developed under such contracts. We are free to commercially exploit those government funded technologies and may assert our intellectual property rights to seek to block other non-government users thereof, but we cannot assure you that we can successfully do so.

We rely on subcontractors to manufacture and deliver our products. Any quality or performance failures by our subcontractors or changes in their financial condition could disrupt our ability to supply quality products to our customers in a timely manner, resulting in business interruptions, increased costs, claims for damages, reputation damage and reduced revenue.

In order to meet the requirements under our contracts, we rely on subcontractors to manufacture and deliver our products to our customers. For example, during the year ended December 31, 2006, we relied on Flextronics International Ltd. for the purchase of approximately 38% of our components and finished goods. Any quality or performance failures by our subcontractors or changes in their financial or business condition could disrupt our ability to supply quality products to our customers in a timely manner. If we are unable to fulfill orders from our customers in a timely manner, we could experience business interruption, increased costs, damage to our reputation and loss of our customers. In addition, we may be subject to claims from our customers for failing to meet our contractual obligations. Although we have several sources for production, the inability to provide our products to our customers in a timely manner could result in the loss of customers and our revenues could be materially reduced. In addition, there is great competition for the most qualified and competent subcontractors. If we are unable to hire qualified subcontractors, the quality of our services and products could decline. Furthermore, third-party manufacturers in the electronic component industry are consolidating. The consolidation of third-party manufacturers may give remaining manufacturers greater leverage to increase the prices that they charge, thereby increasing our manufacturing costs. If we are unable to pass the increased costs onto our customers, our profitability could be materially and adversely affected.

We rely on a limited number of suppliers for several significant components and raw materials in our products. If we are unable to obtain these components or raw materials on a timely basis, we will be unable to meet our customers' orders, which could reduce our revenues, subject us to claims for damages and adversely affect our relationships with our customers.

We rely on a limited number of suppliers for the components and raw materials used in our products, including Flextronics. Although there are many suppliers for most of our component parts and raw materials, we are dependent on a limited number of suppliers for many of our significant components and raw materials. This reliance involves a number of significant risks, including:

- unavailability of materials and interruptions in delivery of components and raw materials from our suppliers, which could result in manufacturing delays; and

- fluctuations in the quality and price of components and raw materials.

We currently do not have any long-term or exclusive purchase commitments with any of our suppliers. In addition, our suppliers may enter into exclusive arrangements with our competitors, be acquired by our competitors, stop selling their products or components to us at commercially reasonable terms or at all. We may not be able to develop alternative sources for the components and raw materials. Even if alternate suppliers are available to us, identifying them is often difficult and time consuming. If we are unable to obtain ample supply of product or raw materials from our existing suppliers or alternative sources of supply, we may be unable to satisfy our customers' orders, which could reduce our revenues, subject us to claims for damages and adversely affect our relationships with our customers.

If we lose our executive officers, or are unable to recruit additional personnel, our ability to manage our business could be materially and adversely affected.

We are dependent on the continued employment and performance of our executive officers, particularly Jeffrey M. Jagid, Chief Executive Officer, Kenneth S. Ehrman, Chief Operating Officer, Ned Mavrommatis, Chief Financial Officer, and Michael Ehrman, Executive Vice President Engineering. We currently do not have employment agreements with any of our executive officers. Like other companies in our industry, we face intense competition for qualified personnel. Many of our competitors have greater resources than we have to hire qualified personnel. Accordingly, if we are not successful in attracting or retaining qualified personnel in the future, our ability to manage our business could be materially and adversely affected.

The industry in which we operate is highly competitive, and competitive pressures from existing and new companies could have a material adverse effect on our financial condition and results of operations.

The industry in which we operate is highly competitive and influenced by the following:

- advances in technology;
- new product introductions;
- evolving industry standards;
- product improvements;
- rapidly changing customer needs;
- intellectual property invention and protection;
- marketing and distribution capabilities;
- competition from highly capitalized companies;
- entrance of new competitors;
- ability of customers to invest in information technology; and
- price competition.

The products marketed by us and our competitors are becoming more complex. As the technological and functional capabilities of future products increase, these products may begin to compete with products being offered by traditional computer, network and communications industry participants that have substantially greater financial, technical, marketing and manufacturing resources than we do.

Although we are not aware of any current competitors that provide the precise capabilities of our systems, we are aware of competitors that offer subsets of our system capabilities or alternate approaches to the needs our products address. Those companies include both emerging companies with limited operating histories, such as Media Recovery, Inc. and Access Control Group L.L.C., and companies with longer operating histories, greater name recognition and/or significantly greater financial, technical and marketing resources than ours, such as Savi Technology, Inc., which was acquired by Lockhead Martin Company in June 2006, Symbol Technologies, Inc., which was acquired by Motorola, Inc. in January 2007, Intermec, Inc. and WhereNet Corp, which was acquired by Zebra Technologies Corporation in January 2007.

If we do not keep pace with product and technology advances, including the development of superior products by our competitors, or if we are unable to otherwise compete successfully against our competitors, there could be a material adverse effect on our competitive position, revenues and prospects for growth. As a result, our financial condition and results of operations could be materially and adversely affected.

The federal government or independent standards organizations may implement significant regulations or standards that could adversely affect our ability to produce or market our products.

Our products transmit radio frequency waves, the transmission of which is governed by the rules and regulations of the Federal Communications Commission, or FCC, as well as other federal and state agencies. Our ability to design, develop and sell our products will continue to be subject to these rules and regulations for the foreseeable future. In addition, our products and services may become subject to independent industry standards. The implementation of unfavorable regulations or industry standards, or unfavorable interpretations of existing regulations by courts or regulatory bodies, could require us to incur significant compliance costs, cause the development of the affected products to become impractical or otherwise adversely affect our ability to produce or market our products. The adoption of new industry standards applicable to our products may require us to engage in rapid product development efforts that would cause us to incur higher expenses than we anticipated. In some circumstances, we may not be able to comply with such standards, which could materially and adversely affect our ability to generate revenues through the sale of our products.

Because our products are complex, they may have undetected errors or failures when they are introduced that could seriously harm our business.

Technical products like ours often contain undetected errors or failures when first introduced. Despite our efforts to eliminate these flaws, there still may be flaws in our products, even after the commencement of commercial shipments. Because our products are used in business-critical applications, we could be subject to product liability claims if our systems fail to perform as intended. Even unsuccessful claims against us could result in costly litigation and the diversion of management's time and resources and could damage our reputation and impair the marketability of our systems. Although we maintain insurance, we cannot assure you that:

- our insurance will provide adequate coverage against potential liabilities if our products cause harm or fail to perform as promised; or

- adequate product liability insurance will continue to be available to us in the future on commercially reasonable terms or at all.

If our insurance is insufficient to pay any product liability claim, our financial condition and results from operations could be materially and adversely affected. In addition, any such claims could permanently injure our reputation.

We may need to obtain additional capital to fund our operations that could have negative consequences on our business.

We may require additional capital in the future to develop and commercialize additional products and technologies or take advantage of other opportunities that may arise, including potential acquisitions. We may seek to raise the necessary funds through public or private equity offerings, debt financings or strategic alliances and licensing arrangements. To the extent we raise additional capital by issuing equity securities, our existing stockholders may experience substantial dilution. If additional capital is raised through debt, such debt may subject us to significant restrictive covenants that could affect our ability to operate our business. In addition, we may be required to relinquish rights to our technologies or systems, or grant licenses on terms that are not favorable to us in order to raise additional funds through alliance, joint venture and licensing arrangements. If adequate funds are not available, we may be required to delay, reduce the scope of or eliminate one or more of our development programs, and our business, financial condition, results of operations and stock price could be materially and adversely affected.

If we do not adequately anticipate and respond to the risks inherent in growing our business internationally, our operating results and the market price of our common stock could be materially and adversely affected.

We have not generated significant revenues outside of North America. As part of our growth strategy, we are seeking ways to expand our operations outside of North America by establishing offices overseas and developing relationships with global distributors to market and sell our systems internationally. For example, in October, 2006, we hired a salesperson in Düsseldorf, Germany to market and sell our systems in Europe. There are a number of risks inherent in doing business in such markets, including:

- unexpected legal or regulatory changes;
- unfavorable political or economic factors;
- less developed infrastructure;
- difficulties in recruiting and retaining personnel, and managing international operations;
- fluctuations in foreign currency exchange rates;
- lack of sufficient protection for intellectual property rights; and
- potentially adverse tax consequences.

Until recently, we had no operations outside of North America, and we have limited experience establishing or operating businesses outside of North America. If we do not adequately anticipate and respond to the risks inherent in international operations, our operating results and the market price of our common stock could be materially and adversely affected. In addition, although we intend to expand our business outside of North America, there are risks associated with conducting an international operation, including the risks listed above, and such expansion may not be successful or have a positive effect on our financial condition and results of operations.

We have never made any acquisitions of any businesses and cannot assure you that we will be able to successfully integrate any businesses, products, technologies or personnel that we might acquire in the future.

We may, from time to time, consider investments in complementary companies, products or technologies. In the event of any future acquisitions, we could:

- issue stock that would dilute our current stockholders' percentage ownership;
- incur debt;
- assume liabilities;
- incur expenses related to the impairment of goodwill; or
- incur large and immediate write-offs.

Our operation of any acquired business will also involve numerous risks, including:

- problems combining the acquired operations, technologies or products;
- unanticipated costs;
- diversion of management's time and attention from our core business;
- adverse effects on existing business relationships with suppliers and customers;
- risks associated with entering markets in which we have no or limited prior experience; and
- potential loss of key employees, particularly those of acquired companies.

We have never made any acquisitions of any businesses and cannot assure you that we will be able to successfully integrate any businesses, products, technologies or personnel that we might acquire in the future. Any failure to do so could have a material adverse effect on our financial condition and results of operations.

The concentration of common stock ownership among our executive officers and directors could limit your ability to influence the outcome of corporate transactions or other matters submitted for stockholder approval.

As of March 1, 2007, our executive officers and directors beneficially owned, in the aggregate, 8.4% of our outstanding common stock, not including 1,893,899 shares of common stock that our executive officers and directors may acquire upon the exercise of outstanding options or if they otherwise acquire additional shares of common stock in the future. As a result, our officers and directors may have the ability to influence the outcome of all corporate actions requiring stockholder approval, irrespective of how our other stockholders may vote, including the following actions:

- the election of directors;
- adoption of stock option plans;
- the amendment of our organizational documents; and
- the approval of certain mergers and other significant corporate transactions, including a sale of substantially all of our assets.

The unpredictability of our quarterly operating results could adversely affect the market price of our common stock.

Our revenues and operating results may vary significantly from quarter to quarter due to a number of factors, many of which are outside of our control and any of which could adversely affect the market price of our common stock. The main factors that may affect us include the following:

- variations in the sales of our products to our significant customers;
- variations in the mix of products and services provided by us;
- the timing and completion of initial programs and larger or enterprise-wide purchases of our products by our customers;

- the length and variability of the sales cycle for our products;
- the timing and size of sales;
- changes in market and economic conditions, including fluctuations in demand for our products; and
- announcements of new products by our competitors.

As a result of these and other factors, revenues for any quarter are subject to significant variation that could adversely affect the market price for our common stock.

Future sales of our common stock, including sales of our common stock acquired upon the exercise of outstanding options, may cause the market price of our common stock to decline.

