# UNITED STATES
# SECURITIES AND EXCHANGE COMMISSION
**Washington, D.C. 20549**

# FORM 10-Q

(Mark One)

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

**For the quarterly period ended: June 30, 2019**

**or**

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

**For the transition period from __________ to __________**

**Commission File Number: 001-15087**

# I.D. SYSTEMS, INC.
(Exact name of registrant as specified in its charter)

| **Delaware** | **22-3270799** |
|---|---|
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification No.) |
| **123 Tice Boulevard Woodcliff Lake, New Jersey** | **07677** |
| (Address of principal executive offices) | (Zip Code) |

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

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

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

| Title of each class | Trading Symbol(s) | Name of each exchange on which registered |
|---|---|---|
| Common Stock, par value $0.01 per share | IDSY | The Nasdaq Global Market |

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** [X] **No** [ ]

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). **Yes** [X] **No** [ ]

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

**Large accelerated filer** [ ] **Accelerated filer** [ ] **Non-accelerated filer** [X] **Smaller reporting company** [X]

**Emerging growth company** [ ]

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). **Yes** [ ] **No** [X]

The number of shares of the registrant's common stock, $0.01 par value per share, outstanding as of the close of business on August 12, 2019 was 18,447,779.

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

**PART I - FINANCIAL INFORMATION**

**Item 1. Financial Statements**

**I.D. Systems, Inc. and Subsidiaries**
**Condensed Consolidated Balance Sheets**

| | December 31, 2018 | **June 30, 2019** |
|---|---|---|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | $ 10,159,000 | **$ 8,098,000** |
| Restricted cash | 307,000 | **307,000** |
| Investments - short term | 394,000 | **-** |
| Accounts receivable, net of allowance for doubtful accounts of $67,000 and $143,000 in 2018 and 2019, respectively | 9,247,000 | **11,026,000** |
| Financing receivables - current, net of allowance for doubtful accounts of $-0- in 2018 and 2019 | 1,036,000 | **782,000** |
| Inventory, net | 4,649,000 | **6,986,000** |
| Deferred costs - current | 3,660,000 | **3,800,000** |
| Prepaid expenses and other current assets | 3,208,000 | **2,945,000** |
| Total current assets | 32,660,000 | **33,944,000** |
| Investments - long term | 4,131,000 | **-** |
| Financing receivables - less current portion | 1,254,000 | **1,291,000** |
| Deferred costs - less current portion | 5,409,000 | **5,878,000** |
| Fixed assets, net | 2,149,000 | **2,166,000** |
| Goodwill | 7,318,000 | **8,373,000** |
| Intangible assets, net | 4,705,000 | **6,259,000** |
| Right of use asset | - | **2,004,000** |
| Other assets | 177,000 | **497,000** |
| | $ 57,803,000 | **$ 60,412,000** |
| LIABILITIES | | |
| Current liabilities: | | |
| Accounts payable and accrued expenses | $ 8,027,000 | **$ 11,605,000** |
| Deferred revenue - current | 7,902,000 | **8,366,000** |
| Acquisition related contingent consideration payable | 946,000 | **993,000** |
| Lease liability - current | - | **831,000** |
| Total current liabilities | 16,875,000 | **21,795,000** |
| Deferred revenue - less current portion | 9,186,000 | **9,416,000** |
| Lease liability - less current portion | - | **1,341,000** |
| Deferred rent | 208,000 | **-** |
| | 26,269,000 | **32,552,000** |
| Commitments and Contingencies (Note 21) | | |
| 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; 19,178,000 and 19,473,000 shares issued at December 31, 2018 and June 30, 2019, respectively; shares outstanding, 18,166,000 and 18,425,000 at December 31, 2018 and June 30, 2019, respectively | 192,000 | **195,000** |
| Additional paid-in capital | 138,693,000 | **140,051,000** |
| Accumulated deficit | (101,180,000) | **(105,959,000)** |
| Accumulated other comprehensive loss | (435,000) | **(446,000)** |
| Treasury stock; 1,012,000 and 1,048,000 common shares at cost at December 31, 2018 and June 30, 2019, respectively | (5,736,000) | **(5,981,000)** |
| Total stockholders’ equity | 31,534,000 | **27,860,000** |
| Total liabilities and stockholders’ equity | $ 57,803,000 | **$ 60,412,000** |

*Derived from audited balance sheet as of December 31, 2018.

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

**I.D. Systems, Inc. and Subsidiaries**
**Condensed Consolidated Statements of Operations**
(Unaudited)

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2018 | **2019** | 2018 | **2019** |
| Revenue: | | | | |
| Products | $ 10,784,000 | **$ 10,643,000** | $ 20,682,000 | **$ 17,892,000** |
| Services | 4,025,000 | **5,631,000** | 7,506,000 | **11,993,000** |
| | 14,809,000 | **16,274,000** | 28,188,000 | **29,885,000** |
| Cost of revenue: | | | | |
| Cost of products | 7,408,000 | **7,062,000** | 13,250,000 | **11,301,000** |
| Cost of services | 986,000 | **2,141,000** | 2,061,000 | **4,495,000** |
| | 8,394,000 | **9,203,000** | 15,311,000 | **15,796,000** |
| Gross profit | 6,415,000 | **7,071,000** | 12,877,000 | **14,089,000** |
| Operating expenses: | | | | |
| Selling, general and administrative expenses | 5,844,000 | **5,993,000** | 11,361,000 | **12,103,000** |
| Research and development expenses | 1,542,000 | **2,024,000** | 3,285,000 | **3,684.000** |
| Acquisition-related expenses | 149,000 | **1,613,000** | 328,000 | **3,062,000** |
| | 7,535,000 | **9,630,000** | 14,974,000 | **18,849,000** |
| Loss from operations | (1,120,000) | **(2,559,000)** | (2,097,000) | **(4,760,000)** |
| Interest income | 74,000 | **8,000** | 151,000 | **73,000** |
| Interest expense | (59,000) | **(26,000)** | (116,000) | **(46,000)** |
| Other expense, net | (11,000) | **(8,000)** | (44,000) | **(46,000)** |
| **Net loss** | $ (1,116,000) | **$ (2,585,000)** | $ (2,106,000) | **$ (4,779,000)** |
| **Net loss per share - basic and diluted** | $ (0.07) | **$ (0.15)** | $ (0.12) | **$ (0.27)** |
| **Weighted average common shares outstanding - basic and diluted** | 17,066,000 | **17,678,000** | 17,024,000 | **17,650,000** |

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

**I.D. Systems, Inc. and Subsidiaries**
**Condensed Consolidated Statements of Comprehensive Loss**
(Unaudited)

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2018 | **2019** | 2018 | **2019** |
| Net loss | $ (1,116,000) | **$ (2,585,000)** | $ (2,106,000) | **$ (4,779,000)** |
| Other comprehensive (loss) income, net: | | | | |
| Unrealized (loss) gain on investments | (22,000) | **-** | (115,000) | **9,000** |
| Reclassification of net realized investment losses included in net loss | 10,000 | **-** | 43,000 | **38,000** |
| Foreign currency translation adjustment | 189,000 | **(46,000)** | 52,000 | **(58,000)** |
| Total other comprehensive gain (loss) | 177,000 | **(46,000)** | (20,000) | **(11,000)** |
| **Comprehensive loss** | $ (939,000) | **$ (2,631,000)** | $ (2,126,000) | **$ (4,790,000)** |

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

**I.D. Systems, Inc. and Subsidiaries**
**Condensed Consolidated Statement of Changes in Stockholders' Equity**
**For the period from January 1, 2019 through June 30, 2019**
(Unaudited)

| | Common Stock | | Additional | Accumulated | Accumulated Other | Treasury | Stockholders' |
|---|---|---|---|---|---|---|---|
| | Number of Shares | Amount | Paid-in Capital | Deficit | Comprehensive Loss | Stock | Equity |
| Balance at December 31, 2018 | 19,178,000 | $ 192,000 | $ 138,693,000 | $ (101,180,000) | $ (435,000) | $ (5,736,000) | $ 31,534,000 |
| Net loss | - | - | - | (2,194,000) | - | - | (2,194,000) |
| Foreign currency translation adjustment | - | - | - | - | (12,000) | - | (12,000) |
| Reclassification of unrealized losses on investments, net of realized amounts | - | - | - | - | 47,000 | - | 47,000 |
| Shares issued pursuant to exercise of stock options | - | - | - | | | | - |
| Issuance of restricted stock | 81,000 | 1,000 | (1,000) | - | - | - | - |
| Shares repurchased pursuant to vesting of restricted stock | - | - | - | - | - | (226,000) | (226,000) |
| Stock based compensation - restricted stock | - | - | 447,000 | - | - | - | 447,000 |
| Stock based compensation - options | - | - | 136,000 | - | - | - | 136,000 |
| Balance at March 31, 2019 | 19,259,000 | $ 193,000 | $ 139,275,000 | $ (103,374,000) | $ (400,000) | $ (5,962,000) | $ 29,732,000 |
| Net loss | - | - | - | (2,585,000) | - | - | (2,585,000) |
| Foreign currency translation adjustment | - | - | - | - | (46,000) | - | (46,000) |
| Reclassification of unrealized losses on investments, net of realized amounts | - | - | - | - | - | - | - |
| Shares issued pursuant to exercise of stock options | 50,000 | - | 177,000 | | | | 177,000 |
| Issuance of restricted stock | 164,000 | 2,000 | (2,000) | - | - | - | - |
| Shares repurchased pursuant to vesting of restricted stock | - | - | - | - | - | (19,000) | (19,000) |
| Stock based compensation - restricted stock | - | - | 440,000 | - | - | - | 449,000 |
| Stock based compensation - options | - | - | 161,000 | - | - | - | 152,000 |
| Balance at June 30, 2019 | 19,473,000 | $ 195,000 | $ 140,051,000 | $ (105,959,000) | $ (446,000) | $ (5,981,000) | $ 27,860,000 |

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

**I.D. Systems, Inc. and Subsidiaries**
**Condensed Consolidated Statement of Changes in Stockholders' Equity**
**For the period from January 1, 2018 through June 30, 2018**
(Unaudited)

| | Common Stock Number of Shares | Common Stock Amount | Additional Paid-in Capital | Accumulated Deficit | Accumulated Other Comprehensive Loss | Treasury Stock | Stockholders' Equity |
|---|---|---|---|---|---|---|---|
| Balance at December 31, 2017 | 18,327,000 | $ 183,000 | $ 133,569,000 | $ (95,368,000) | $ (578,000) | $ (4,835,000) | $ 32,971,000 |
| Net loss | - | - | - | (990,000) | - | - | (990,000) |
| Foreign currency translation adjustment | - | - | - | - | (137,000) | - | (137,000) |
| Unrealized loss on investments, net of realized amounts | - | - | - | - | (60,000) | - | (60,000) |
| Shares issued pursuant to exercise of stock options | 65,000 | 1,000 | 424,000 | - | - | - | 425,000 |
| Issuance of restricted stock | 235,000 | 2,000 | (2,000) | - | - | - | - |
| Shares withheld pursuant to vesting of restricted stock | - | - | - | - | - | (408,000) | (408,000) |
| Shares withheld pursuant to exercise of stock options | - | - | - | - | - | (238,000) | (238,000) |
| Forfeiture of restricted shares | (20,000) | - | - | - | - | - | - |
| Stock based compensation - restricted stock | - | - | 431,000 | - | - | - | 431,000 |
| Stock based compensation - options and performance shares | - | - | 63,000 | - | - | - | 63,000 |
| Balance at March 31, 2018 | 18,607,000 | $ 186,000 | $ 134,485,000 | $ (96,358,000) | $ (775,000) | $ (5,481,000) | $ 32,057,000 |
| Net loss | - | - | - | (1,116,000) | - | - | (1,116,000) |
| Foreign currency translation adjustment | - | - | - | - | 189,000 | - | 189,000 |
| Unrealized loss on investments, net of realized amounts | - | - | - | - | (12,000) | - | (12,000) |
| Shares issued pursuant to exercise of stock options | 1,000 | - | 3,000 | - | - | - | 3,000 |
| Issuance of restricted stock | 121,000 | 2,000 | (2,000) | - | - | - | - |
| Shares repurchased pursuant to vesting of restricted stock | - | - | - | - | - | (48,000) | (48,000) |
| Shares withheld pursuant to exercise of stock options | - | - | - | - | - | - | - |
| Forfeiture of restricted shares | - | - | - | - | - | - | - |
| Stock based compensation - restricted stock | - | - | 500,000 | - | - | - | 500,000 |
| Stock based compensation - options and performance shares | - | - | 95,000 | - | - | - | 95,000 |
| Balance at June 30, 2018 | 18,729,000 | $ 188,000 | $ 135,081,000 | $ (97,474,000) | $ (598,000) | $ (5,529,000) | $ 31,668,000 |

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

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

| | Six Months Ended June 30, | |
|---|---|---|
| | 2018 | **2019** |
| **Cash flows from operating activities: (net of assets acquired)** | | |
| Net loss | $ (2,106,000) | **$ (4,779,000)** |
| Adjustments to reconcile net loss to cash used in operating activities: | | |
| Bad debt expense | 4,000 | **110,000** |
| Stock-based compensation expense | 1,089,000 | **1,184,000** |
| Depreciation and amortization | 782,000 | **852,000** |
| Inventory reserve | 140,000 | **93,000** |
| Change in contingent consideration | 112,000 | **47,000** |
| Other non-cash items | 4,000 | **(11,000)** |
| Changes in: | | |
| Accounts receivable | (3,205,000) | **(1,697,000)** |
| Financing receivables | 363,000 | **217,000** |
| Inventory | 582,000 | **(2,231,000)** |
| Prepaid expenses and other assets | (1,156,000) | **270,000** |
| Deferred costs | (95,000) | **(609,000)** |
| Deferred revenue | (124,000) | **694,000** |
| Accounts payable and accrued expenses | 299,000 | **3,578,000** |
| Net cash used in operating activities | (3,311,000) | **(2,282,000)** |
| **Cash flows from investing activities:** | | |
| Acquisitions | - | **(3,800,000)** |
| Capital expenditures | (150,000) | **(396,000)** |
| Purchase of investments | (1,963,000) | **(99,000)** |
| Proceeds from the sale and maturities of investments | 3,915,000 | **4,638,000** |
| Net cash provided by investing activities | 1,802,000 | **343,000** |
| **Cash flows from financing activities:** | | |
| Proceeds from exercise of stock options | 190,000 | **177,000** |
| Common stock repurchased - vesting of restricted stock | (456,000) | **(245,000)** |
| Net cash used in financing activities | (266,000) | **(68,000)** |
| Effect of foreign exchange rate changes on cash and cash equivalents | 71,000 | **(54,000)** |
| **Net decrease in cash, cash equivalents and restricted cash** | (1,704,000) | **(2,061,000)** |
| Cash, cash equivalents and restricted cash - beginning of period | 5,403,000 | **10,466,000** |
| **Cash, cash equivalents and restricted cash - end of period** | $ 3,699,000 | **$ 8,405,000** |
| Reconciliation of cash, cash equivalents, and restricted cash, beginning of period | | |
| Cash and cash equivalents | $ 5,097,000 | **$ 10,159,000** |
| Restricted cash | 306,000 | **307,000** |
| Cash, cash equivalents, and restricted cash, beginning of period | $ 5,403,000 | **$ 10,466,000** |
| Reconciliation of cash, cash equivalents, and restricted cash, end of period | | |
| Cash and cash equivalents | $ 3,393,000 | **$ 8,098,000** |
| Restricted cash | 306,000 | **307,000** |
| Cash, cash equivalents, and restricted cash, end of beginning of period | $ 3,699,000 | **$ 8,405,000** |
| **Supplemental disclosure of cash flow information:** | | |
| Cash paid for: | | |
| Taxes | - | **-** |
| Interest | - | **56,000** |
| Noncash investing and financing activities: | | |
| Unrealized (loss) gain on investments | $ (72,000) | **$ 47,000** |
| Value of shares withheld pursuant to stock issuance | $ 238,000 | **$ -** |

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

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

### Description of the Company

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

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

### Basis of Presentation

The unaudited interim condensed consolidated financial statements include the accounts of I.D. Systems, Inc. and its wholly-owned subsidiaries, Asset Intelligence, LLC ("AI"), I.D. Systems GmbH ("IDS GmbH"), I.D. Systems (UK) Ltd (formerly Didbox Ltd.) ("IDS Ltd") and Keytroller (collectively referred to as the "Company"). All material intercompany balances and transactions have been eliminated in consolidation. The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") for interim financial information and the instructions to Form 10-Q. Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for complete financial statements. In the opinion of management, such statements include all adjustments (consisting only of normal recurring items) which are considered necessary for a fair presentation of the consolidated financial position of the Company as of June 30, 2019, the consolidated results of its operations for the three- and six-month periods ended June 30, 2018 and 2019, the consolidated change in stockholders' equity for the three-month periods ended March 31, and June 30, 2018 and 2019 and the consolidated cash flows for the six-month periods ended June 30, 2018 and 2019. The results of operations for the three- and six-month periods ended June 30, 2019 are not necessarily indicative of the operating results for the full year. These financial statements should be read in conjunction with the audited consolidated financial statements and related disclosures for the year ended December 31, 2018 included in the Company's Annual Report on Form 10-K for the year then ended.

Certain amounts included in selling, general and administrative expenses in the prior period's consolidated financial statements have been reclassified to acquisition-related expenses to conform to the current period presentation for comparative purposes.

### Acquisition

On January 30, 2019, the Company completed the acquisition (the "CarrierWeb Acquisition") of substantially all of the assets of telematics provider CarrierWeb, L.L.C. ("CarrierWeb"), an Atlanta-based provider of real-time in-cab mobile communications technology, electronic logging devices (ELDs), two-way refrigerated command and control, and trailer tracking. The assets the Company acquired in the CarrierWeb Acquisition will be integrated into the Company's logistics visibility solutions and products. The CarrierWeb Acquisition allows the Company to offer a full complement of highly-integrated logistics technology solutions to its current customers and prospects and immediately add customers and subscriber units.

### Merger Transactions

On March 13, 2019, the Company entered into an Agreement and Plan of Merger (the "Pointer Merger Agreement"), with PowerFleet, Inc., a wholly-owned subsidiary of the Company ("Parent"), Pointer Telocation Ltd. ("Pointer"), Powerfleet Israel Holding Company Ltd., a wholly-owned subsidiary of Parent ("Pointer Holdco"), and Powerfleet Israel Acquisition Company Ltd., a wholly-owned subsidiary of Pointer Holdco ("Pointer Merger Sub"), pursuant to which Pointer Merger Sub will merge with and into Pointer, with Pointer surviving as a direct, wholly-owned subsidiary of Pointer Holdco (the "Pointer Merger") in exchange for consideration consisting of $8.50 in cash and 1.272 shares of common stock of Parent per ordinary share of Pointer. Also on March 13, 2019, and in connection with the Pointer Merger Agreement, the Company entered into an Investment and Transaction Agreement (the "Investment Agreement") with Parent, PowerFleet US Acquisition Inc., a wholly-owned subsidiary of Parent ("IDS Merger Sub"), and ABRY Senior Equity V, L.P. and ABRY Senior Equity Co-Investment Fund V, L.P., pursuant to which the Company will reorganize into a new holding company structure by merging IDS Merger Sub with and into the Company, with the Company surviving as a wholly-owned subsidiary of Parent (the "IDS Merger"), and pursuant to which Parent will issue and sell in a private placement shares of Parent's newly created Series A Convertible Preferred Stock, to finance a portion of the cash consideration payable in the Pointer Merger. As a result of the transactions contemplated by the Pointer Merger Agreement and the Investment Agreement (the "Merger Transactions"), the Company and Pointer will each become wholly-owned subsidiaries of Parent. The Merger Transactions have been unanimously approved by the boards of directors of both companies, are subject to customary closing conditions, including approval by our stockholders and Pointer's shareholders. The Merger Transactions are expected to close on or prior to October 31, 2019.

At the closing of the Merger Transactions, the combined company will be named PowerFleet and the shares of PowerFleet common stock are expected to be listed on the Nasdaq Global Market and the Tel Aviv Stock Exchange under the symbol "PWFL."

Additionally, on March 13, 2019, the Company entered into a commitment letter with Bank Hapoalim B.M. providing for two five-year senior secured term loan facilities to Pointer Holdco in an aggregate principal amount of $30 million and a five-year revolving credit facility to Pointer in an aggregate principal amount of $10 million. The term loan facilities will be used to finance a portion of the cash consideration payable in the Pointer Merger and the revolving credit facility will be used by Pointer for general working capital purposes, or, at Pointer's discretion, to finance a portion of the cash consideration payable in the Pointer Merger. The term loan facilities and the revolving credit facility are subject to customary closing conditions.

Pointer is a provider of telematics and mobile IoT solutions to the automotive, insurance and logistics (cargo, assets and containers) industries. Pointer's cloud-based software-as-a-service (SaaS) platform extracts and captures data from an organization's mobility points, including drivers, routes, points-of-interest, logistics network, vehicles, trailers, containers and cargo. The pending Merger Transactions are expected to provide the Company with operational synergies and access to a broader base of customers.