The market price of our common stock could decline as a result of sales by our existing stockholders of shares of common stock in the market, or sales of our common stock acquired upon the exercise of outstanding options, or the perception that these sales could occur. These sales also may make it more difficult for us to sell equity securities at a time and price that we deem appropriate.

We have 11,339,000 shares of common stock outstanding as of March 1, 2007, of which 10,383,000 shares are freely transferable without restriction and 956,000 shares are eligible for future sale, subject to the applicable volume, manner of sale, holding period and other limitations of Rule 144. In addition, as of March 1, 2007, options to purchase 2,792,000 shares of our common stock were issued and outstanding, of which 1,709,000 were vested. The remaining options will vest ratably over a five-year period measured from the date of grant. The weighted-average exercise price of the vested stock options is $5.81, which is substantially lower than the current market price of our common stock. We also may issue additional shares of stock in connection with our business, including in connection with acquisitions, and may grant additional stock options to our employees, officers, directors and consultants under our stock option plans or warrants to third parties. If a significant portion of these shares were sold in the public market, the market value of our common stock could be adversely affected.

Provisions of Delaware law or our charter documents could delay or prevent an acquisition of our company, even if the acquisition would be beneficial to our stockholders, and could make it more difficult for you to change management.

Provisions of our certificate of incorporation and bylaws may discourage, delay or prevent a merger, acquisition or other change in control that stockholders may consider favorable, including transactions in which stockholders might otherwise receive a premium for their shares. This is because these provisions may prevent or frustrate attempts by stockholders to replace or remove our current management or members of our board of directors. These provisions, among other things:

- permit our board of directors to issue, without further action by our stockholders, up to 5,000,000 shares of preferred stock, with any rights, preferences and privileges as they may designate, including the right to approve an acquisition or other change in control;
- provide that special meetings of stockholders may be called only by (i) our board of directors pursuant to a resolution adopted by a majority of the entire board of directors, either upon motion of a director or upon written request by the holders of at least 50% of the voting power of all the shares of our capital stock entitled to vote in the election of directors, voting as a single class, or (ii) our Chairman of the Board or President; and

- require the affirmative vote of at least 75% of the voting power of all the shares of our capital stock entitled to vote in the election of directors, voting as a single class, to amend or repeal the provisions dealing with meetings of stockholders.

In addition, Section 203 of the Delaware General Corporation Law prohibits us from engaging in a business combination with any of our interested stockholders for three years after such stockholder became an interested stockholder unless certain specified conditions are met. As a result, these provisions and Delaware law could limit the price that investors are willing to pay in the future for shares of our common stock.

Cautionary Note Regarding Forward-Looking Statements.

This Annual Report on Form 10-K may contain forward-looking statements within the meaning of Section 27A of the Securities Act and Section 21E of the Exchange Act.

Forward-looking statements include statements with respect to our beliefs, plans, objectives, goals, expectations, anticipations, assumptions, estimates, intentions, and future performance, and involve known and unknown risks, uncertainties and other factors, which may be beyond our control, and which may cause our actual results, performance or achievements to be materially different from future results, performance or achievements expressed or implied by such forward-looking statements.

All statements other than statements of historical fact are statements that could be forward-looking statements. You can identify these forward-looking statements through our use of words such as “may,” “will,” “can,” “anticipate,” “assume,” “should,” “indicate,” “would,” “believe,” “contemplate,” “expect,” “seek,” “estimate,” “continue,” “plan,” “point to,” “project,” “predict,” “could,” “intend,” “target,” “potential,” and other similar words and expressions of the future. These forward-looking statements may not be realized due to a variety of factors, including, without limitation:

- future economic and business conditions;
- the loss of any of our key customers or reduction in the purchase of our products by any such customers;
- the failure of the market for our products to continue to develop;
- our inability to protect our intellectual property;
- our inability to manage our growth;
- the effects of competition from a wide variety of local, regional, national and other providers of wireless solutions;
- changes in laws and regulations, including tax and securities laws and regulations and interstate and regulations promulgated by the FCC;
- changes in accounting policies, rules and practices;
- changes in technology or products, which may be more difficult or costly, or less effective than anticipated; and
- the other factors listed under this Item 1A - “Risk Factors.”

All forward-looking statements are expressly qualified in their entirety by this cautionary notice. You are cautioned not to place undue reliance on any forward-looking statements, which speak only as of the date of this Annual Report on Form 10-K. We have no obligation, and expressly disclaim any obligation, to update, revise or correct any of the forward-looking statements, whether as a result of new information, future events or otherwise. We have expressed our expectations, beliefs and projections in good faith and we believe they have a reasonable basis. However, we cannot assure you that our expectations, beliefs or projections will result or be achieved or accomplished.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

Our executive and administrative offices are located in Hackensack, New Jersey. In November 1999, we entered into a lease for this facility, covering approximately 22,500 square feet, that expires on March 31, 2010. The rent is currently $34,825 per month. During 2003, we entered into an agreement to sublease to a third party 6,270 square feet through the end of the lease. The sublease provides for monthly payments of $11,619, subject to adjustments for increases in real estate taxes and certain operating expenses. During January 2007, the Company released the subleasee from the sublease and will reassume the space in mid 2007.

Although we believe that our existing facilities are adequate for our current needs, if we expand our sales force and establish customer support and consulting services, as contemplated, we expect to lease or purchase additional space.

Item 3. Legal Proceedings

As of March 1, 2007, we were not involved in any material litigation.

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

None.

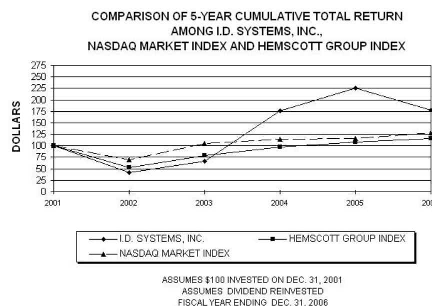
PART II.

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

(a) Market Information. Our common stock is quoted on the Nasdaq National Market under the symbol "IDSY." The following table sets forth, for the periods indicated, the high and low sales price for our common stock as reported on such quotation system.

Quarter Ending	High	Low
2005		
March 31, 2005	$ 18.50	$ 9.25
June 30, 2005	15.97	10.00
September 30, 2005	20.05	15.15
December 31, 2005	23.96	16.09
2006		
March 31, 2006	$ 25.03	$ 19.40
June 30, 2006	25.84	16.21
September 30, 2006	23.84	15.14
December 31, 2006	23.59	18.00

Set forth below is a line-graph presentation comparing the cumulative shareholder return on our common stock on an indexed basis against the cumulative total returns of the Nasdaq Market Value Index and the Hemscott Industry Communication Equipment Group Index (consisting of 79 publicly traded communication equipment companies) ("Hemscott Group Index") for the period from January 1, 2001 through December 31, 2006.



	Measurement Period - Fiscal Year Ending December 31,					
Company/Index/Market	2001	2002	2003	2004	2005	2006
I.D. Systems, Inc	100.0	41.36	66.01	176.20	225.21	177.71
Hemscott Group Index	100.0	52.32	79.50	96.60	108.91	116.47
NASDAQ Market Index	100.0	69.75	104.88	113.70	116.19	128.12

(b) Holders. As of March 1, 2007, there were 22 registered holders of our common stock.

(c) Dividends. We have never paid a cash dividend on our common stock and do not expect to pay a cash dividend in the near future. We currently intend to retain future earnings, if any, to finance our operations and expand our business. Any future determination to pay cash dividends will be at the discretion of our board of directors and will depend upon our financial condition, operating results, capital requirements and any other factors our board of directors deems relevant. In addition, our agreements with our lenders may, from time to time, restrict our ability to pay dividends.

(d) Sales of Unregistered Securities.

None.

(e) Share Repurchases.

None.

Item 6. Selected Financial Data

The following table sets forth selected financial data for each of the five years ended December 31, 2006 derived from our audited financial statements. You should read the information in the table below together with the section of this Annual Report on Form 10-K entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations," our financial statements and related notes and the other financial data included elsewhere in this Annual Report on Form 10-K.

	Year Ended December 31,				
Statement of Operations Data:	**2002**	**2003**	**2004**	**2005**	**2006**
Revenues	$ 5,544,000	$ 7,959,000	$ 13,741,000	$ 19,004,000	$ 24,740,000
Cost of revenues	2,430,000	4,075,000	6,509,000	9,708,000	13,701,000
Gross profit	3,114,000	3,884,000	7,232,000	9,296,000	11,039,000
Operating expenses:					
Selling, general and administrative	3,835,000	4,456,000	5,879,000	7,140,000	12,943,000
Research and development	938,000	891,000	1,234,000	1,625,000	2,639,000
Income (loss) from operations	(1,659,000)	(1,463,000)	119,000	531,000	(4,543,000)
Interest income	279,000	269,000	195,000	222,000	2,801,000
Interest expense	(4,000)	(59,000)	(63,000)	(53,000)	(29,000)
Other income		54,000	147,000	151,000	155,000
Net income (loss)	$ (1,384,000)	$ (1,199,000)	$ 398,000	$ 851,000	$ (1,616,000)
Net income (loss) per share - basic	$ (0.21)	$ (0.17)	$ 0.05	$ 0.11	$ (0.15)
Net income (loss) per share - diluted	$ (0.21)	$ (0.17)	$ 0.05	$ 0.09	$ (0.15)
Weighted average common shares outstanding - basic	6,711,000	6,905,000	7,455,000	7,771,000	10,501,000
Weighted average common shares outstanding - diluted	6,711,000	6,905,000	8,783,000	9,332,000	10,501,000

Balance Sheet Data (at end of period):

	2002	2003	2004	2005	2006
Cash and cash equivalents	3,758,000	3,179,000	8,440,000	2,138,000	9,644,000
Marketable securities and short term investments	3,031,000	3,339,000	3,195,000	5,463,000	60,716,000
Total assets	12,947,000	13,470,000	17,159,000	19,840,000	84,905,000
Long-term debt	-	836,000	648,000	449,000	240,000
Total shareholders' equity (deficit)	11,413,000	10,979,000	13,572,000	15,166,000	81,284,000

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operation

The following discussion is intended to assist you in understanding our financial condition and results of operations and should be read in conjunction with the financial statements and related notes included elsewhere in this Annual Report on Form 10-K. Many of the amounts and percentages in this section have been rounded for convenience of presentation, but actual recorded amounts have been used in computations. Accordingly, some information may appear not to compute accurately.

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, and rental vehicles. Our patented Wireless Asset Net system, which utilizes RFID technology, 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 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. Ford, Walgreens, the U.S. Postal Service, Target and Wal-Mart Stores, Inc. are all examples of this progression.

- Ford initially implemented our system at one plant in 1999, which led to a blanket purchase order to deploy our system across its North American operations. As of December 31, 2006, we had implemented our system on an aggregate of approximately 5,000 vehicles at 38 Ford facilities.

- Walgreens initially deployed our system at a single distribution center in 2003 and, as of December 31, 2006, had deployed our system at eight distribution centers covering an aggregate of approximately 800 vehicles.