The pending Merger Transactions will be accounted for as a business combination and the Company has been identified as the accounting acquirer.

**Liquidity**

As of June 30, 2019, we had cash (including restricted cash) and cash equivalents of $8.4 million and working capital of $12.1 million. The Company's primary sources of cash are cash flows from operating activities and the Company's holdings of cash and cash equivalents from the sale of common stock. To date, the Company has not generated sufficient cash flows solely from operating activities to fund its operations.

We believe our available working capital, anticipated level of future revenues and expected cash flows from operations will provide sufficient funds to cover capital requirements through at least August 14, 2020.

**NOTE 2 - CASH AND CASH EQUIVALENTS**

The Company considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents unless they are legally or contractually restricted. The Company's cash and cash equivalent balances exceed Federal Deposit Insurance Corporation (FDIC) limits.

**NOTE 3 - USE OF ESTIMATES**

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The Company continually evaluates estimates used in the preparation of the financial statements for reasonableness. The most significant estimates relate to stock-based compensation arrangements, measurements of fair value of assets acquired and liabilities assumed and acquisition-related contingent consideration, realization of deferred tax assets, the impairment of tangible and intangible assets, inventory reserves, allowance for doubtful accounts, warranty reserves and deferred revenue and costs. Actual results could differ from those estimates.

**NOTE 4 - INVESTMENTS**

The Company's investments as of December 31, 2018 include debt securities, U.S. Treasury Notes, government and state agency bonds and corporate bonds, which are classified as either available for sale, held to maturity or trading, depending on management's investment intentions relating to these securities. As of December 31, 2018, all of the Company's investments are classified as available for sale. Available for sale securities are measured at fair value based on quoted market values of the securities, with the unrealized gains and (losses) reported as comprehensive income or (loss). For the three- and six-month periods ended June 30, 2018, the Company reported unrealized loss, net of realized amounts, of $22,000 and $115,000, respectively, and for the three- and six-month periods ended June 30, 2019, the Company reported unrealized gain, net of realized amounts of $-0- and $9,000, respectively, on available for sale securities in total comprehensive loss. Realized gains and losses from the sale of available for sale securities are determined on a specific-identification basis. The Company has classified as short-term those securities that mature within one year. All other securities are classified as long-term.

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

| **December 31, 2018** | **Cost** | **Unrealized Gain** | **Unrealized Loss** | **Fair Value** |
|---|---|---|---|---|
| Investments - short term | | | | |
| U.S. Treasury Notes | $ 302,000 | $ 1,000 | - | $ 303,000 |
| Corporate bonds and commercial paper | 91,000 | - | - | 91,000 |
| Total investments - short term | 393,000 | 1,000 | | 394,000 |
| | | | | |
| Investments - long term | | | | |
| U.S. Treasury Notes | 1,569,000 | - | (2,000) | 1,567,000 |
| Government agency bonds | 1,548,000 | - | (23,000) | 1,525,000 |
| Corporate bonds | 1,062,000 | - | (23,000) | 1,039,000 |
| Total investments - long term | 4,179,000 | - | (48,000) | 4,131,000 |
| Total investments - available for sale | $ 4,572,000 | $ 1,000 | $ (48,000) | $ 4,525,000 |

The Company utilizes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three broad levels. The following is a brief description of those levels:

- Level 1: Unadjusted quoted prices in active markets for identical assets or liabilities.
- Level 2: Inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly. These include quoted prices for similar assets or liabilities in active markets and quoted prices for identical or similar assets or liabilities in markets that are not active.
- Level 3: Unobservable inputs that reflect the reporting entity's estimates of market participants' assumptions.

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

**NOTE 5 - REVENUE RECOGNITION**

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

Revenue is recognized when obligations under the terms of a contract with our customer are satisfied; generally this occurs with the transfer of control of our wireless asset management systems, spare parts, or services. Revenue is measured as the amount of consideration we expect to receive in exchange for transferring goods or providing services. Sales, value add, and other taxes we collect concurrent with revenue-producing activities are excluded from revenue. Incidental items that are immaterial in the context of the contract are recognized as expense. The expected costs associated with our base warranties continue to be recognized as expense when the products are sold (see Note 15). We recognize revenue for remotely hosted SaaS agreements and post-contract maintenance and support agreements beyond our standard warranties over the life of the contract.

The following table sets forth our revenues by product line for the three- and six-month periods ended June 30, 2019 and 2018:

| | Three Months Ended June 30, 2019 | | |
|---|---|---|---|
| | Product | Service | Total |
| Industrial truck management | $ 5,423,000 | $ 1,850,000 | $ 7,273,000 |
| Connected vehicles | 3,121,000 | 1,569,000 | 4,690,000 |
| Logistics visibility | 2,099,000 | 2,212,000 | 4,311,000 |
| Total Revenue | $ 10,643,000 | $ 5,631,000 | $ 16,274,000 |

| | Three Months Ended June 30, 2018 | | |
|---|---|---|---|
| | Product | Service | Total |
| Industrial truck asset management | $ 4,518,000 | $ 1,862,000 | $ 6,380,000 |
| Connected vehicles | 4,773,000 | 184,000 | 4,957,000 |
| Logistics visibility | 1,493,000 | 1,979,000 | 3,472,000 |
| Total Revenue | $ 10,784,000 | $ 4,025,000 | $ 14,809,000 |

| | Six Months Ended June 30, 2019 | | |
|---|---|---|---|
| | Product | Service | Total |
| Industrial truck management | $ 11,008,000 | $ 3,664,000 | $ 14,672,000 |
| Connected vehicles | 3,121,000 | 3,897,000 | 7,018,000 |
| Logistics visibility | 3,763,000 | 4,432,000 | 8,195,000 |
| Total Revenue | $ 17,892,000 | $ 11,993,000 | $ 29,885,000 |

| | Six Months Ended June 30, 2018 | | |
|---|---|---|---|
| | Product | Service | Total |
| Industrial truck management | $ 10,694,000 | $ 3,306,000 | $ 14,000,000 |
| Connected vehicles | 7,029,000 | 217,000 | 7,246,000 |
| Logistics visibility | 2,959,000 | 3,983,000 | 6,942,000 |
| Total Revenue | $ 20,682,000 | $ 7,506,000 | $ 28,188,000 |

**Industrial truck management and connected vehicles solutions**

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

**Logistics visibility solutions**

Our logistics visibility solutions systems (formerly "transportation asset management") consist of on-asset hardware, communications and SaaS services. The logistics visibility solutions system does not have stand-alone value to the customer separate from the SaaS services provided and, therefore, we consider both hardware and SaaS services a bundled performance obligation. Under the applicable accounting guidance, all of the Company's billings for equipment and the related cost are deferred, recorded, and classified as a current and long-term liability and a current and long-term asset, respectively. Deferred revenue and cost are recognized over the service contract life, ranging from one to five years, beginning at the time that a customer acknowledges acceptance of the equipment and service. The customer service contracts typically range from one to five years.

In addition, the service revenue for our logistics visibility monitoring equipment relates to charges for monthly messaging usage and value-added features charges. The usage fee is a monthly fixed charge based on the expected utilization according to the rate plan chosen by the customer. Service revenue generally commences upon equipment installation and customer acceptance and is recognized over the period such services are provided.

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

The Company also derives revenue under leasing arrangements. Such arrangements provide for monthly payments covering the system sale, maintenance, support and interest. These arrangements meet the criteria to be accounted for as sales-type leases. Accordingly, an asset is established for the "sales-type lease receivable" at the present value of the expected lease payments and revenue is deferred and recognized over the service contract, as described above. Maintenance revenues and interest income are recognized monthly over the lease term.

Sales taxes collected from customers and remitted to governmental authorities are accounted for on a net basis and therefore are excluded from revenues in the Condensed Consolidated Statements of Operations.

The balances of contract assets, and contract liabilities from contracts with customers are as follows as of December 31, 2018 and June 30, 2019:

| | December 31, 2018 | **June 30, 2019** (Unaudited) |
|---|---|---|
| Current assets: | | |
| Deferred sales commissions to employees | $ 585,000 | **$ 724,000** |
| Deferred costs | $ 9,069,000 | **$ 9,678,000** |
| | | |
| Current liabilities: | | |
| Deferred revenue -other (1) | $ 305,000 | **$ 311,000** |
| Deferred maintenance and SaaS revenue (1) | 4,607,000 | **4,901,000** |
| Deferred logistics visibility solutions product revenue (1) | 12,176,000 | **12,570,000** |
| | | |
| | 17,088,000 | **17,782,000** |
| Less: Current portion | 7,902,000 | **8,366,000** |
| | | |
| Deferred revenue - less current portion | $ 9,186,000 | **$ 9,416,000** |

(1) We record deferred revenues when cash payments are received or due in advance of our performance. For the three- and six-month periods ended June 30, 2018 and 2019, the Company recognized revenue of $2,643,000 and $6,891,000, respectively, and $3,738,000 and $6,238,000, respectively, that was included in the deferred revenue balance at the beginning of each reporting period. The Company expects to recognize deferred revenue as revenue before year 2024, when it transfers those goods and services and, therefore, satisfies its performance obligation to the customers. We do not separately account for activation fees since no good or service is transferred to the customer. Therefore, the activation fee is included in the transaction price and allocated to the performance obligations in the contract and deferred/amortized over the life of the contract.

**Arrangements with multiple performance obligations**

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

**Practical expedients and exemptions**

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

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

**Development projects with Avis Budget Car Rental, LLC**

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

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

On December 3, 2018 (the "SOW#5 Effective Date"), the Company entered into a statement of work (the "SOW#5") with ABCR for 75,000 units of the Company's System, Maintenance Services for sixty months from installation of the equipment and the non-recurring engineering ("NRE") services for development of additional features and functionality for the consideration of approximately $33,000,000. ABCR has an option to purchase additional units and has the option to renew the Maintenance Services period for an additional twelve months upon its expiry, and then after such 12-month period, ABCR can purchase additional Maintenance Services on a month-to-month basis (during which ABCR can terminate the Maintenance Services) for up to forty-eight additional months.

The Company recognizes revenue on the non-recurring engineering services over time, on an input-cost method performance basis, as determined by the relationship of actual labor and material costs incurred to date compared to the estimated total project costs. Estimates of total project costs are reviewed and revised during the term of the project. Revisions to project costs estimates, where applicable, are recorded in the period in which the facts that give rise to such changes become known. For the three- and six-month periods ended June 30, 2019, the Company recognized SOW#5 NRE revenue of $1,048,000 and $2,846,000.