- The U.S. Postal Service used the implementation of our system at one of its facilities in Buffalo, New York in 2003 to form the basis of a solicitation for competitive bids for a powered vehicle management system. Based on our proposal for that program, the U.S. Postal Service awarded us a national contract in 2004 to deploy our system at up to 460 U.S. Postal Service facilities nationwide. As of December 31, 2006, the U.S. Postal Service had placed orders for deployment of our system in 65 of its facilities.

- Beginning in 2003, Target utilized our system on a limited number of vehicles at one of its facilities. After testing our product, Target placed orders with us to implement our system on more than 500 vehicles in Target's distribution facilities across the United States.

- Wal-Mart initially deployed our system at a single distribution center in 2005. After testing our system, Wal-Mart deployed our system in seven additional facilities.

We work closely with customers like these to help maximize the utilization and benefits of our system and demonstrate the value of enterprise-wide deployments.

Although we generated net income of $851,000 and $398,000 for the years ended December 31, 2005 and 2004, respectively, we incurred net losses of approximately $1.6 million and $1.2 million for the years ended December 31, 2006 and 2003, respectively, and have incurred additional net losses since inception. At December 31, 2006, we had an accumulated deficit of approximately $12.2 million. Although during 2006, our revenue increased, our expenses also increased, primarily as a result of the adoption of SFAS No. 123(R) and the increase in payroll and related expenses due to the hiring of additional personnel.

During the year ended December 31, 2006, we generated revenues of $24.7 million, the U.S. Postal Service and Wal-Mart Stores, Inc. accounted for 61% and 14% of our revenues, respectively. During the year ended December 31, 2005, we generated revenues of $19.0 million, and the U.S. Postal Service and Ford accounted for 45% and 18% of our revenues, respectively.

Our ability to increase our revenues and continue to generate net income will depend on a number of factors, including 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.

Critical Accounting Policies And Estimates

We have adopted various accounting policies that govern the application of accounting principles generally accepted in the United States in the preparation of our financial statements. Our significant accounting policies are described in Note B to our financial statements. Certain accounting policies involve significant judgments and assumptions by our management that can have a material impact on the carrying value of certain assets and liabilities. We consider such accounting policies to be our critical accounting policies. The judgments and assumptions used by our management in these critical accounting policies are based on historical experience and other factors that our management believes to be reasonable under the circumstances. Because of the nature of these judgments and assumptions, actual results could differ significantly from these judgments and estimates, which could have a material impact on the carrying values of our assets and liabilities and our results of operations. Our critical accounting policies are described below.

Revenue Recognition

We derive our revenues from: (i) sales of our Wireless Asset Net system, which includes training and technical support; (ii) post-contract maintenance and support agreements; and (iii) leasing arrangements. Our system consists of on-asset hardware, communication infrastructure and software. Revenue from the sale of our system is not recognized until all necessary components of the system are delivered to enable the system to function. When there are no undeliverable elements that are essential to the functionality of the systems, revenues are recognized as each element is delivered based on the relative selling price of each element. Thereafter, revenue attributable to additional units is recognized upon delivery, provided all other conditions for revenue recognition have been met. Our system is typically implemented by the customer or a third party and, as a result, revenues are 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, 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. Revenues from training and technical support are recognized as such services are provided.

In most of our contracts, we invoice customers once certain milestones are met. As the systems are delivered, services are performed and all of the criteria for revenue recognition are satisfied, we recognize revenue for such systems. The difference between revenue recognized for financial reporting purposes and amounts invoiced is recorded as unbilled receivables or deferred revenue. Should a contract contain customer acceptance terms, we do not recognize any revenue on that contract until such terms have been met as described in the agreement.

We also enter into post-contract maintenance and support agreements. Revenues are recognized over the service period and the cost of providing these services is expensed as incurred.

We also derive revenue under leasing arrangements. Such arrangements provide for monthly payments covering the system sale, maintenance, support and interest. These arrangements meet the criteria to be accounted for as sales-type leases. Accordingly, 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 revenues and interest income are recognized monthly over the lease term.

Stock-Based Compensation

Prior to our fiscal year ended December 31, 2006, we accounted for stock-based employee compensation under Accounting Principles Board, or APB, Opinion No. 25, “Accounting for Stock Issued to Employees,” and related interpretations, and had adopted the disclosure-only provisions of SFAS No. 123, “Accounting for Stock-Based Compensation” and SFAS No. 148, “Accounting for Stock-Based Compensation — Transition and Disclosure.” In December 2004, the Financial Accounting Standards Board issued SFAS No. 123 (revised 2004), “Share-Based Payment,” which replaced SFAS 123 and superseded APB Opinion No. 25. Under the provisions of SFAS 123R, companies are generally required to measure the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award. That cost is recognized over the period during which an employee is required to provide service in exchange for the award, usually the vesting period. SFAS 123R requires that compensation expense be recognized for the unvested portions of existing options granted prior to its effective date and the cost of options granted to employees after the effective date based on the fair value of the stock options at grant date. On January 1, 2006, we adopted SFAS 123R, and have applied the modified prospective method such that periods prior to adoption have not been restated. Pursuant to SFAS No. 123(R), stock based compensation expense amounted to $2,975,000 for the fiscal year ended December 31, 2006. The total fair value of shares vested during the years ended December 31, 2004 and 2005 was $740,000 and $807,000, respectively.

Results of Operations

The following table sets forth certain items related to our statement of operations as a percentage of revenues for the periods indicated and should be read in conjunction with our financial statements and the related notes included elsewhere in this Annual Report on Form 10-K. A detailed discussion of the material changes in our operating results is set forth below.

	Year Ended December 31,		
	2004	2005	**2006**
Revenue:			
Product	77.8%	78.4%	**65.5%**
Services	22.2	21.6	**34.5**
	100.0	100.0	**100.0**
Cost of Revenues:			
Product cost of revenue	46.3	52.4	**50.8**
Service cost of revenue	51.1	46.2	**64.1**
Total Gross Profit	52.6	48.9	**44.6**
Selling, general and administrative expenses	42.8	37.6	**52.3**
Research and development expenses	9.0	8.6	**10.7**
Income (loss) from operations	0.8	2.8	**(18.4)**
Interest income	1.4	1.2	**11.3**
Interest expense	(0.4)	(0.3)	**(0.0)**
Other income	1.1	0.8	**0.6**
Net income (loss)	2.9%	4.5%	**(6.5)%**

Year Ended December 31, 2006 Compared to the Year Ended December 31, 2005

REVENUES. Revenues increased by $5.7 million, or 30.2%, to $24.7 in 2006 from $19.0 million in 2005.

Revenues from product increased by $1.3 million, or 8.7%, to $16.2 million in 2006 from $14.9 million in the same period in 2005. The increase in product revenues was attributable primarily to increased sales of our wireless system for tracking and managing industrial vehicles to U.S. Postal Service and Wal-Mart Stores, Inc.

Revenues from service increased $4.4 million, or 108.2%, to $8.5 million in 2006 from $4.1 million in the same period in 2005. The increase in service revenues was attributable primarily to the increase in implementation services to the U.S. Postal Service.

COST OF REVENUES. Cost of revenues increased by $4.0 million, or 41.1%, to $13.7 million in 2006 from $9.7 million in 2005. Gross profit was $11.0 million in 2006 compared to $9.3 million in 2005. As a percentage of revenues, gross profit decreased to 44.6% in 2006 from 48.9% in 2005.

Cost of product increased by $413,000, or 5.3%, to $8.2 million in 2006 from $7.8 million in the same period in 2005. Gross profit from product revenue was $8.0 million in 2006 compared to $7.1 million in 2005. As a percentage of product revenues, gross profit increased to 49.2% in 2006 from 47.6% in 2005. Included in costs of revenues for 2005 was $480,000 of amortized capitalized costs associated with the application of the cost recovery method of revenue recognition. In accordance with the cost recovery method, these capitalized contract costs were reduced dollar for dollar by the amount of revenue recognized. Excluding the amortization of these capitalized contract costs, gross profit as a percentage of revenues would have been 50.2%

Cost of service increased by $3.6 million, or 189.2%, to $5.5 million in 2006 from $1.9 million in the same period in 2005. Gross profit from service revenue was $3.1 million in 2006 compared to $2.2 million in 2005. As a percentage of service revenues, gross profit decreased to 35.9% in 2006 from 53.8% in 2005. The decrease was primarily due to the hiring of third party subcontractors to perform implementation services at the U.S. Postal Service.

Selling, General and Administrative Expenses. Selling, general and administrative expenses increased $5.8 million, or 81.3%, to $12.9 million in 2006 compared to $7.1 million in 2005. This increase was attributable primarily to (i) the adoption of SFAS No. 123(R) in which we expensed $2.2 million of the value of stock based employee compensation and (ii) the increase in payroll and related expenses due to the hiring of additional personnel to support our continued growth. As a percentage of revenues, selling, general and administrative, expenses increased to 52.3% in 2006 from 37.6% in 2005. We are currently expanding our direct sales force and intend to develop additional sales and marketing initiatives. As a result of such expansion, we expect our selling, general and administrative expenses to increase during 2007.

Research and Development Expenses. Research and development expenses increased $1.0 million, or 62.4%, to $2.6 million in 2006 from $1.6 million in 2005. This increase was attributable primarily to (i) the adoption of SFAS No. 123(R) in which we expensed $723,000 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 10.7% in 2006 from 8.6% in 2005. We intend to expand our research and development activities in order to continue to add to the functionality and reduce the costs of our system, to expand our system to meet the needs of new markets and provide new solutions to our customers; and to improve our core products by utilizing continuing advances in technology. As a result of such activities, we expect our research and development expenses to increase during 2007.

Interest Income. Interest income increased $2.6 million, or 1,161.7%, to $2.8 million in 2006 from $222,000 in 2005. This increase was attributable primarily to the increase in cash and cash equivalents and investments resulting from the proceeds received in connection with the public offering completed by us in March 2006.

Interest Expense. Interest expense decreased $24,000, or 45.3%, to $29,000 in 2006 from $53,000 in 2005. The decrease was attributable to a reduction in the principal amount of our outstanding debt in 2006.

Other Income. Other income, which increased slightly to $155,000 in 2006 from $151,000 in 2005, reflects rental income earned from a sublease arrangement. During January 2007, we released the sublease from the sublease and will reassume the space in mid 2007.

Net Income (Loss). Net loss was $1.6 million or $(0.15) per basic and diluted share in the year ended December 31, 2006 as compared to net income of $851,000 or $0.11 per basic and $0.09 per diluted share for the year ended December 31, 2005. The increase in net loss was due primarily to the reasons described above.

Year Ended December 31, 2005 Compared to the Year Ended December 31, 2004

REVENUES. Revenues increased by $5.3 million, or 38.3%, to $19.0 in 2005 from $13.7 million in 2004.

Revenues from product increased by $4.2 million, or 39.3%, to $14.9 million in 2005 from $10.7 million in the same period in 2004. The increase in product revenues was attributable primarily to increased sales of our wireless system for tracking and managing industrial vehicles to our customers, including the U.S. Postal Service and Walgreens.

Revenues from service increased $1.1 million, or 34.7%, to $4.1 million in 2005 from $3.0 million in the same period in 2004. The increase in service revenues was attributable primarily to the increase in implementation services to the US Postal Service.

COST OF REVENUES. Cost of revenues increased by $3.2 million, or 49.1%, to $9.7 million in 2005 from $6.5 million in 2004. Gross profit was $9.3 million in 2005 compared to $7.2 million in 2004. As a percentage of revenues, gross profit decreased to 48.9% in 2005 from 52.6% in 2004.

Cost of product increased by $2.9 million, or 57.8%, to $7.8 million in 2005 from $5.0 million in the same period in 2004. Gross profit from product revenue was $7.1 million in 2005 compared to $5.7 million in 2004. As a percentage of product revenues, gross profit decreased to 47.6% in 2005 from 53.7% in 2004. The decrease is attributable to an increase to the inventory reserve of $105,000 in 2005, in addition, included in costs of revenues for 2005 and 2004 was $480,000 and $400,000, respectively, of amortized capitalized costs associated with the application of the cost recovery method of revenue recognition. In accordance with the cost recovery method, these capitalized contract costs were reduced dollar for dollar by the amount of revenue recognized.

Cost of service increased by $335,000, or 21.5%, to $1.9 million in 2005 from $1.6 million in the same period in 2004. Gross profit from service revenue was $2.2 million in 2005 compared to $1.5 million in 2004. As a percentage of service revenues, gross profit increased to 53.8% in 2005 from 48.9% in 2004.

Selling, General and Administrative Expenses. Selling, general and administrative expenses increased $1.3 million, or 21.4%, to $7.1 million in 2005 compared to $5.9 million in 2004. This increase was attributable primarily to increased payroll and related expenses as well as travel expenses due to the hiring of additional personnel to support our continued growth and increased sales and marketing efforts. Also included in selling, general and administrative expenses in 2005 are costs related to compliance with Section 404 of the Sarbanes-Oxley Act. As a percentage of revenues, however, selling, general and administrative expenses decreased to 37.6% in 2005 from 42.8% in 2004 as a result of an increase in revenue.

Research and Development Expenses. Research and development expenses increased $391,000, or 31.7%, to $1.6 million in 2005 from $1.2 million in 2004. This increase was attributable to increased payroll and related expenses due to the hiring of additional personnel and $80,000 of research and development expenses in 2004 that were capitalized under the cost recovery method and included in deferred contract costs rather than expensed. As a percentage of revenues, research and development expenses decreased to 8.6% in 2005 from 9.0% in 2004.

Interest Income. Interest income increased $27,000, or 13.8%, to $222,000 in 2005 from $195,000 in 2004. This increase was attributable primarily to an increase in interest rates in 2005.

Interest Expense. Interest expense decreased $10,000, or 15.9%, to $53,000 in 2005 from $63,000 in 2004. The decrease was attributable to a reduction in the principal amount of our outstanding debt in 2005.

Other Income. Other income, which increased slightly to $151,000 in 2005 from $147,000 in 2004, reflects rental income earned from a sublease arrangement.

Net Income. Net income increased $453,000, or 113.8%, to $851,000 in 2005 from $398,000 in 2004. Net income per basic and diluted share increased to $0.11 and $0.09, respectively, for the year ended December 31, 2005, compared to net income per basic and diluted share of $0.05 for the year ended December 31, 2004. 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 flow generated from our business and net proceeds from the issuance of our securities, including the issuance of our common stock upon the exercise of options and warrants. As of December 31, 2006, we had cash, cash equivalents and marketable securities of $70.4 million and working capital of $80.0 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 $1.1 million for the year ended December 31, 2006 compared to net cash used in operating activities of $4.1 million in the year ended December 31, 2005. The decrease was due primarily to a significant decrease in accounts receivable resulting from improved collections, offset by (i) an increase in net loss, (ii) an increase in finished goods inventory manufactured to meet anticipated customer orders and (iii) an increase to accounts payable and accrued expenses attributable to an increase to operating expenses.

Net cash used in operating activities was $4.1 million for the year ended December 31, 2005 compared to net cash provided by operating activities of $1.6 million for the year ended December 31, 2004. The increase in net cash used in operating activities was due primarily to an increase in accounts receivable resulting from an increase in our revenues in 2005, unbilled receivables under our contract with the U.S. Postal Service and an increase in inventory.

Investing Activities

Net cash used in investing activities was $56.0 million for the year ended December 31, 2006 compared to net cash used in investing activities of $2.8 million for the year ended December 31, 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.

Net cash used in investing activities was $2.8 million for the year ended December 31, 2005 compared to net cash provided by investing activities of $1.7 million for the year ended December 31, 2004. The increase in net cash used in investing activities was due primarily to a $4.7 million increase in the purchase of investments in 2005 compared to the same period in 2004, which was partially offset by an increase in the maturity of investments.

Financing Activities

Net cash provided by financing activities was $64.5 million for the year ended December 31, 2006 compared to $544,000 for the year ended December 31, 2005. The increase was due primarily to the proceeds received in connection with the public offering that was completed by us in March 2006.

Net cash provided by financing activities was $544,000 for the year ended December 31, 2005 compared to $1.9 million for the year ended December 31, 2004. The decrease was due primarily to a decrease in the proceeds received in connection with the exercise of stock options and warrants in 2005 compared to the same period in 2004.

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 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.

Line of Credit and Term Loan

We have a working capital line of credit, with maximum borrowings of $500,000. Interest is set at the 30 day LIBOR Market Index Rate plus 1.75% is payable monthly. At December 31, 2005 and 2006, we had no outstanding balance under this line of credit.

In January 2003, we 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 secured by all our assets and we are in compliance with the covenants under the term loan. The fair value of the interest rate swap is not material our financial condition or results of operations.

Maturities of long-term debt are as follows:

As of December 31, 2006, maturities of long-term debt were as follows:

2007	$221,000
2008	19,000
	$240,000

Contractual Obligations and Commitments

The following table summarizes our significant contractual obligations and commitments as of December 31, 2006:

	Payment due by Period				
	Total	**Less than one year**	**1 to 3 years**	**3 to 5 years**	**After 5 years**
Long-Term Debt Obligations	$ 240,000	$ 221,000	$ 19,000	$ --	$ --
Operating Leases	1,358,000	418,000	836,000	104,000	--
Total Contractual Cash Obligations	$ 1,598,000	$ 639,000	$ 855,000	$ 104,000	$ --

Purchase orders or contracts for the purchase of raw materials and other goods and services are not included in the table above. We are not able to determine the aggregate amount of such purchase orders that represent contractual obligations, as purchase orders may represent authorizations to purchase rather than binding agreements. Although we have entered into contracts for services, the obligations under these contracts were not significant and the contracts generally contain clauses allowing for cancellation without significant penalty.

The expected timing or payment of obligations discussed above is estimated based on current information. Timing of payments and actual amounts paid may be different depending on changes to agreed upon amounts for some obligations.

Inflation

We believe our operations have not been and, in the foreseeable future, will not be materially and adversely affected by inflation or changing prices.

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, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that is material to investors.

Recently Issued Accounting Pronouncements

In February 2006, the Financial Accounting Standards Board (FASB) issued SFAS No. 155, *"Accounting for Certain Hybrid Financial Instruments"*. SFAS No. 155 amends SFAS No. 133 and SFAS No. 140, and addresses issues raised in SFAS No. 133 Implementation Issue No. D1, *"Application of Statement 133 to Beneficial Interests in Securitized Financial Assets".* SFAS No. 155 is effective for all financial instruments acquired or issued after the beginning of an entity's first fiscal year that begins after September 15, 2006. We do not believe we will be materially affected by the adoption of SFAS No. 155.

In June 2006, the FASB issued interpretation No. 48, *"Accounting for Uncertainty in Income Taxes—An interpretation of FASB Statement No. 109"*, 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 SFAS 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 derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. FIN 48 is effective for fiscal years beginning after December 15, 2006. We are currently evaluating the impact FIN 48 will have on our results of operations and financial position.

In September 2006, the FASB issued SFAS No. 157, *"Fair Value Measurements"*, to define fair value, establish a framework for measuring fair value in accordance with generally accepted accounting principles, and expand disclosures about fair value measurements. SFAS No. 157 will be effective for fiscal years beginning after November 15, 2007, the beginning of our 2008 fiscal year. We are assessing the impact the adoption of SFAS No. 157 will have on our financial position and results of operations.

In September 2006, the Securities and Exchange Commission issued Staff Accounting Bulletin ("SAB") No. 108, "Considering the Effects on Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements". SAB No. 108 requires registrants to quantify errors using both the income statement method (i.e. iron curtain method) and the rollover method and requires adjustment if either method indicates a material error. If a correction in the current year relating to prior year errors is material to the current year, then the prior year financial information needs to be corrected. A correction to the prior year results that are not material to those years would not require a "restatement process" where prior financials would be amended. Our adoption of SAB 108 did not have a material impact on our financial statements.

In February 2007, the FASB issued SFAS No. 159 "The Fair Value Option for Financial Assets and Financial Liabilities" including an amendment of SFAS No. 115. SFAS No. 159 provides companies with an option to report selected financial assets and financial liabilities at fair value. Unrealized gains and losses on items for which the fair value option has been elected are reported in earnings. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007. We are currently assessing the impact of SFAS No. 159 on our financial position and results of operations.

Item 7A. 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 8. Financial Statements and Supplementary Data

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Stockholders of
I.D. Systems, Inc.

We have audited the accompanying balance sheets of I.D. Systems, Inc. as of December 31, 2005 and 2006 and the related statements of operations, changes in stockholders' equity and cash flows for the years ended December 31, 2004, 2005 and 2006. Our audits also included the financial statement schedule II - Valuation and Qualifying Accounts. These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements enumerated above present fairly, in all material respects, the financial position of I.D. Systems, Inc. as of December 31, 2005 and 2006 and the results of its operations and its cash flows for the years ended December 31, 2004, 2005 and 2006, in conformity with accounting principles generally accepted in the United States. Also, in our opinion, the financial statement schedule referred to above, when considered in relation to the financial statements, taken as a whole, presents fairly, in all material respects, the information stated therein.

As discussed in Note B to the financial statements, effective January 1, 2006, the Company adopted the provisions of Statement of Financial Accounting Standards No. 123 (R), "Share-Based Payment" applying the modified - prospective method.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of I.D. Systems, Inc.'s internal control over financial reporting as of December 31, 2006, based on criteria established in the Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission, and our report dated March 14, 2007 expressed an unqualified opinion on management's assessment of, and the effective operation of, internal control over financial reporting.