The SOW#5 may be terminated by ABCR for cause (which is generally the Company's material breach of its obligations under the SOW#5), for convenience (subject to a termination fee), upon a material adverse change to the Company, or for intellectual property infringement. The Company does not have the right to unilaterally terminate the SOW#5. In the event that ABCR terminates the SOW#4, then ABCR would be liable to the Company for the net present value of all future remaining charges under the SOW#5 at a negotiated discount rate per annum, with the payment due on the effective date of termination.

The SOW#5 provides for a period of exclusivity commencing on the SOW#5 Effective Date and ending twelve months after the SOW#5 Effective Date, which may be extended in six-month increments by Avis under certain conditions.

Approximately $1.0 million of the SOW#5 NRE transaction price that has not yet been recognized as revenue as of June 30, 2019 is expected to be recognized in 2019.

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

- the susceptibility of the consideration amount to factors outside the Company's influence, including weather conditions and the risk of obsolescence of the promised goods and services;
- whether the uncertainty about the consideration amount is not expected to be resolved for a long period of time;
- the Company's experience with similar types of contracts;
- whether the Company expects to offer price concessions or change the payment terms; and
- the range of possible consideration amounts.

**NOTE 6 - FINANCING RECEIVABLES**

Financing receivables consists of sales-type lease receivables from the sale of the Company's products and services. The present value of net investment in sales-type lease receivable is principally for three- to five-year leases of the Company's products and is reflected net of unearned interest income of $114,000 and $93,000 at December 31, 2018 and June 30, 2019, respectively, at a weighted-average discount rate of 3%.

Scheduled maturities of sales-type lease minimum lease payments outstanding as of June 30, 2019 are as follows:

Year ending December 31:

| | | |
|---|---|---|
| July - December 2019 | $ | 505,000 |
| 2020 | | 850,000 |
| 2021 | | 445,000 |
| 2022 | | 188,000 |
| 2023 | | 74,000 |
| Thereafter | | 11,000 |
| | | |
| | | 2,073,000 |
| Less: Current portion | | 782,000 |
| | | |
| Sales-type lease receivable - less current portion | $ | 1,291,000 |

The allowance for doubtful accounts represents the Company's best estimate of the amount of credit losses in the Company's existing sales-type lease receivables. The allowance for doubtful accounts is determined on an individual lease basis if it is probable that the Company will not collect all principal and interest contractually due. The Company considers its customers' financial condition and historical payment patterns in determining the customers' probability of default. The impairment is measured based on the present value of expected future cash flows discounted at the lease's effective interest rate. There were no impairment losses recognized for the three- and six-month periods ended June 30, 2018 and 2019. The Company does not accrue interest when a lease is considered impaired. When the ultimate collectability of the principal balance of the impaired lease is in doubt, all cash receipts on impaired leases are applied to reduce the principal amount of such leases until the principal has been recovered and are recognized as interest income thereafter. Impairment losses are charged against the allowance and increases in the allowance are charged to bad debt expense. Leases are written off against the allowance when all possible means of collection have been exhausted and the potential for recovery is considered remote. The Company resumes accrual of interest income when it is probable that the Company will collect the remaining principal and interest of an impaired lease. Leases become past due based on how recently payments have been received.

**NOTE 7 - INVENTORY**

Inventory, which primarily consists of finished goods and components used in the Company's products, is stated at the lower of cost or net realizable value using the first-in first-out (FIFO) method. Inventory is shown net of a valuation reserve of $119,000 at December 31, 2018, and $166,000 at June 30, 2019.

Inventories consist of the following:

| | | December 31, 2018 | | **June 30, 2019** (Unaudited) |
|---|---|---|---|---|
| Components | $ | 2,218,000 | **$** | **1,145,000** |
| Finished goods | | 2,431,000 | | **5,841,000** |
| | | | | |
| | $ | 4,649,000 | **$** | **6.986,000** |

**NOTE 8 - FIXED ASSETS**

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

| | December 31, 2018 | **June 30, 2019** |
| --- | --- | --- |
| | | (Unaudited) |
| Equipment | $ 1,114,000 | **$ 1,185,000** |
| Computer software and web application development | 5,633,000 | **5,636,000** |
| Computer hardware | 2,664,000 | **2,534,000** |
| Furniture and fixtures | 466,000 | **504,000** |
| Automobiles | 60,000 | **60,000** |
| Leasehold improvements | 181,000 | **238,000** |
| | 10,118,000 | **10,157,000** |
| Accumulated depreciation and amortization | (7,969,000) | **(7,991,000)** |
| | $ 2,149,000 | **$ 2,166,000** |

Depreciation and amortization expense of fixed assets for the three- and six-month periods ended June 30, 2018 was $211,000 and $426,000, respectively, and for the three- and six-month periods ended June 30, 2019 was $190,000 and $379,000, respectively. This includes amortization of costs associated with computer software and web application development for the three- and six-month periods ended June 30, 2018 of $131,000 and $262,000, respectively, and for the three- and six-month periods ended June 30, 2019 of $133,000 and $266,000,

The Company capitalizes in fixed assets the costs of software development and web application development. Specifically, the assets comprise an implementation and enhancements of Enterprise Resource Planning (ERP) software, enhancements to the VeriWise TM systems, and a customer interface website (which is the primary tool used to provide data to our customers). The website employs updated web architecture and improved functionality and features, including, but not limited to, customization at the customer level, enhanced security features, custom virtual electronic geofencing of landmarks, global positioning system (GPS)-based remote mileage reporting, and richer mapping capabilities. The Company capitalized the costs incurred during the "development" and "enhancement" stages of the software and website development. Costs incurred during the "planning" and "post-implementation/operation" stages of development were expensed. The Company capitalized $5,000 and $-0- for such projects for the six-month periods ended June 30, 2018 and 2019, respectively.

**NOTE 9 - ACQUISITION**

On January 30, 2019, the Company completed the CarrierWeb Acquisition. Aggregate consideration for the CarrierWeb Acquisition was $3,500,000, consisting of (i) closing cash payment of $2,800,000, less a credit bid by the Company in the amount of the aggregate principal amount plus accrued and unpaid interest outstanding under a $650,000 debtor-in-possession loan made by the Company to CarrierWeb on January 11, 2019, and (ii) $700,000 payment in April 2019, when CarrierWeb Services Ltd. ("CarrierWeb Ireland"), an affiliate of CarrierWeb, was restored to the Register of Companies in Ireland. The CarrierWeb Acquisition was subject to the entry of a sale order by the United States Bankruptcy Court for the Northern District of Georgia approving such acquisition. The sale order was entered on January 28, 2019. In connection with the restoration of CarrierWeb Ireland to the Register of Companies in Ireland, the Company also made certain loans to CarrierWeb Ireland in the aggregate principal amount of $300,000 which is included in other assets in the Condensed Consolidated Balance Sheets. See Note 23 - Subsequent Events.

The assets the Company acquired in the CarrierWeb Acquisition will be integrated into the Company's logistics visibility solutions and products. In connection with the transaction, the Company offered employment to all of the former employees of CarrierWeb. The CarrierWeb Acquisition allows the Company to offer a full complement of highly-integrated logistics technology solutions to its current customers and prospects, and immediately add customers and subscriber units. For the three- and six-month periods ended June 30, 2019, the Company incurred acquisition-related expenses of approximately $30,000 and $160,000, respectively, which are included in acquisition-related fees.

The purchase method of accounting in accordance with ASC805, *Business Combinations*, was applied for the CarrierWeb Acquisition. This requires the total cost of an acquisition to be allocated to the tangible and identifiable intangible assets acquired and liabilities assumed based on their respective fair values at the date of acquisition with the excess cost accounted for as goodwill. Goodwill arising from the acquisition is attributable to expected product and sales synergies from combining the operations of the acquired business with those of the Company.

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

| | | |
|---|---|---|
| Accounts receivable | $ | 192,000 |
| Inventory | | 200,000 |
| Other assets | | 26,000 |
| Customer relationships | | 945,000 |
| Trademark and tradename | | 104,000 |
| Patents | | 978,000 |
| Goodwill (a) | | 1,055,000 |
| Net assets acquired | $ | 3,500,000 |

(a) The goodwill is fully deductible for tax purposes.

The Company will finalize the purchase price allocation as soon as all the required information is available.

The results of operations of CarrierWeb have been included in the condensed consolidated statement of operations as of the effective date of acquisition. For the three- and six-month periods ended June 30, 2019, the CarrierWeb acquisition contributed approximately $1,348,000 and $1,976,000, respectively, to the Company's revenues. Operating income contributed by the CarrierWeb acquisition was not separately identifiable due to Company's integration activities and is impracticable to provide.

On July 31, 2017, the Company, together with its wholly-owned subsidiary Keytroller, LLC, a Delaware limited liability company ("Keytroller"), acquired substantially all of the assets of Keytroller, LLC, a Florida limited liability company (the "Keytroller Acquisition"), pursuant to an asset purchase agreement (the "Purchase Agreement") by and among the Company, Keytroller, Keytroller, LLC, a Florida limited liability company (n/k/a Sparkey, LLC) ("Sparkey") and the principals of Sparkey party thereto. Consideration for the Keytroller Acquisition included (i) $7,098,000 in cash paid at closing, (ii) 295,902 shares of our common stock issued at closing with a fair value of $2,000,000 and (iii) up to $3,000,000 of shares of our common stock as potential earn-out payments to be made on the first and second anniversaries of the closing date of the Keytroller Acquisition, computed in accordance with the terms of the Purchase Agreement. The potential earn-out payments were estimated at a fair value of $2,683,000. During the fourth quarter of 2017, the Company paid a post-closing working capital adjustment of $275,000. On September 14, 2018, the Company issued 296,000 shares for the earn-out payment for the twelve-month period ending on the first anniversary of the closing date of the Keytroller Acquisition. On September 14, 2018, the Company entered into an amendment to the Purchase Agreement effective as of August 1, 2018, which, among other things, fixed the second anniversary earn-out payment that Sparkey will be entitled to receive at 147,951 shares of the Company's common stock and removes certain restrictions on the operations of the Company during such twelve-month period. Because the amendment fixed the second anniversary earn-out payment by removing the performance criteria associated with such earn-out payment, the second anniversary earn-out payment is no longer considered contingent consideration.

**NOTE 10 - INTANGIBLE ASSETS AND GOODWILL**

The following table summarizes identifiable intangible assets of the Company as of December 31, 2018 and June 30, 2019:

| June 30, 2019 (Unaudited) | Useful Lives (In Years) | Gross Carrying Amount | Accumulated Amortization | Net Carrying Amount |
|---|---|---|---|---|
| Amortized: | | | | |
| Customer relationships | 9 - 10 | $ 4,068,000 | (642,000) | 3.426,000 |
| Trademark and tradename | 3 - 15 | 1,471,000 | (255,000) | 1,216,000 |
| Patents | 7 - 13 | 2,467,000 | (1,344,000) | 1,123,000 |
| Favorable contract interest | 5 | 388,000 | (186,000) | 202,000 |
| Covenant not to compete | 4 | 208,000 | (81,000) | 127,000 |
| | | 8,602,000 | (2,508,000) | 6,094,000 |
| Unamortized: | | | | |
| Customer list | | 104,000 | - | 104,000 |
| Trademark and Tradename | | 61,000 | - | 61,000 |
| | | 165,000 | - | 165,000 |
| Total | | $ 8,767,000 | $ (2,508,000) | $ 6,259,000 |

| December 31, 2018 | Useful Lives (In Years) | Gross Carrying Amount | Accumulated Amortization | Net Carrying Amount |
|---|---|---|---|---|
| Amortized: | | | | |
| Customer relationships | 10 | $ 3,123,000 | (442,000) | 2,681,000 |
| Trademark and tradename | 10 - 15 | 1,367,000 | (178,000) | 1,189,000 |
| Patents | 11 | 1,489,000 | (1,218,000) | 271,000 |
| Favorable contract interest | 5 | 388,000 | (137,000) | 251,000 |
| Covenant not to compete | 4 | 208,000 | (60,000) | 148,000 |
| | | 6,575,000 | (2,035,000) | 4,540,000 |
| Unamortized: | | | | |
| Customer list | | 104,000 | - | 104,000 |
| Trademark and Tradename | | 61,000 | - | 61,000 |
| | | 165,000 | - | 165,000 |
| Total | | $ 6,740,000 | $ (2,035,000) | $ 4,705,000 |

Amortization expense for the three- and six-month periods ended June 30, 2018 was $178,000 and $356,000, respectively, and for the three- and six-month periods ended June 30, 2019 was $280,000 and $473,000, respectively. Estimated future amortization expense for each of the five succeeding fiscal years for these intangible assets is as follows:

Year ending December 31:

| | | |
|---|---|---|
| July - December 2019 | $ | 495,000 |
| 2020 | | 991,000 |
| 2021 | | 815,000 |
| 2022 | | 710,000 |
| 2023 | | 683,000 |
| Thereafter | | 2,400,000 |
| | | 6,094,000 |

The change in goodwill from January 1, 2019 to June 30, 2019 is as follows:

| | | |
|---|---|---|
| Balance of as January 1, 2019 | $ | 7,318,000 |
| CarrierWeb acquisition | | 1,055,000 |
| Balance as of June 30, 2019 | $ | 8,373,000 |

**NOTE 11 - STOCK-BASED COMPENSATION**

**Stock Option Plans**

In June 2018, the Company's stockholders approved the 2018 Incentive Plan (the "2018 Plan") pursuant to which the Company may grant stock options, restricted stock and other equity-based awards with respect to up to an aggregate of 1,500,000 shares of common stock with a vesting period of approximately four to five years. There were 92,000 shares available for future issuance under the 2018 Plan at June 30, 2019. Upon the adoption of the 2018 Plan, the Company's 2009 Non-Employee Director Equity Compensation Plan and the 2015 Equity Compensation Plan were frozen, and no new awards can be issued pursuant to such plans.

The 2018 Plan is administered by the Compensation Committee of the Company's Board of Directors, which has the authority to determine, among other things, the term during which an option may be exercised (not more than 10 years), the exercise price of an option and the vesting provisions.

The Company recognizes all employee share-based payments in the statement of operations as an operating expense, based on their fair values on the applicable grant date.

**Performance Shares - Transaction-Related Awards**

In connection with the Merger Transactions, on March 13, 2019, the Company's Board of Directors approved the grant of options to purchase 350,000 shares of the Company's common stock to Chris Wolfe, the Company's Chief Executive Officer, and the grant of options to purchase 150,000 shares of the Company's common stock to Ned Mavrommatis, the Company's Chief Financial Officer. The options are subject to the terms of the 2018 Plan, have an exercise price of $6.28 per share, vest upon the attainment of adjusted EBITDA targets for the fiscal years ending December 31, 2020 and December 31, 2021 and become exercisable 180 days after vesting. Vesting of the options will accelerate in the event of certain change of control transactions, provided that the options will not accelerate upon the consummation of the Pointer Merger Agreement. The options will automatically expire upon the termination of the Investment Agreement and the Pointer Merger Agreement.

The Company's Board of Directors also approved the grant of options to purchase an aggregate of 500,000 shares of the Company's common stock, which will consist of grants to Chris Wolfe and Ned Mavrommatis in amounts to be determined and approved by the Company's Board of Directors or the Compensation Committee of the Company's Board of Directors. The options will be subject to the terms of the 2018 Plan, will have an exercise price equal to the higher of $6.00 per share or the closing price of the Company's common stock on the closing date of the Merger Transactions, vest upon the attainment of adjusted EBITDA targets for the fiscal years ending December 31, 2020 and December 31, 2021 and become exercisable 180 days after vesting. Vesting of the options will accelerate in the event of certain change of control transactions, provided that the options will not accelerate upon the consummation of the Merger Transactions. The options will automatically expire upon the failure to obtain stockholder approval of an amendment to the 2018 Plan to increase the number of shares available under such plan within one year.

The following table summarizes the activity relating to the Company’s stock options for the six-month period ended June 30, 2019:

| | Options | Weighted-Average Exercise Price | Weighted-Average Remaining Contractual Term | Aggregate Intrinsic Value |
|---|---|---|---|---|
| Outstanding at beginning of year | 1,220,000 | $ 5.37 | | |
| Granted | 869,000 | 6.20 | | |
| Exercised | (50,000) | 3.54 | | |
| Forfeited or expired | (1,000) | 3.29 | | |
| Outstanding at end of period | 2,038,000 | $ 5.77 | 8 years | $ 610,000 |
| Exercisable at end of period | 1,254,000 | $ 5.68 | 7 years | $ 8,000 |

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

| | June 30, 2018 | June 30, 2019 |
|---|---|---|
| Expected volatility | 43.0% | **24.2%** |
| Expected life of options (in years) | 4 | **3** |
| Risk free interest rate | 2.73% | **1.41%** |
| Dividend yield | 0% | **0%** |
| Weighted average fair value of options granted during the period | $ 2.37 | **$ 2.72** |

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

The Company recorded stock-based compensation expense of $95,000 and $195,000 for the three- and six-month periods ended June 30, 2018, respectively and $161,000 and $297,000 for the three- and six-month periods ended June 30, 2019, respectively, in connection with awards made under the stock option plans.

The fair value of options vested during the six-month periods ended June 30, 2018 and 2019 was $239,000 and $271,000, respectively. The total intrinsic value of options exercised during the six-month periods ended June 30, 2018 and 2019 was $65,000 and $112,000, respectively.

As of June 30, 2019, there was approximately $1,548,000 of unrecognized compensation cost related to non-vested options granted under the Company’s stock option plans. That cost is expected to be recognized over a weighted-average period of 2.91 years.

The Company estimates forfeitures at the time of valuation and reduces expense ratably over the vesting period. This estimate is adjusted periodically based on the extent to which actual forfeitures differ, or are expected to differ, from the previous estimate.

**Restricted Stock**

The Company grants restricted stock to employees, whereby the employees are contractually restricted from transferring the shares until they are vested. The stock is unvested stock at the time of grant and, upon vesting, there are no contractual restrictions on the stock. The fair value of each share is based on the Company's closing stock price on the date of the grant. A summary of all non-vested restricted stock for the six-month period ended June 30, 2019 is as follows:

| | Number of Non-vested Shares | | Weighted-Average Grant Date Fair Value |
|---|---|---|---|
| Restricted stock, non-vested, beginning of year | 568,000 | $ | 6.65 |
| Granted | 245,000 | | 5.74 |
| Vested | (199,000) | | 6.62 |
| Forfeited | - | | - |
| Restricted stock, non-vested, end of period | 614,000 | $ | 6.30 |

The Company recorded stock-based compensation expense of $500,000 and $931,000, respectively, for the three- and six-month periods ended June 30, 2018 and $440,000 and $887,000, respectively, for the three- and six-month periods ended June 30, 2019, in connection with restricted stock grants. As of June 30, 2019, there was $3,304,000 of total unrecognized compensation cost related to non-vested shares. That cost is expected to be recognized over a weighted-average period of 2.37 years.

## NOTE 12 - STOCKHOLDERS' EQUITY

**Preferred stock**

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

**Stock repurchase program**

On November 3, 2010, the Company's Board of Directors authorized the repurchase of issued and outstanding shares of the Company's common stock having an aggregate value of up to $3,000,000 pursuant to a share repurchase program. The repurchases under the share repurchase program are made from time to time in the open market or in privately negotiated transactions and are funded from the Company's working capital. The amount and timing of such repurchases is dependent upon the price and availability of shares, general market conditions and the availability of cash, as determined at the discretion of the Company's management. All shares of common stock repurchased under the Company's share repurchase program are held as treasury stock. The Company did not purchase any shares of its common stock under the share repurchase program during the six-month period ended June 30, 2019. As of June 30, 2019, the Company has purchased a total of approximately 310,000 shares of its common stock in open market transactions under the share repurchase program for an aggregate purchase price of approximately $1,340,000, or an average cost of $4.33 per share.

**Shares Withheld or Repurchased**

During the six-month periods ended June 30, 2018 and 2019, 92,000 and 36,000 shares, respectively, of the Company's common stock were withheld to satisfy minimum tax withholding obligations in connection with the vesting of restricted shares and to pay the exercise price of stock options in the aggregate amount of $694,000 and $245,000, respectively.

## NOTE 13 - ACCUMULATED OTHER COMPREHENSIVE LOSS

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

The accumulated balances for each classification of other comprehensive loss for the six-month period ended June 30, 2019 are as follows:

| | Foreign currency items | Unrealized gain (losses) on investments | Accumulated other comprehensive loss |
|---|---|---|---|
| Balance at January 1, 2019 | $ (388,000) | $ (47,000) | $ (435,000) |
| Net current period change | (58,000) | 47,000 | (11,000) |
| Balance at June 30, 2019 | $ (446,000) | $ - | $ (446,000) |

The accumulated balances for each classification of other comprehensive loss for the six-month period ended June 30, 2018 are as follows:

| | Foreign currency items | Unrealized gain (losses) on investments | Accumulated other comprehensive loss |
|---|---|---|---|
| Balance at January 1, 2018 | $ (465,000) | $ (113,000) | $ (578,000) |
| Net current period change | 52,000 | (72,000) | (20,000) |
| Balance at June 30, 2018 | $ (413,000) | $ (185,000) | $ (598,000) |

Income and expense accounts of foreign operations are translated at actual or weighted-average exchange rates during the period. Assets and liabilities of foreign operations that operate in a local currency environment are translated to U.S. dollars at the exchange rates in effect at the balance sheet date. Translation gains or losses are reported as components of accumulated other comprehensive income or loss in consolidated stockholders' equity. Net translation gains or losses resulting from the translation of foreign currency financial statements and the effect of exchange rate changes on intercompany transactions of a long-term investment nature with IDS GmbH resulted in translation gains (losses) of $52,000 and $(58,000) for the six-month periods ended June 30, 2018 and 2019, respectively, which are included in comprehensive loss in the Consolidated Statement of Changes in Stockholders' Equity. Effective December 1, 2015, the intercompany transactions with IDS GmbH are not considered of a long-term investment nature and the effect of the exchange rate changes subsequent to December 1, 2015 on the intercompany transactions are included selling, general and administrative expenses in the Condensed Consolidated Statement of Operations.