/s/ Eisner LLP

New York, New York
March 14, 2007

I.D. SYSTEMS, INC.
Balance Sheets

	As of December 31,	
ASSETS	**2005**	**2006**
Current assets:		
Cash and cash equivalents	$ 2,138,000	$ 9,644,000
Marketable securities	5,463,000	60,716,000
Accounts receivable, net	6,068,000	5,101,000
Unbilled receivables	1,293,000	1,042,000
Inventory	2,952,000	6,430,000
Investment in sales type leases	34,000	--
Interest receivable	--	179,000
Officer loan	11,000	8,000
Prepaid expenses and other current assets	140,000	271,000
Total current assets	18,099,000	83,391,000
Fixed assets, net	1,159,000	1,394,000
Investment in sales type leases	433,000	--
Officer loan	8,000	--
Deferred contract costs	53,000	33,000
Other assets	88,000	87,000
	$ 19,840,000	$ 84,905,000
LIABILITIES		
Current liabilities:		
Accounts payable and accrued expenses	$ 3,881,000	$ 2,950,000
Current portion of long term debt	209,000	221,000
Deferred revenue	155,000	221,000
Total current liabilities	4,245,000	3,392,000
Long term debt	240,000	19,000
Deferred revenue	90,000	133,000
Deferred rent	99,000	77,000
	4,674,000	3,621,000
Commitments and Contingencies (Note J)		
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; issued and outstanding 7,851,000 and 11,337,000 shares at December 31, 2005 and 2006, respectively	79,000	113,000
Additional paid-in capital	25,735,000	93,423,000
Accumulated deficit	(10,535,000)	(12,151,000)
Comprehensive income	--	12,000
	15,279,000	81,397,000
Treasury stock; 40,000 shares at cost	(113,000)	(113,000)
Total stockholders' equity	15,166,000	81,284,000
Total liabilities and stockholders' equity	$ 19,840,000	$ 84,905,000

SEE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS

I.D. SYSTEMS, INC.
Statements of Operations

	Year Ended December 31,		
	2004	2005	2006
Revenue:			
Product	$ 10,697,000	$ 14,905,000	$ 16,205,000
Service	3,044,000	4,099,000	8,535,000
	13,741,000	19,004,000	24,740,000
Cost of Revenue:			
Cost of product	4,952,000	7,816,000	8,229,000
Cost of service	1,557,000	1,892,000	5,472,000
	6,509,000	9,708,000	13,701,000
Gross Profit	7,232,000	9,296,000	11,039,000
Operating expenses:			
Selling, general and administrative expenses	5,879,000	7,140,000	12,943,000
Research and development expenses	1,234,000	1,625,000	2,639,000
	7,113,000	8,765,000	15,582,000
Income (loss) from operations	119,000	531,000	(4,543,000)
Interest income	195,000	222,000	2,801,000
Interest expense	(63,000)	(53,000)	(29,000)
Other income	147,000	151,000	155,000
Net income (loss)	$ 398,000	$ 851,000	$ (1,616,000)
Net income (loss) per share - basic	$ 0.05	$ 0.11	$ (0.15)
Net income (loss) per share - diluted	$ 0.05	$ 0.09	$ (0.15)
Weighted average common shares outstanding - basic	7,455,000	7,771,000	10,501,000
Weighted average common shares outstanding - diluted	8,783,000	9,332,000	10,501,000

SEE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS

I.D. SYSTEMS, INC.
Statements of Changes in Stockholders' Equity

	Common Stock		Additional		Accumulated Other		
	Number of Shares	Amount	Paid-in Capital	Accumulated Deficit	Comprehensive Income	Treasury Stock	Stockholders' Equity
Balance at January 1, 2004	7,097,000	$ 71,000	$ 22,804.000	$ (11,784,000)	--	$ (113,000)	$ 10,978,000
Net income				398,000			398,000
Comprehensive income (loss) - unrealized gain (loss) on investments					--		--
Total comprehensive income				398,000	--		398,000
Shares issued pursuant to exercise of stock options	444,000	4,000	1,167,000				1,171,000
Shares issued pursuant to exercise of warrants	149,000	2,000	1,023,000				1,025,000
Balance at December 31, 2004	7,690,000	$ 77,000	$ 24,994,000	$ (11,386,000)	--	$ (113,000)	$ 13,572,000
Net income				851,000			851,000
Comprehensive income (loss) - unrealized gain(loss) on investments					-		
Total comprehensive income				851,000	-		851,000
Shares issued pursuant to exercise of stock options	161,000	2,000	741,000				743,000
Balance at December 31, 2005	7,851,000	$ 79,000	$ 25,735,000	$ (10,535,000)	--	$ (113,000)	$ 15,166,000
Net loss				(1,616,000)			(1,616,000)
Comprehensive income - unrealized gain on investments					12,000		12,000
Total comprehensive loss				(1,616,000)	12,000		(1,604,000)
Shares issued pursuant to exercise of stock options	200,000	2,000	784,000				786,000
Shares issued pursuant to a public offering	2,750,000	28,000	55,500,000				55,528,000
Shares issued pursuant to exercise of overallotment options related to public offering	413,000	4,000	8,429,000				8,433,000
Issuance of restricted stock	91,000		478,000				478,000
Issuance of performance shares	32,000		602,000				602,000
Stock based compensation - options			1,895,000				1,895,000
Balance at December 31, 2006	11,337,000	$ 113,000	$ 93,423,000	$ (12,151,000)	$ 12,000	$ (113,000)	$ 81,284,000

SEE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS

I.D. SYSTEMS, INC.
Statements of Cash Flows

	Year Ended December 31,		
	2004	2005	2006
Cash flows from operating activities:			
Net income (loss)	$ 398,000	$ 851,000	$ (1,616,000)
Adjustments to reconcile net income (loss) to cash provided by (used in) operating activities:			
Inventory reserve	--	105,000	100,000
Accrued interest income	119,000	42,000	(165,000)
Stock based compensation	--	--	2,975,000
Depreciation and amortization	255,000	362,000	468,000
Deferred rent expense	23,000	(13,000)	(22,000)
Deferred revenue	(88,000)	(41,000)	109,000
Provision for uncollectible accounts	(12,000)	20,000	211,000
Deferred contract costs	199,000	423,000	20,000
Unrealized gain on investments	--	--	12,000
Changes in:			
Accounts receivable	784,000	(4,656,000)	756,000
Unbilled receivables	(402,000)	(891,000)	251,000
Inventory	(1,063,000)	(1,318,000)	(3,578,000)
Prepaid expenses and other assets	(87,000)	85,000	(130,000)
Investment in sales type leases	37,000	(394,000)	467,000
Accounts payable and accrued expenses	1,485,000	1,340,000	(931,000)
Net cash (used in) provided by operating activities	1,648,000	(4,085,000)	(1,073,000)
Cash flows from investing activities:			
Purchase of fixed assets	(419,000)	(512,000)	(703,000)
Purchase of investments	(1,235,000)	(5,963,000)	(68,481,000)
Maturities of investments	3,385,000	3,703,000	13,214,000
Collection of officer loan	11,000	11,000	11,000
Net cash provided by (used in) investing activities	1,742,000	(2,761,000)	(55,959,000)
Cash flows from financing activities:			
Repayment of term loan	(188,000)	(199,000)	(209,000)
Repayment of line of credit	(137,000)	--	--
Proceeds from exercise of stock options	1,171,000	743,000	786,000
Net proceeds from public offering	--	--	63,961,000
Proceeds from exercise of warrants	1,025,000	--	--
Net cash provided by financing activities	1,871,000	544,000	64,538,000
Net increase (decrease) in cash and cash equivalents	5,261,000	(6,302,000)	7,506,000
Cash and cash equivalents – beginning of period	3,179,000	8,440,000	2,138,000
Cash and cash equivalents – end of period	$ 8,440,000	$ 2,138,000	$ 9,644,000
Supplemental disclosure of cash flow information:			
Cash paid for:			
Interest	$ 63,000	$ 53,000	$ 29,000

SEE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS

NOTE A - THE COMPANY

I.D. Systems, Inc. (the "Company") designs, develops and produces innovative wireless monitoring and tracking products that utilize its patented radio-frequency-based system. The Company's products provide features enabling users to improve operating efficiencies and reduce costs by monitoring the use of corporate assets. The Company outsources its hardware manufacturing operations to contract manufacturers. The Company was incorporated in Delaware in 1993 and commenced operations in January 1994.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

[1] Use of estimates:

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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. Actual results could differ from those estimates. We continually evaluate estimates used in the preparation of the financial statements for reasonableness. The significant areas of estimation include collectability of accounts receivable, sales returns, recoverability of inventory, realization of deferred tax assets, useful lives, impairment of tangible and intangible assets, and present value calculations in sales type leases.

[2] Cash and cash equivalents:

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

[3] Marketable securities:

The Company has marketable debt and equity securities, which are classified as either available for sale securities or held to maturity securities, 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). Investments categorized as held to maturity securities are carried at amortized cost because the Company has both the intent and the ability to hold these investments until they mature

[4] 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 or market using the first-in first-out method. At December 31, 2005 and 2006 the Company's inventory consisted of components of approximately $327,000 and $465,000 and finished goods of approximately $2,625,000 and $5,965,000, respectively.

[5] Unbilled receivables and deferred revenue:

Under certain customer contracts the Company invoices progress billings once certain milestones are met. The milestone terms vary by customer and can include upon receipt of purchase order, delivery, installation and launch. 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. As of December 31, 2005 and 2006, unbilled receivables were $1,293,000 and $1,042,000, respectively and deferred revenue was $245,000 and $354,000, respectively.

[6] Fixed assets and depreciation:

Fixed assets are recorded at cost and depreciated using the straight-line method over the estimated useful lives of the assets which range from three to ten years. Leasehold improvements are amortized using the straight-line method over the terms of the respective leases, or their estimated useful lives, whichever is shorter.

[7] Long-lived assets:

The Company evaluates impairment losses on its long-lived assets in accordance with Statement of Financial Accounting Standards (“SFAS”) No. 144, *“Accounting for the Impairment or Disposal of Long-Lived Assets,”*. In the evaluation, the Company compares the carrying values of such assets to the estimated undiscounted future cash flows expected from the use of the assets and their eventual disposition. When the estimated undiscounted future cash flows are less than the carrying amount an impairment loss is recognized equal to the difference between the assets fair value and their carrying value. For the years ended December 31, 2004, 2005 and 2006, the Company has not incurred an impairment charge.

[8] Research and development:

Research and development costs are charged to expense as incurred.

[9] Patent costs:

Costs incurred in connection with acquiring patent rights are charged to expense as incurred.

[10] Revenue recognition:

The Company's revenue is 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, persuasive 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 revenue 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.

[11] Benefit plan:

The Company maintains a retirement plan under Section 401(k) of the Internal Revenue Code, which covers all eligible employees. The Company did not make any contributions to the plan during the years ended December 31, 2004, 2005 and 2006.

[12] Rent expense:

Expense related to the Company's facility lease is recorded on a straight-line basis over the lease term. The difference between rent expense incurred and the amounts required to be paid in accordance with the lease term is recorded as deferred rent and is amortized over the lease term.

[13] Stock-based compensation:

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 statement of operations as an operating expense, based on their fair values on grant date.

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 years ended December 31 2004 and 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 transition method in adopting SFAS 123R. Accordingly, periods prior to adoption have not been restated. As a result of adoption, stock based compensation expense of $2,975,000 was recorded for the year ended December 31, 2006, resulting in a corresponding increase in loss from operations and net loss and a reduction of $0.28 per basic and $ 0.26 per diluted share for the year ended December 31, 2006.

SFAS 123R requires companies to estimate the fair value of share based payment awards on the grant date using an option pricing model. The value of the portion of the award that is ultimately expected to vest is recognized as expense over the requisite service period in the Company's statement of operations. SFAS 123 requires forfeitures to be estimated at the time of grant in order to estimate the amount of share based awards that will ultimately vest. The estimate is based on the Company's historical rates of forfeitures. Share based compensation expense recognized by the Company in 2006 includes (i) compensation expense for share based awards granted prior to, but not yet vested as of December 31, 2005, based on the grant date fair value estimated in accordance with the pro forma provisions of SFAS 123 and (ii) compensation expense for the share based payment awards granted subsequent to December 31, 2005, based on the grant date fair value estimated in accordance with the provisions of SFAS 123R. This is based on awards ultimately expected to vest and hence it has been reduced for estimated forfeitures. In the Company's pro forma information required under SFAS 123 for the periods prior to 2006, the Company accounted for forfeitures as they occurred. SFAS 123R also requires estimated forfeitures to be revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates.