Gains and losses resulting from foreign currency transactions are included in determining net income or loss. Foreign currency transactions (losses) for the three- and six-month periods ended June 30, 2018 of $(277,000) and $(96,000), respectively, and for the three- and six-month periods ended June 30, 2019 of $(4,000) and $(30,000), respectively, are included in selling, general and administrative expenses in the Condensed Consolidated Statement of Operations.

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

Net loss per share for the three- and six-month periods ended June 30, 2018 and 2019 are as follows:

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2018 | **2019** | 2018 | **2019** |
| **Basic and diluted loss per share** | | | | |
| Net loss | $ (1,116,000) | **$ (2,585,000)** | $ (2,106,000) | **$ (4,779,000)** |
| Weighted-average shares outstanding | 17,066,000 | **17,678,000** | 17,024,000 | **17,650,000** |
| Basic and diluted net loss per share | $ (0.07) | **$ (0.15)** | $ (0.12) | **$ (0.27)** |

Basic loss per share is calculated by dividing net loss by the weighted-average number of common shares outstanding during the period. Diluted loss per share reflects the potential dilution assuming common shares were issued upon the exercise of outstanding options and the proceeds thereof were used to purchase outstanding common shares. Dilutive potential common shares include outstanding stock options, warrants and unvested restricted stock and performance shares awards. For the three- and six-month periods ended June 30, 2018, the basic and diluted weighted-average shares outstanding are the same, since the effect from the potential exercise of outstanding stock options, warrants and vesting of restricted stock and performance shares of 1,871,000 would have been anti-dilutive. For the three- and six-month periods ended June 30, 2019, the basic and diluted weighted-average shares outstanding are the same, since the effect from the potential exercise of outstanding stock options, warrants and vesting of restricted stock and performance shares of 2,652,000 would have been anti-dilutive due to the net loss.

**NOTE 15 - ACCOUNTS PAYABLE AND ACCRUED EXPENSES**

Accounts payable and accrued expenses consist of the following:

| | December 31, 2018 | **June 30, 2019** |
|---|---|---|
| | | (Unaudited) |
| Accounts payable | $ 6,644,000 | **$ 10,631,000** |
| Accrued warranty | 422,000 | **335,000** |
| Accrued compensation | 870,000 | **451,000** |
| Other current liabilities | 91,000 | **188,000** |
| | $ 8,027,000 | **$ 11,605,000** |

The Company's products are warranted against defects in materials and workmanship for a period of one to three years from the date of acceptance of the product by the customer. The customers may purchase an extended warranty providing coverage up to a maximum of 60 months. A provision for estimated future warranty costs is recorded for expected or historical warranty matters related to equipment shipped and is included in accounts payable and accrued expenses in the Condensed Consolidated Balance Sheets as of December 31, 2018 and June 30, 2019.

The following table summarizes warranty activity for the six-month periods ended June 30, 2018 and 2019:

| | Six Months Ended June 30, | |
|---|---|---|
| | 2018 | **2019** |
| Accrued warranty reserve, beginning of period | $ 535,000 | **$ 422,000** |
| Accrual for product warranties issued | 67,000 | **152,000** |
| Product replacements and other warranty expenditures | (75,000) | **(139,000)** |
| Expiration of warranties | (78,000) | **(100,000)** |
| Accrued warranty reserve, end of period | $ 449,000 | **$ 335,000** |

## NOTE 16 - LEASES

The Company determines whether an arrangement is a lease at inception. The Company has operating leases for office space and office equipment. The Company's leases have remaining lease terms of one year to seven years, some of which include options to extend the lease term for up to five years. The Company considered these options to extend in determining the lease term used to establish the Company's right-of use assets and lease liabilities once reasonably certain of exercise. The Company's lease agreements do not contain any material residual value guarantees or material restrictive covenants.

Right-of-use ("ROU") assets represent the Company's right to use an underlying asset for the lease term and lease liabilities represent the Company's obligation to make lease payments arising from the lease. Operating lease ROU assets and operating lease liabilities are recognized at the lease commencement date based on the present value of the future lease payments over the lease term. The operating lease ROU asset also includes any lease payments made in advance of lease commencement and excludes lease incentives. The lease terms used in the calculations of the operating ROU assets and operating lease liabilities include options to extend or terminate the lease when the Company is reasonably certain that it will exercise those options. Lease expense for lease payments is recognized on a straight-line basis over the lease term.

As the Company's leases do not provide an implicit rate, the Company uses its incremental borrowing rate based on the information available at commencement date in determining the present value of lease payments.

The Company has lease agreements with lease and non-lease components, which are generally not accounted for separately.

Components of lease expense are as follows:

| | Three Months Ended June 30, 2019 | Six Months Ended June 30, 2019 |
|---|---|---|
| Operating lease cost | $ 210,000 | **$ 389,000** |
| Short term lease cost | 100,000 | **144,000** |
| | $ 310,000 | **$ 533,000** |

The Company has lease arrangements which are classified as short-term in nature. The Company has elected the short-term lease recognition exemption for all leases that qualify. This means, for those leases that qualify, the Company will not recognize ROU assets or lease liabilities.

Supplemental cash flow information and non-cash activity related to our operating leases are as follows:

| | Six Months Ended June 30, 2019 |
|---|---|
| **Operating cash flow information:** | |
| Cash paid for amounts included in the measurement of lease liabilities | $ 384,000 |
| **Non-cash activity:** | |
| Right-of-use assets obtained in exchange for lease obligations | $ 2,556,000 |

Weighted-average remaining lease term and discount rate for our operating leases are as follows:

| | June 30, 2019 |
|---|---|
| Weighted-average remaining lease term (in years) | 3.8 |
| Weighted-average discount rate | 7.5% |

Scheduled maturities of operating lease liabilities outstanding as of June 30, 2019 are as follows:

| | |
|---|---|
| Year ending December 31, | |
| July - December 2019 | $ 481,000 |
| 2020 | 971,000 |
| 2021 | 302,000 |
| 2022 | 172,000 |
| 2023 | 177,000 |
| Thereafter | 416,000 |
| Total lease payments | 2,519,000 |
| Less: Imputed interest | (347,000) |
| Present value of lease liabilities | $ 2,172,000 |

**NOTE 17 - INCOME TAXES**

The Company accounts for income taxes under the asset and liability approach. Deferred tax assets and liabilities are recognized for the expected future tax consequences attributed to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis. Deferred tax assets and liabilities are measured using the enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to reverse. As of June 30, 2019, the Company had provided a valuation allowance to fully reserve its net operating loss carryforwards and other items giving rise to deferred tax assets, primarily as a result of anticipated net losses for income tax purposes.

**NOTE 18 - FAIR VALUE OF FINANCIAL INSTRUMENTS**

Cash and cash equivalents and investments in securities are carried at fair value. Financing receivables and capital lease obligation are carried at cost, which is not materially different than fair value. Accounts receivable, accounts payable and other liabilities approximate their fair values due to the short period to maturity of these instruments.

**NOTE 19 - CONCENTRATION OF CUSTOMERS**

For the six-month period ended June 30, 2019 and as of June 30, 2019, one customer accounted for 23% of the Company's revenue and two customers accounted for 34% and 10% of the Company's accounts receivable. Two customers accounted for 22% and 20% of finance receivables as of June 30, 2019.

For the six-month period ended June 30, 2018 and as of June 30, 2018, three customers accounted for 26%, 11% and 11% of the Company's revenue and one customer accounted for 32% of the Company's accounts receivable. One customer accounted for 18% of finance receivables as of June 30, 2018.

**NOTE 20 - WHOLLY OWNED FOREIGN SUBSIDIARIES**

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

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

| | **For the Three Months Ended June 30,** | | **For the Six Months Ended June 30,** | |
|---|---|---|---|---|
| | **2018** | **2019** | **2018** | **2019** |
| Net revenue | $ 328,000 | **$ 750,000** | $ 522,000 | **$ 1,221,000** |
| Net income (loss) | (186,000) | **126,000** | (230,000) | **69,000** |

Total assets of IDS GmbH were $1,430,000 and $2,251,000 as of December 31, 2018 and June 30, 2019, respectively. IDS GmbH operates in a local currency environment using the Euro as its functional currency.

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

| | **For the Three Months Ended June 30,** | | **For the Six Months Ended June 30,** | |
|---|---|---|---|---|
| | **2018** | **2019** | **2018** | **2019** |
| Net revenue | $ 35,000 | **$ 49,000** | $ 132,000 | **$ 229,000** |
| Net (loss) income | (176,000) | **(72,000)** | (130,000) | **29,000** |

Total assets of IDS Ltd were $1,054,000 and $1,106,000 as of December 31, 2018 and June 30, 2019, respectively. IDS Ltd operates in a local currency environment using the British Pound as its functional currency.

## NOTE 21 - COMMITMENTS AND CONTINGENCIES

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

**Severance agreements**

The Company has entered into severance agreements with two executive officers. The severance agreement for Ned Mavrommatis, the Company's Chief Financial Officer, provides Mr. Mavrommatis with certain severance and change in control benefits upon the occurrence of a "Trigger Event," which will have occurred if the Company terminates the executive without cause or the executive resigns for good reason within six months following a change in control event. The severance agreement for Chris Wolfe, the Company's Chief Executive Officer, provides Mr. Wolfe with certain severance and change in control benefits upon the occurrence of a "Trigger Event," which will have occurred if the Company terminates Mr. Wolfe without cause, or upon the occurrence of a "Change in Control Trigger Event," which will have occurred if the Company terminates Mr. Wolfe without cause or Mr. Wolfe resigns for good reason, each within six months following a change in control event. As a condition to the Company's obligations under the severance agreements, each executive has executed and delivered to the Company a restrictive covenants agreement.