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

	December 31, 2004	December 31, 2005
Reported net income	$ 398,000	$ 851,000
Stock-based employee compensation expense included in reported net income, net of related tax effects	0	0
Stock-based employee compensation determined under the fair value based method, net of related tax effects	(1,187,000)	(1,612,000)
Pro forma net loss	$ (789,000)	$ (761,000)
Net income (loss) per share basic		
As reported	$ 0.05	$ 0.11
Pro forma	$ (0.11)	$ (0.10)
Net income (loss) per share diluted		
As reported	$ 0.05	$ 0.09
Pro forma	$ (0.11)	$ (0.10)

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:

	December 31,		
	2004	2005	2006
Expected volatility	52%	51%	60%
Expected life of options	5 years	5 years	5 years
Risk free interest rate	3%	4%	5%
Dividend yield	0%	0%	0%

[14] Income taxes:

The Company uses the asset and liability method of accounting for deferred income taxes. Deferred income taxes are measured by applying enacted statutory rates to net operating loss carryforwards and to the differences between the financial reporting and tax bases of assets and liabilities. Deferred tax assets are reduced, if necessary, by a valuation allowance if it is more likely than not that some portion or all of the deferred tax assets will not be realized.

[15] Net income (loss) per share:

	December 31,		
	2004	2005	2006
Basic income (loss) per share			
Net income (loss)	$ 398,000	$ 851,000	$ (1,616,000)
Weighted average shares outstanding	7,455,000	7,771,000	10,501,000
Basic income (loss) per share	$ 0.05	$ 0.11	$ (0.15)
Diluted income (loss) per share			
Net income (loss)	$ 398,000	$ 851,000	$ (1,616,000)
Weighted average shares outstanding	7,455,000	7,771,000	10,501,000
Dilutive effect of stock options	1,328,000	1,561,000	--
Weighted average shares outstanding, diluted	8,783,000	9,332,000	10,501,000
Diluted income (loss) per share	$ 0.05	$ 0.09	$ (0.15)

Basic income (loss) per share is calculated by dividing net income (loss) by the weighted average number of common shares outstanding during the 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. Options to purchase 69,000 and 136,000 shares of common stock were outstanding during the years ended December 31, 2004 and 2005, 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 and, therefore, the effect would be anti-dilutive. For the year ended December 31, 2006, the basic and diluted weighted average shares outstanding are the same since the effect from the potential exercise of outstanding stock options of 2,784,000, would have been anti-dilutive.

[16] Financial instruments:

The carrying amounts of cash equivalents, accounts receivable, marketable securities, and other liabilities approximate their fair values due to the short period to maturity of these instruments. The carrying amounts of investment in sales-type leases and installment receivable - noncurrent portion approximate their fair value due to the market rate of interest charged to customers.

[17] Advertising and Marketing Expense:

Advertising and marketing costs are expensed as incurred. Advertising and marketing expense for the years ended December 31, 2004, 2005 and 2006 amounted to $99,000, $143,000 and $217,000 respectively.

[18] Reclassifications:

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

[19] Recently Issued Accounting Pronouncements:

In February 2006, the Financial Accounting Standards Board (FASB) issued SFAS No. 155, *"Accounting for Certain Hybrid Financial Instruments"*. SFAS No. 155 amends SFAS No. 133 and SFAS No. 140, and addresses issues raised in SFAS No. 133 Implementation Issue No. D1, *"Application of Statement 133 to Beneficial Interests in Securitized Financial Assets".* SFAS No. 155 is effective for all financial instruments acquired or issued after the beginning of an entity's first fiscal year that begins after September 15, 2006. The Company does not believe it will be materially affected by the adoption of SFAS No. 155.

In June 2006, the FASB issued interpretation No. 48, *"Accounting for Uncertainty in Income Taxes—An interpretation of FASB Statement No. 109"*, 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 SFAS 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 derecognition, 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 results of operations and financial position.

In September 2006, the FASB issued SFAS No. 157, *"Fair Value Measurements"*, to define fair value, establish a framework for measuring fair value in accordance with generally accepted accounting principles, and expand disclosures about fair value measurements. SFAS No. 157 will be effective for fiscal years beginning after November 15, 2007, the beginning of the Company's 2008 fiscal year. The Company is assessing the impact the adoption of SFAS No. 157 will have on the Company's financial position and results of operations.

In February 2007, the FASB issued SFAS No. 159 "The Fair Value Option for Financial Assets and Financial Liabilities" including an amendment of SFAS No. 115. SFAS No. 159 provides companies with an option to report selected financial assets and financial liabilities at fair value. Unrealized gains and losses on items for which the fair value option has been elected are reported in earnings. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007. The Company is currently assessing the impact of SFAS No. 159 on its financial position and results of operations.

In September 2006, the Securities and Exchange Commission ("SEC") issued Staff Accounting Bulletin ("SAB") No. 108, "Considering the Effects on Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements". SAB No. 108 requires registrants to quantify errors using both the income statement method (i.e. iron curtain method) and the rollover method and requires adjustment if either method indicates a material error. If a correction in the current year relating to prior year errors is material to the current year, then the prior year financial information needs to be corrected. A correction to the prior year results that are not material to those years would not require a "restatement process" where prior financials would be amended. The Company's adoption of SAB 108 did not have a material impact on its financial statements.

NOTE C - MARKETABLE SECURITIES

The Company has marketable debt and equity securities, which are classified as either available for sale or held to maturity, 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). 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 primarily invests in high credit quality Auction Rate Certificates issued by counties, cities, states, other municipal entities, not-for-profits and corporations. These Auction Rate Certificates reset every 28 days giving the Company the ability to readily convert these instruments in to cash to fund current operations, or satisfy other cash requirements as needed. Accordingly, we have classified all marketable securities as current assets in the accompanying balance sheets.

The cost, gross unrealized gains (losses) and fair value of available for sale and held to maturity securities by major security type at December 31, 2005 and 2006 were as follows:

December 31, 2005	Cost	Unrealized Gain	Unrealized Loss	Fair Value
Available for sale securities:				
State bonds	$ 4,350,000	-	-	$ 4,350,000
Mutual funds	745,000	-	-	745,000
Certificates of deposit	368,000			368,000
Total available for sale securities	5,463,000	-	-	5,463,000
Total marketable securities	$ 5,463,000	-	-	$ 5,463,000

December 31, 2006	Cost	Unrealized Gain	Unrealized Loss	Fair Value
Available for sale securities:				
Government agency bonds	$ 6,662,000	$ 11,000	-	$ 6,673,000
State bonds	36,550,000	-	-	36,550,000
Corporate bonds	261,000	1,000	-	262,000
Mutual funds	3,257,000	-	-	3,257,000
Total available for sale securities	46,730,000	12,000	-	46,742,000
Held to maturity securities:				
Certificates of deposit	190,000	-	-	190,000
Government agency bonds	9,255,000	-	-	9,255,000
Corporate bonds	4,529,000	-	-	4,529,000
Total held to maturity securities	13,974,000	-	-	13,974,000
Total marketable securities	$ 60,704,000	$ 12,000	-	$ 60,716,000

NOTE D - FIXED ASSETS

Fixed assets are stated at cost, less accumulated depreciation and amortization, and at December 31, 2005 and 2006, are summarized as follows:

	As of December 31,	
	2005	2006
Equipment	$ 648,000	$ 1,059,000
Computer software	453,000	475,000
Computer hardware	383,000	531,000
Furniture and fixtures	206,000	206,000
Leasehold improvements	447,000	447,000
	2,137,000	2,718,000
Accumulated depreciation and amortization	(978,000)	(1,324,000)
	$ 1,159,000	$ 1,394,000

Depreciation expense was $203,000, $310,000 and $416,000 for the years ended December 31, 2004, 2005 and 2006, respectively.

NOTE E - OFFICER LOAN

In June 2002, the Company loaned $56,000 to an officer. The loan is payable together with interest of 4% in semi-monthly installments of $500 through August 2007. At December 31, 2005 and 2006, $19,000 and $8,000 is due to the Company, respectively. The loan is fully payable upon demand and is due if the employee is terminated from the Company for any reason. This loan was made prior to the enactment of the Sarbanes-Oxley Act of 2002. The Company is prohibited from making any loans to officers in the future.

NOTE F - LINE OF CREDIT

The Company has a working capital line of credit, with maximum borrowings of $500,000. Interest is set at the 30 day LIBOR Market Index Rate plus 1.75% is payable monthly. At December 31, 2005 and 2006 the Company has no outstanding balance under this line of credit.

NOTE G - 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 secured 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 Company's financial condition or results of operations.

Maturities of long-term debt are as follows:

Year Ending December 31,	
2007	$221,000
2008	19,000
	$240,000

NOTE H - STOCKHOLDERS' EQUITY

[1] 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 $55,528,000.

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 $8,433,000.

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.

[2] Preferred stock:

The Company is authorized to issue 5,000,000 shares of $0.01 par value preferred stock. The Company's Board of Directors has the authority to issue shares of preferred stock and to determine the price and terms of those shares.

[3] Stock options:

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

A summary of the status of the Company's stock option plans as of December 31, 2004, 2005 and 2006 and changes during the years then ended, is presented below:

	2004		2005		2006	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding at beginning of year	2,129,000	$ 3.74	2,291,000	$ 5.04	2,730,000	$ 6.94
Granted	713,000	7.85	677,000	13.10	388,000	21.30
Exercised	(444,000)	2.63	(161,000)	4.61	(200,000)	3.92
Forfeited	(107,000)	7.96	(77,000)	9.30	(134,000)	10.94
Outstanding at end of year	2,291,000	$ 5.04	2,730,000	$ 6.94	2,784,000	$ 8.97
Exercisable at end of year	1,100,000	$ 3.61	1,320,000	$ 4.27	1,535,000	$ 5.49

The following table summarizes information about stock options at December 31, 2004:

	Options Outstanding			Options Exercisable	
Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Outstanding	Weighted Average Exercise Price
1.20	542,000	3 years	$ 1.20	542,000	$ 1.20
2.31 - 3.81	151,000	6 years	2.93	80,000	3.02
4.07 - 7.05	1,198,000	8 years	5.71	258,000	5.32
7.56 - 18.90	400,000	6 years	9.02	220,000	7.77
	2,291,000	5 years	5.04	1,100,000	3.61

The following table summarizes information about stock options at December 31, 2005:

	Options Outstanding			Options Exercisable	
Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Outstanding	Weighted Average Exercise Price
1.20	525,000	2 years	$ 1.20	525,000	$ 1.20
2.31 - 3.81	103,000	5 years	2.86	80,000	2.97
4.07 - 7.05	1,070,000	7 years	5.70	412,000	5.46
7.56 - 20.37	1,032,000	8 years	11.56	303,000	8.33
	2,730,000	6 years	6.94	1,320,000	4.27

The following table summarizes information about stock options at December 31, 2006:

	Options Outstanding				Options Exerciseable		
Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Aggregate Intrinsic Value	Number Outstanding	Weighted Average Exercise Price	Aggregate Intrinsic Value
1.20 - 3.81	500,000	2 years	$ 1.48		500,000	$ 1.48	
4.07 - 10.0	1,257,000	6 years	6.11		869,000	6.17	
10.25 - 19.94	727,000	8 years	13.59		157,000	13.55	
20.06 - 25.38	300,000	9 years	22.24		9,000	23.88	
	2,784,000	6 years	$ 8.97	$ 27,418,000	1,535,000	$ 5.49	$ 20,458,000

The weighted average fair value of options granted during the years ended December 31, 2004, 2005 and 2006 were $3.74, $7.02 and $11.88, respectively. The total intrinsic value of options exercised during the years ended December 31, 2004, 2005 and 2006 was $3,034,000, $1,327,000 and $3,601,000, respectively.

A summary of the status of the Company's non-ovested stock options as of December 31, 2006 and changes during the year then ended, is presented below:

	Non-vested Shares	Weighted Average Grant Date Fair Value
Non-vested at January 1, 2006	1,410,000	$ 4.92
Granted	388,000	11.89
Vested	(415,000)	4.59
Forfeited	(134,000)	5.67
Non-vested at December 31, 2006	1,249,000	$ 7.11

As of December 31, 2006, there was $6,515,000 of total unrecognized compensation costs related to non-vested options granted under the plans. That cost is expected to be recognized over a weighted average period of 5.22 years

[4] Restricted stock awards and performance shares:

As of December 31, 2006, there were 91,000 shares of restricted stock awards that were granted to key employees pursuant to the 1999 Stock Option Plan during 2006. The restricted stock awards are subject to a two year restriction period commencing on the date of grant. These restricted stock awards are subject to forfeiture if the employee is not employed by the Company. For the year ended December 31, 2006, the Company recorded a $478,000 stock based compensation expense in connection with the restricted stock awards. As of December 31, 2006, there was $1,251,000 of total unrecognized compensation cost related to non-vested shares. The cost is expected to be recognized over the next two years.

In June 2006, the Compensation Committee granted 85,000 performance shares to key employees pursuant to the 1999 Stock Option Plan. The issuance of the shares of the Company's common stock underlying the performance shares is subject to the achievement of revenue and gross margin levels during a two-year performance period. If the performance criterion is not met during that two year period, then the performance shares will not vest and will automatically be returned to the Plan. If the performance trigger is met, then the shares will be issued to the employees. For the year ended December 31, 2006, performance criteria was met for 31,875 shares which were subsequently issued in 2007 and 10,625 performance shares were returned to the plan. For the year ended December 31, 2006, the Company recorded $602,000 of stock based compensation expense in connection with the performance shares.

NOTE I - INCOME TAXES

At December 31, 2006, the Company has an aggregate net operating loss carryforward of approximately $18,207,000 for United States federal income tax purposes and certain state and local income tax purposes of which $3,398,000 relates to stock options for which there were no compensation charges for financial reporting. Accordingly, any future benefit would be credited to additional paid-in capital. The Company has not included this amount in deferred tax assets. Substantially all of the net operating loss carryforwards expire from 2020 through 2025 for federal purposes and from 2007 through 2012 for state purposes. The net operating loss carryforwards maybe limited to use in any particular year based on Internal Revenue Code sections related to change of ownership restrictions. In addition, future stock issuances may subject the Company to annual limitiations on the utilization of its net operating loss carryforwards under the same Internal Revenue Code provision.

The Company has a deferred tax asset of approximately $6,442,000 and $6,904,000 at December 31, 2005 and 2006, respectively. The increase in the deferred tax asset is primarily attributed to $2,975,000 of stock based compensation expensed during 2006 in accordance with SFAS 123R. There were no other significant temporary differences between financial and tax reporting.

The Company has elected to use the incremental approach for financial statement purposes. Under which the Company will elect to utilize net operating loss carry forwards before utilizing excess benefit from exercise of options during the current year. The Company has provided a valuation allowance against the full amount of its deferred tax asset, since the likelihood of realization cannot be determined. The valuation allowance increased during 2004, 2005 and 2006 by $1,045,000 and $129,000 and $462,000, respectively.

The difference between income taxes at the statutory federal income tax rate and income taxes reported in the statements of operations is attributable to the following:

	Year Ended December 31,		
	2004	2005	2006
Income tax expense (benefit) at the federal statutory rate	$ 135,000	$ 289,000	$ (549,000)
State and local income taxes, net of effect on federal taxes	(129,000)	(20,000)	(81,000)
Increase in valuation allowance	1,045,000	129,000	462,000
Fixed assets accumulated book/tax difference - prior year	-	-	117,000
Stock options	(1,031,000)	(451,000)	-
Other	(20,000)	53,000	51,000
	$ 0	$ 0	$ 0

NOTE J - COMMITMENTS, CONTINGENCIES AND OTHER MATTERS

[1] Operating leases:

The Company is obligated under an operating lease for its facility. The Company's operating lease provides for minimum annual rental payments as follows:

Year Ending December 31,	
2007	$ 418,000
2008	418,000
2009	418,000
2010	104,000
	$ 1,358,000

The office lease, which expires in 2010, also provides for escalations relating to increases in real estate taxes and certain operating expenses. Expenses relating to operating leases aggregated approximately $409,000, $398,000 and $396,000 for the years ended December 31, 2004, 2005 and 2006, respectively.

During 2003, the Company entered into an agreement to sublease a portion of its space through the end of the lease. The sublease provides for monthly payments of approximately $12,000 and also provides for escalations relating to increases in real estate taxes and certain operating expenses. Other income of $147,000, $151,000 and $155,000 for the years ended December 31, 2004, 2005 and 2006, respectively reflects rent received by the Company under the sublease. During January 2007, the Company released the subleasee from the sublease and will reassume the space in mid 2007.

[2] Concentration of customers:

Two customers accounted for 61% and 14%, respectively, of the Company’s revenue during the year ended December 31, 2006. One of these customers accounted for 47% of the Company’s accounts receivable and unbilled receivables at December 31, 2006.

Two customers accounted for 45% and 18%, respectively, of the Company’s revenue during the year ended December 31, 2005. One of these customers accounted for 72% of the Company’s accounts receivable and unbilled receivables at December 31, 2005.

Three customers accounted for 49%, 15%, and 12%, respectively, of the Company’s revenue during the year ended December 31, 2004.

[3] Concentration of vendors:

One vendor accounted for 38% of the Company’s purchases during the year ended December 31, 2006. The same vendor accounted for 11% of the Company’s accounts payable as of December 31, 2006.

One vendor accounted for 47% of the Company’s purchases during the year ended December 31, 2005. The same vendor accounted for 51% of the Company’s accounts payable as of December 31, 2005.

[4] Officers bonus:

The Board has awarded bonuses of approximately $295,000 and $135,000 to certain officers for the years ended December 31, 2005 and 2006, respectively.The bonuses are based on certain operating criteria, and is in addition to their base salaries.

NOTE K - QUARTERLY SELECTED FINANCIAL DATA (UNAUDITED)

The following tables contain selected quarterly financial data for each quarter for the years ended December 31, 2005 and 2006. We believe the following information reflects all normal recurring adjustments necessary for a fair presentation of the information for the periods presented. The operating results for any period are not necessarily indicative of results for any future periods.

	Year Ended December 31, 2005			
	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Revenue:				
Product	$ 2,360,000	$ 3,871,000	$ 4,363,000	$ 4,311,000
Service	673,000	327,000	1,379,000	1,720,000
	3,033,000	4,198,000	5,742,000	6,031,000
Cost of revenue:				
Cost of product	1,195,000	1,836,000	2,588,000	2,197,000
Cost of service	311,000	245,000	566,000	770,000
	1,506,000	2,081,000	3,154,000	2,967,000
Gross Profit	1,527,000	2,117,000	2,588,000	3,064,000
Selling, general and administrative expense	1,853,000	1,451,000	1,624,000	2,212,000
Research and development expense	395,000	342,000	398,000	490,000
Other income and (expense)	86,000	88,000	75,000	71,000
Net income (loss)	$ (635,000)	$ 412,000	$ 641,000	$ 433,000
Income (loss) per share - basic	$ (0.08)	$ 0.05	$ 0.08	$ 0.06
Income (loss) per share - diluted	$ (0.08)	$ 0.05	$ 0.07	$ 0.05

	Year Ended December 31, 2006			
	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Revenue:				
Product	$ 4,132,000	$ 4,582,000	$ 5,751,000	$ 1,740,000
Service	2,258,000	1,781,000	2,323,000	2,173,000
	6,390,000	6,363,000	8,074,000	3,913,000
Cost of revenue:				
Cost of product	2,010,000	2,241,000	2,995,000	984,000
Cost of service	1,193,000	1,232,000	1,504,000	1,542,000
	3,203,000	3,473,000	4,499,000	2,526,000
Gross Profit	3,187,000	2,890,000	3,575,000	1,387,000
Selling, general and administrative expense	2,748,000	2,910,000	3,162,000	4,123,000
Research and development expense	493,000	560,000	673,000	913,000
Other income and (expense)	179,000	761,000	892,000	1,095,000
Net income (loss)	$ 125,000	$ 181,000	$ 632,000	$ (2,554,000)
Income (loss) per share - basic	$ 0.01	$ 0.02	$ 0.06	$ (0.23)
Income (loss) per share - diluted	$ 0.01	$ 0.01	$ 0.05	$ (0.23)

Item 9. Changes In and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

During the fourth quarter of our fiscal year ended December 31, 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 Exchange Act) related to the recording, processing, summarization, and reporting of information in our reports that we file with the SEC. These disclosure controls and procedures have been designed to ensure that material information relating to us 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 December 31, 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 Exchange Act) are effective 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 the SEC's rules and forms.

Management's Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f) and 15d-15(f). Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our evaluation under this framework, our management concluded that our internal control over financial reporting was effective as of December 31, 2006.

Eisner LLP, the independent registered accounting firm that audited our consolidated financial statements included in this Annual Report on Form 10-K, has audited management's assessment of the effectiveness of our internal control over financial reporting as of December 31, 2006. The report, which expresses unqualified opinions on management's assessment and on the effectiveness of our internal control over financial reporting as of December 31, 2006, is included below.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of
I.D. Systems, Inc.

We have audited management's assessment, included in the accompanying Management's Report on Internal Control Over Financial Reporting, that I.D. Systems, Inc. (the "Company") maintained effective internal control over financial reporting as of December 31, 2006, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed 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. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's assessment that I.D. Systems, Inc. maintained effective internal control over financial reporting as of December 31, 2006, is fairly stated, in all material respects, based on criteria established in Internal Control - Integrated Framework issued by the COSO. Also, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2006, based on criteria established in Internal Control - Integrated Framework issued by COSO.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the balance sheets of I.D. Systems, Inc. as of December 31, 2005 and 2006, and the related statements of operations, changes in stockholders' equity, and cash flows for the years ended December 31, 2004, 2005 and 2006, and our report dated March 14, 2007 expressed an unqualified opinion on those financial statements. Our report on the December 31, 2006 financial statements included an explanatory paragraph regarding the Company's change in accounting principle for its method of accounting for stock-based compensation.

/s/ Eisner LLP

New York, New York
March 14, 2007

Changes in Internal Control Over Financial Reporting

There have been no changes in our internal control over financial reporting that occurred during our last fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. Other Information

None.