Under the terms of the severance agreement with Mr. Mavrommatis, Mr. Mavrommatis is entitled to the following: (i) a cash payment at the rate of the executive's annual base salary as in effect immediately prior to the Trigger Event for a period of 12 months, (ii) a waiver of any remaining portion of the executive's healthcare continuation payments under COBRA for the twelve-month severance period, provided that the executive timely elects COBRA coverage and continues to make contributions for such coverage equal to his contribution amount in effect immediately preceding the date of his termination of employment, and (iii) partial accelerated vesting of the executive's previously granted stock options and restricted stock awards. Under the terms of the severance agreement with Mr. Wolfe, Mr. Wolfe is entitled to the following: (i) a cash payment either (A) in the event of a Trigger Event, at the rate of his annual base salary, or (B) in the event of a Change in Control Trigger Event, at twice the rate of his annual base salary, in each case as in effect immediately prior to the Trigger Event or Change in Control Trigger Event, as the case may be, for a period of 12 months, (ii) a waiver of any remaining portion of Mr. Wolfe's healthcare continuation payments under COBRA for the twelve-month severance period, provided that he timely elects COBRA coverage and continues to make contributions for such coverage equal to his contribution amount in effect immediately preceding the date of his termination of employment, (iii) partial accelerated vesting of Mr. Wolfe's previous granted stock options and restricted stock awards, and (iv) in the event of a Change in Control Trigger Event, a pro-rata portion of any bonus that would have been payable to Mr. Wolfe with respect to the year of termination based on the achievement of predetermined Company objectives used to determine the Company's performance.

**NOTE 22 - RECENT ACCOUNTING PRONOUNCEMENTS**

In August 2018, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2018-15, "Intangibles-Goodwill and Other-Internal-Use Software (Topic 350): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract", which align the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software (and hosting arrangements that include an internal use software license). ASU 2018-15 is effective for the Company beginning in the first fiscal quarter of 2022, with early adoption permitted. The Company is currently evaluating the impact of this ASU on the consolidated financial statements.

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

In August 2018, the Securities and Exchange Commission (the "SEC") issued a final rule that amends certain of the SEC's disclosure requirements, including requirements relating to disclosures about changes in stockholders' equity. For Quarterly Reports on Form 10-Q, the final rule extends to interim periods the annual requirement in Rule 3-04 of Regulation S-X, to disclose (1) changes in stockholders' equity and (2) the amount of dividends per share for each class of shares (as opposed to common stock only, as previously required). Pursuant to the final rule, registrants must now analyze changes in stockholders' equity, in the form of a reconciliation, for "the current and comparative year-to-date [interim] periods, with subtotals for each interim period," i.e., a reconciliation covering each period for which an income statement is presented. Rule 3-04 of Regulation S-X permits the disclosure of changes in stockholders' equity (including dividend-per-share amounts) to be made either in a separate financial statement or in the notes to the financial statements. The final rule is effective for all filings made on or after November 5, 2018. SEC staff has indicated it would not object if a registrant's first presentation of the changes in shareholders' equity is included in its Form 10-Q for the quarter that begins after the effective date of the amendments. Therefore, the Company conformed to this rule in its Quarterly Report on Form 10-Q for the quarter ended March 31, 2019.

In June 2018, the FASB issued ASU 2018-07, "Compensation - Stock Compensation (Topic 718): Improvements to Non-employee Share-Based Accounting". This guidance aligns the accounting for share-based payment transactions with non-employees to accounting for share-based payment transactions with employees. Companies are required to record a cumulative-effect adjustment (net of tax) to retained earnings as of the beginning of the fiscal year of the adoption. Upon transition, non-employee awards are required to be measured at fair value as of the adoption date. This standard will be effective for fiscal years beginning December 15, 2018, including interim periods within those fiscal years. Early adoption is permitted. The adoption of this guidance did not have a material impact on the Company's financial results.

In February 2018, the FASB issued ASU 2018-02, "Income Statement - Reporting Comprehensive Income (Topic 220)". The objective of the ASU is to allow a reclassification from accumulated comprehensive income (loss) to retained earnings for stranded tax effects resulting from the Tax Cuts and Jobs Act and will improve the usefulness of information reported to financial statement users. This ASU is effective for interim and annual reporting periods beginning after December 15, 2018, and early adoption is permitted. The adoption of this guidance did not have a material impact on the Company's financial results.

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

In February 2016, the FASB issued ASU No. 2016-02, "Leases" (Topic 842), which requires lessees to recognize the following for all leases (with the exception of short-term leases) at the commencement date: a lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis; and a right-of-use asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term. For leases with a term of 12 months or less, the lessee is permitted to make an accounting policy election by class of underlying asset not to recognize lease assets and lease liabilities. Also, in July 2018, the FASB issued ASU 2018-11, Leases (Topic 842): "Targeted Improvements," which provides an optional transition method to allow entities, on adoption of ASU 2016-02, to report prior periods under previous lease accounting guidance. The revised guidance must be applied on a modified retrospective transition approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. The revised guidance is effective for the Company beginning after December 15, 2018, including interim periods within those fiscal years. The Company adopted Topic 842; refer to "Note 16 - Leases" for more information.

**NOTE 23 – SUBSEQUENT EVENTS**

On July 30, 2019, the Company, completed the acquisition of substantially all of the assets of CarrierWeb Services Ltd. ("CarrierWeb Ireland"), an affiliate of CarrierWeb, from e*freightrac Holding B.V., the owner of the outstanding equity of CarrierWeb Ireland. Consideration for the CarrierWeb Ireland acquisition included (i) $500,000 in cash paid at closing, and (ii) 126,748 shares of the Company's common stock, less (1) 55,783 shares for the payment of aggregate principal amount plus accrued and unpaid interest outstanding under $300,000 loans, less (2) 43,706 shares held back.

The CarrierWeb Ireland acquisition will be accounted for by using the acquisition method of accounting and the purchase price paid will be assigned to the net assets acquired based on the fair value of such assets and liabilities at the date of the acquisition.

**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**

The following discussion and analysis of the consolidated financial condition and results of operations of I.D. Systems, Inc. and its subsidiaries ("I.D. Systems", the "Company", "we", "our" or "us") should be read in conjunction with the consolidated financial statements and notes thereto appearing in Part I, Item 1, of this report. In the following discussions, most percentages and dollar amounts have been rounded to aid presentation, and, accordingly, all amounts are approximations.

**Cautionary Note Regarding Forward-Looking Statements**

This report contains various forward-looking statements made pursuant to the safe harbor provisions under the Private Securities Litigation Reform Act of 1995 and information that is based on management's beliefs as well as assumptions made by, and information currently available to, management. Although the Company believes that the expectations reflected in such forward-looking statements are reasonable, the Company can give no assurance that such expectations will prove to be correct. When used in this report, the words "believe", "expect", "estimate", "project", "predict", "forecast", "plan", "anticipate", "target", "outlook", "envision", "intend", "seek", "may", "will", or "should", and similar expressions or words, or the negatives of those words, are intended to identify forward-looking statements. Readers are cautioned not to place undue reliance on forward-looking statements, which speak only as of the date hereof, and should be aware that the Company's actual results could differ materially from those described in the forward-looking statements due to a number of factors, including, without limitation, business conditions and growth in the wireless tracking industries, general economic conditions, lower than expected customer orders or variations in customer order patterns, competitive factors including increased competition, changes in product and service mix, and resource constraints encountered in developing new products, and other factors described under "Risk Factors" set forth in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2018 and other filings with the Securities and Exchange Commission (the "SEC"). Any forward-looking statements should be considered in light of these factors. Unless otherwise required by law, the Company undertakes no obligation, and expressly disclaims any obligation, to update or publicly release the results of any revisions to these forward-looking statements that may be made to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events, or otherwise.

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

**Overview**

We develop, market and sell wireless machine-to-machine ("M2M") solutions for managing and securing high-value enterprise assets. These assets include industrial vehicles such as forklifts and airport ground support equipment, rental vehicles, and transportation assets such as trucks, semi-tractors, dry van trailers, refrigerated trailers, railcars and containers. Our patented systems utilize radio frequency identification (RFID), Wi-Fi, Bluetooth, satellite or cellular communications, and sensor technology and software to address the needs of organizations to control, track, monitor and analyze their assets. Our solutions enable customers to achieve tangible economic benefits by making timely, informed decisions that increase the safety, security, revenue, productivity and efficiency of their operations.

On March 13, 2019, we entered into an Agreement and Plan of Merger (the "Pointer Merger Agreement"), with PowerFleet, Inc., a wholly-owned subsidiary of the Company ("Parent"), Pointer Telocation Ltd. ("Pointer"), Powerfleet Israel Holding Company Ltd., a wholly-owned subsidiary of Parent ("Pointer Holdco"), and Powerfleet Israel Acquisition Company Ltd., a wholly-owned subsidiary of Pointer Holdco ("Pointer Merger Sub"), pursuant to which Pointer Merger Sub will merge with and into Pointer, with Pointer surviving as a direct, wholly-owned subsidiary of Pointer Holdco (the "Pointer Merger") in exchange for consideration consisting of $8.50 in cash and 1.272 shares of common stock of Parent per ordinary share of Pointer. Also on March 13, 2019, and in connection with the Pointer Merger Agreement, we entered into an Investment and Transaction Agreement (the "Investment Agreement") with Parent, PowerFleet US Acquisition Inc., a wholly-owned subsidiary of Parent ("IDS Merger Sub"), and ABRY Senior Equity V, L.P. and ABRY Senior Equity Co-Investment Fund V, L.P., pursuant to which we will reorganize into a new holding company structure by merging IDS Merger Sub with and into the Company, with the Company surviving as a wholly-owned subsidiary of Parent (the "IDS Merger"), and pursuant to which Parent will issue and sell in a private placement shares of Parent's newly created Series A Convertible Preferred Stock to finance a portion of the cash consideration payable in the Pointer Merger. As a result of the transactions contemplated by the Pointer Merger Agreement and the Investment Agreement (the "Merger Transactions"), we and Pointer will each become wholly-owned subsidiaries of Parent. The Merger Transactions have been unanimously approved by the boards of directors of both companies, are subject to customary closing conditions, including approval by our stockholders and Pointer's shareholders, and are expected to close on or prior to October 31, 2019.

On January 30, 2019, we completed the acquisition (the "CarrierWeb Acquisition") of substantially all of the assets of CarrierWeb, L.L.C., an Atlanta-based provider of real-time in-cab mobile communications technology, electronic logging devices, two-way refrigerated command and control, and trailer tracking. The assets we acquired in the CarrierWeb Acquisition will be integrated into our logistics visibility solutions and products. The CarrierWeb Acquisition allows us to offer a full complement of highly-integrated logistics technology solutions to its current customers and prospects and immediately adds customers and subscriber units.