PART III.

Item 10. Directors, Executive Officers and Corporate Governance

The registrant incorporates by reference herein information to be set forth in its definitive proxy statement for its 2007 annual meeting of stockholders that is responsive to the information required with respect to this Item 10; provided, however, that such information shall not be incorporated herein:

- if the information that is responsive to the information required with respect to this Item 10 is provided by means of an amendment to this Annual Report on Form 10-K filed with the Securities and Exchange Commission prior to the filing of such definitive proxy statement; or

- If such proxy statement is not mailed to stockholders and filed with the Securities and Exchange Commission within 120 days after the end of the registrant's most recently completed fiscal year, in which case the registrant will provide such information by means of an amendment to this Annual Report on Form 10-K.

Item 11. Executive Compensation

The registrant incorporates by reference herein information to be set forth in its definitive proxy statement for its 2007 annual meeting of stockholders that is responsive to the information required with respect to this Item 11; provided, however, that such information shall not be incorporated herein:

- if the information that is responsive to the information required with respect to this Item 11 is provided by means of an amendment to this Annual Report on Form 10-K filed with the Securities and Exchange Commission prior to the filing of such definitive proxy statement; or

- If such proxy statement is not mailed to stockholders and filed with the Securities and Exchange Commission within 120 days after the end of the registrant's most recently completed fiscal year, in which case the registrant will provide such information by means of an amendment to this Annual Report on Form 10-K.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The registrant incorporates by reference herein information to be set forth in its definitive proxy statement for its 2007 annual meeting of stockholders that is responsive to the information required with respect to this Item 12; provided, however, that such information shall not be incorporated herein:

- if the information that is responsive to the information required with respect to this Item 12 is provided by means of an amendment to this Annual Report on Form 10-K filed with the Securities and Exchange Commission prior to the filing of such definitive proxy statement; or

- If such proxy statement is not mailed to stockholders and filed with the Securities and Exchange Commission within 120 days after the end of the registrant's most recently completed fiscal year, in which case the registrant will provide such information by means of an amendment to this Annual Report on Form 10-K.

Item 13. Certain Relationships and Related Transactions, and Director Independence

The registrant incorporates by reference herein information to be set forth in its definitive proxy statement for its 2007 annual meeting of stockholders that is responsive to the information required with respect to this Item 13; provided, however, that such information shall not be incorporated herein:

- if the information that is responsive to the information required with respect to this Item 13 is provided by means of an amendment to this Annual Report on Form 10-K filed with the Securities and Exchange Commission prior to the filing of such definitive proxy statement; or

- If such proxy statement is not mailed to stockholders and filed with the Securities and Exchange Commission within 120 days after the end of the registrant's most recently completed fiscal year, in which case the registrant will provide such information by means of an amendment to this Annual Report on Form 10-K.

Item 14. Principal Accountant Fees and Services

The registrant incorporates by reference herein information to be set forth in its definitive proxy statement for its 2007 annual meeting of stockholders that is responsive to the information required with respect to this Item 14; provided, however, that such information shall not be incorporated herein:

- if the information that is responsive to the information required with respect to this Item 14 is provided by means of an amendment to this Annual Report on Form 10-K filed with the Securities and Exchange Commission prior to the filing of such definitive proxy statement; or

- If such proxy statement is not mailed to stockholders and filed with the Securities and Exchange Commission within 120 days after the end of the registrant's most recently completed fiscal year, in which case the registrant will provide such information by means of an amendment to this Annual Report on Form 10-K.

PART IV.

Item 15. Exhibits, Financial Statement Schedules

(a) List of Financial Statements, Financial Statement Schedules, and Exhibits.

1. Financial Statements. The following financial statements of I.D. Systems, Inc. are included in Item 8 of Part II of this Annual Report on Form 10-K:

Report of Independent Registered Public Accounting Firm

Balance Sheets as of December 31, 2005 and 2006

Statements of Operations for the Years Ended December 31, 2004, 2005 and 2006

Statements of Changes in Stockholders' Equity for the Years Ended December 31, 2004, 2005 and 2006

Statements of Cash Flows for the Years Ended December 31, 2004, 2005 and 2006

Notes to the Financial Statements

2. Financial Statement Schedules.

Schedule II - Valuation and Qualifying Accounts

All other financial statement schedules are omitted from this Annual Report on Form 10-K, as they are not required or applicable or the required information is included in the financial statements or notes thereto.

3. Exhibits. The following exhibits are filed with this Annual Report on Form 10-K or are incorporated herein by reference, as indicated.

3.1 Amended and Restated Certificate of Incorporation of I.D. Systems, Inc. (incorporated herein by reference to the I.D. Systems, Inc.'s Form SB-2 filed with the SEC on June 30, 1999).

3.2 Amended and Restated By-Laws of I.D. Systems, Inc. (incorporated herein by reference to I.D. Systems, Inc.'s Form SB-2 filed with the SEC on June 30, 1999).

4.1 Specimen Certificate of I.D. Systems, Inc.'s Common Stock (incorporated herein by reference to I.D. Systems, Inc.'s Form SB-2 filed with the SEC on June 30, 1999).

10.1 Agreement between I.D. Systems, Inc. and the United States Postal Service: Offer and Award Standard dated August 22, 1997, as modified on May 12, 1998, September 8, 1998, and March 5, 1999 (incorporated herein by reference to I.D. Systems, Inc.'s Form SB-2 filed with the SEC on June 30, 1999).

10.2 Federal Supply Service Information Technology Schedule Award, effective April 16, 1999 through April 15, 2004 (incorporated herein by reference to I.D. Systems, Inc.'s Form SB-2 filed with the SEC on June 30, 1999).

10.3 1995 Non-Qualified Stock Option Plan (incorporated herein by reference to I.D. Systems, Inc.'s Form SB-2 filed with the SEC on June 30, 1999).

10.4 1999 Stock Option Plan (incorporated herein by reference to I.D. Systems, Inc.'s Form SB-2 filed with the SEC on June 30, 1999).

10.5 1999 Director Option Plan (incorporated herein by reference to I.D. Systems, Inc.'s Form SB-2 filed with the SEC on June 30, 1999).

10.6 Office Lease dated November 4, 1999 between I.D. Systems, Inc. and Venture Hackensack Holding, Inc. (incorporated herein by reference to I.D. Systems, Inc.'s Annual Report on Form 10-KSB for the fiscal year ended December 31, 1999 filed with the SEC on March 29, 2000).

23.1 Consent of Eisner LLP.

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.

32.1 Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

32.2 Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

(b) Exhibits. The exhibits required by Item 601 of Regulation S-K are filed herewith or incorporated by reference.

(c) Financial Statement Schedules and Other Financial Statements.

Schedule II - Valuation and Qualifying Accounts

All other financial statement schedules are omitted from this Annual Report on Form 10-K, as they are not required or applicable or the required information is included in the financial statements or notes thereto.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Date: March 16, 2007

I.D. SYSTEMS, INC.

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

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

Pursuant to the requirements of the Securities Act of 1934, this report is signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ Jeffrey M. Jagid Jeffrey M. Jagid	Chief Executive Officer and Director (Principal Executive Officer)	March 16, 2007
/s/ Kenneth S. Ehrman Kenneth S. Ehrman	President, Chief Operating Office and Director	March 16, 2007
/s/ Ned Mavrommatis Ned Mavrommatis	Chief Financial Officer (Principal Financial and Accounting Officer)	March 16, 2007
/s/ Lawrence Burstein Lawrence Burstein	Director	March 16, 2007
/s/ Michael Monaco Michael Monaco	Director	March 16, 2007
/s/ Beatrice Yormark Beatrice Yormark	Director	March 16, 2007

I.D. SYSTEMS, INC.
SCHEDULE II - VALUATION AND QUALIFYING ACCOUNTS

Description	Balance at Beginning Period	Charged to (Write-off) to Costs and Expenses	Balance at End of Period
Year ended December 31, 2006			
Inventory reserve	$ 305	$ (180)	$ 125
Year ended December 31, 2005			
Inventory reserve	$ 200	$ 105	$ 305
Year ended December 31, 2004			
Inventory reserve	$ 200	$ __	$ 200

Description	Balance at Beginning Period	Charged to (Write-off) to Costs and Expenses	Balance at End of Period
Year ended December 31, 2006			
allowance for doubtful accounts	$ 28	$ 211	$ 239
Year ended December 31, 2005			
allowance for doubtful accounts	$ 8	$ 20	$ 28
Year ended December 31, 2004			
allowance for doubtful accounts	$ 20	$ (12)	$ 8

Exhibit 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in the Registration Statements on Form S-8 (Nos. 333-87973, 333-134142 and 333-134138) and Form S-3 (No. 333-116144) of our report dated March 14, 2007 on our audits of the financial statements and financial statement schedule of I.D. Systems, Inc. (the "Company") as of December 31, 2005 and 2006 and for the years ended December 31, 2004, 2005, and 2006 which included an explanatory paragraph regarding the Company's change in accounting principle for its method of accounting for stock-based compensation and of management's assessment of the effectiveness of internal control over financial reporting, and the effectiveness of internal control over financial reporting of the Company as of December 31, 2006, which are included in the Annual Report on Form 10-K for the year ended December 31, 2006. We also consent to the reference to us as Experts in the Registration Statement on Form S-3.

/s/ Eisner LLP

New York, New York
March 15, 2007

Exhibit 31.1

CERTIFICATIONS

I, Jeffrey M. Jagid, as Chief Executive Officer (Principal Executive Officer), certify that:

1. I have reviewed this Annual Report on Form 10-K of I.D. Systems, Inc.;

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

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

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) 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 control over financial reporting.

Date: March 16, 2007

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

Exhibit 31.2

CERTIFICATIONS

I, Ned Mavrommatis, as Chief Financial Officer (Principal Financial Officer), certify that:

1. I have reviewed this Annual Report on Form 10-K of I.D. Systems, Inc.;

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

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

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) 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 control over financial reporting.

Date: March 16, 2007

/s/ Ned Mavrommatis
Name: Ned Mavrommatis
Title: Chief Financial Officer
(Principal Financial Officer)

Exhibit 32.1

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report on Form 10-K (the “Report”) of I.D. Systems, Inc. (the “Corporation”) for the year ended December 31, 2006, as filed with the Securities and Exchange Commission on the date hereof, I, Jeffrey M. Jagid, Chief Executive Officer of the Corporation, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, to my knowledge, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Corporation.

Dated: March 16, 2007

/s/ Jeffrey M. Jagid
Name: Jeffrey M. Jagid
Title: Chief Executive Officer

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 Report 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 the Corporation and will be retained by the Corporation and furnished to the Securities and Exchange Commission or its staff upon request.

Exhibit 32.2

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report on Form 10-K (the “Report”) of I.D. Systems, Inc. (the “Corporation”) for the year ended December 31, 2006, as filed with the Securities and Exchange Commission on the date hereof, I, Ned Mavrommatis, Chief Financial Officer of the Corporation, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, to my knowledge, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Corporation.

Dated: March 16, 2007

/s/ Ned Mavrommatis
Name: Ned Mavrommatis
Title: Chief Financial Officer

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 Report 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 the Corporation and will be retained by the Corporation and furnished to the Securities and Exchange Commission or its staff upon request.