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

We have focused our business activities on three primary business solutions: (i) Industrial Truck Management Solutions ("PowerFleet for Industrial"), (ii) Logistics Visibility (LV) Solutions ("PowerFleet for Logistics") (formerly "Transportation Asset Management"), and (iii) Connected Vehicle Solutions ("PowerFleet for Automotive"). Our solutions for industrial truck management allow our customers to reduce operating risks and improve operating efficiency including monitoring for unsafe activity, identifying facility equipment and goods damage, lowering operational costs and capital expenditures and ensuring compliance 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 solutions for logistics visibility allow our customers to increase revenue per asset deployed, optimize fleet size, and improve the monitoring and control of sensitive cargo. Our solutions for connected vehicles include unique Internet-of-Things ("IoT") projects similar to projects we have delivered to Avis Budget Group Inc. ("Avis"). These engineering programs help our customers transform their operations. For Avis, our rental fleet management platform assists in generating higher revenue by more accurately tracking vehicle data, such as fuel consumption and odometer readings, and improving customer service by expediting the rental and return processes. In addition, our wireless solution for "car sharing" enables rental car companies to establish a network of vehicles positioned strategically around cities or on corporate campuses, control vehicles remotely with secure lock and unlock capability, manage member reservations by smart phone or Internet, and charge members for vehicle use by the hour.

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

We sell our solutions to both executive, division and site-level management within the enterprise. We also utilize channel partners such as independent dealers and Original Equipment Manufacturers (OEMs) who may opt for us to white label our product. Typically, our initial system deployment serves as a basis for potential expansion across the customer's organization. We work closely with customers to help maximize the utilization and benefits of our system and demonstrate the value of enterprise-wide deployments. Post-implementation, we consult with our customers to further extend and customize the benefits to the enterprise by delivering enhanced analytics capabilities.

We market and sell our solutions to a wide range of customers in the commercial and government sectors. Our customers operate in diverse markets, such as automotive manufacturing, heavy industry, retail and wholesale distribution, transportation, aviation, aerospace and defense, homeland security and vehicle rental.

**Our Solutions**

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

**Industrial Truck Management Solutions ("PowerFleet for Industrial")**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

- wirelessly uploading usage data from each vehicle;
- defining various intervals and criteria for performing preventative maintenance;
- automatically prioritizing maintenance events based on weighted, user-defined variables;
- reporting in advance on vehicles with impending preventative maintenance events coming due;
- automatically sending reminders to individual vehicles or operators via the system’s text messaging module; and
- enabling remote lock-out of vehicles overdue for maintenance.

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

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

**Logistics Visibility Solutions ("PowerFleet for Logistics")**

Our mobile systems for managing remote, "over-the-road" assets are provided by our Asset Intelligence subsidiary. These systems provide mobile-asset tracking and condition-monitoring solutions to meet the transportation market's desire for greater visibility, safety, security, and productivity throughout global supply chains. By leveraging a combination of cellular and satellite communications and web-based data management technologies, the Logistics Visibility (LV) product family provides shippers and carriers with tools to better manage their tractors, drivers, trucks, refrigerated (Reefer) trailers, dry van trailers, chassis and container fleets. Our LV solutions enable quick access to actionable intelligence that results in better utilization, control, and security of our customers' freight-carrying assets.

Our LV solutions consist of five principal elements:

- cellular or satellite communicators and Bluetooth attached to assets;
- GPS receivers that provide latitude/longitude location fixes that are transmitted based on logic resident in the communicator;
- proprietary browser-based graphical user interface that provides visibility and two-way control of the system database (the data can also be transmitted to the customer via XML or web services data feed);
- patented power management intelligence to ensure reliable system performance in a power-starved environment; and
- several sensor types, including cargo, motion, light, and tire inflation, that provide additional status information for the remote asset.

To increase asset utilization, our LV solutions can improve overall operating efficiency, increase revenue miles and reduce the number of assets needed by:

- full two-way integrated workflow of control assignments and work changes to the truck tractor and driver;
- Electronic Driver Logging (ELD) and inspection reports for regulatory compliance
- monitoring asset pool size based on user-defined requirements;
- generating dormancy reports to flag under-utilized assets;
- alerting the driver to the location of the closest empty asset, resulting in a more rapid pick-up; and
- providing trailer detention alerts when an asset has exceeded the time allotted for unloading.

To better control remote assets, our LV solutions provides:

- change in cargo status of an asset via our patented full-length cargo sensor;
- geo-fencing that alerts the customer when an asset is approaching or leaving its destination; and
- on-board intelligence utilizing a motion sensor and proprietary logic that identifies the beginning of a drive and the end of a drive.

To help improve asset and cargo security, our LV solutions offers the following capabilities:

- asset lockdown, which automatically sends an e-mail or text message to the customer when movement is detected outside of user-defined time periods;
- emergency track functionality that can be enabled to track an asset at more frequent intervals if a theft condition is expected;
- geo-fencing, which can alert our customer when an asset enters a prohibited geography or location; and
- near real-time sensors that can alert based on upon changes to shock (vibe) sound, light, barometric pressure, temperature and humidity.

***Connected Vehicle Solutions*** **("PowerFleet for Automotive")**

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

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

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

***Analytics, Image Deep Learning and Lucy***

Our analytics platforms for both industrial trucks and logistics assets provide our customers with a holistic view of their asset activity across an enterprise supply chain. Our image deep learning system allows us to process images from FreightCAM and other sources and identify key aspects of operations and geospatial information such as location, work being accomplished, type of cargo, how cargo is loaded and if there are any visible issues such as damage. Lucy, our deep learning voice integrated virtual analyst can help make the data and alerts actionable and can assist our customers by giving them a tireless virtual assistant.

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

Specifically, our analytics platforms allow users to:

- Quantify best-practice enterprise benchmarks for industrial asset utilization and safety;
- Reveal variations and inefficiencies in asset activity across both sites and geographic regions;
- Identify opportunities to eliminate or reallocate assets, with full enterprise awareness, to reduce capital and operating costs;
- Help balance asset mix and inform acquisition decisions;
- Uncover activity trends over time to forecast asset requirements;
- Enable performance comparisons to broad, industry-specific benchmarks; and
- Keeps track of actions and follow up items and communicates to appropriate persons to address problems or to escalate issues.

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

**Risks to Our Business**

During the six-month period ended June 30, 2019, we generated revenues of $29.9 million, and Avis accounted for 23% of our revenues. During the six-month period ended June 30, 2018, we generated revenues of $28.2 million, and Avis, Wal-Mart Stores, Inc. and Toyota Industries Corporation accounted for 26%, 11% and 11% of our revenues, respectively.

We are highly dependent upon sales of our system to a few customers. The loss of any of these key customers, or any material reduction in the amount of our products they purchase during a particular period, could materially and adversely affect our revenues for such period. Conversely, a material increase in the amount of our products purchased by a key customer (or customers) during a particular period could result in a significant increase in our revenues for such period, and such increased revenues may not recur in subsequent periods. Some of these key customers, as well as other customers of the Company, operate in markets that have suffered business downturns in the past few years or may so suffer in the future, particularly in light of the current global economic downturn, and any material adverse change in the financial condition of such customers could materially and adversely affect our financial condition and results of operations. If we are unable to replace such revenue from existing or new customers, the market price of our common stock could decline significantly.

We expect that many customers who utilize our solutions will do so as part of a large-scale deployment of these solutions across multiple or all divisions of their organizations. A customer's decision to deploy our solutions throughout its organization will involve a significant commitment of its resources. Accordingly, initial implementations may precede any decision to deploy our solutions enterprise-wide. Throughout this sales cycle, we may spend considerable time and expense educating and providing information to prospective customers about the benefits of our solutions, and there can be no assurance that our solutions will be deployed on a wider scale by the customer.

The timing of the deployment of our solutions may vary widely and will depend on the specific deployment plan of each customer, the complexity of the customer's organization and the difficulty of such deployment. Customers with substantial or complex organizations may deploy our solutions in large increments on a periodic basis. Accordingly, we may receive purchase orders for significant dollar amounts on an irregular and unpredictable basis. Because of our limited operating history and the nature of our business, we cannot predict the timing or size of these sales and deployment cycles. Long sales cycles, as well as our expectation that customers will tend to place large orders sporadically with short lead times, may cause our revenue and results of operations to vary significantly and unexpectedly from quarter to quarter. These variations could materially and adversely affect the market price of our common stock.

Our ability to increase our revenues and generate net income will depend on a number of factors, including, for example, our ability to:

- increase sales of products and services to our existing customers;
- convert our initial programs into larger or enterprise-wide purchases by our customers;
- increase market acceptance and penetration of our products; and
- develop and commercialize new products and technologies.

As of June 30, 2019, we had cash (including restricted cash) and cash equivalents of $8.4 million and working capital of $12.1 million. The Company's primary sources of cash are cash flows from operating activities and the Company's holdings of cash and cash equivalents from the sale of common stock. To date, the Company has not generated sufficient cash flow solely from operating activities, although we had positive cash flows in 2017, to fund its operations.

We believe our available working capital, anticipated level of future revenues, expected cash flows from operations will provide sufficient funds to cover capital requirements for at least the next twelve months.

Additional risks and uncertainties to which we are subject are described under the heading "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2018.

**Critical Accounting Policies**

For the three-month period ended June 30, 2019, there were no significant changes to the Company's critical accounting policies as identified in our Annual Report on Form 10-K for the year ended December 31, 2018, except, as noted in Note 22 of the Notes to our Unaudited Condensed Consolidated Financial Statements, the Company adopted the new leasing accounting standard ASU No. 2016-02, "Leases" (Topic 842), which became effective on January 1, 2019.

**Results of Operations**

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

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2018 | **2019** | 2018 | **2019** |
| Revenue: | | | | |
| Products | 72.8% | **65.4%** | 73.4% | **59.9%** |
| Services | 27.2 | **34.6** | 26.6 | **40.1** |
| | 100.0 | **100.0** | 100.0 | **100.0** |
| Cost of revenues: | | | | |
| Cost of products | 50.0 | **43.4** | 47.0 | **37.8** |
| Cost of services | 6.7 | **13.2** | 7.3 | **15.0** |
| Total gross profit | 43.3 | **43.4** | 45.7 | **47.2** |
| Operating expenses: | | | | |
| Selling, general and administrative expenses | 39.5 | **36.8** | 40.3 | **40.5** |
| Research and development expenses | 10.4 | **12.4** | 11.7 | **12.3** |
| Acquisition-related expenses | 1.0 | **9.9** | 1.2 | **10.2** |
| | 50.9 | **59.1** | 53.2 | **63.0** |
| Loss from operations | (7.6) | **(15.7)** | (7.5) | **(15.8)** |
| Interest income | 0.5 | **-** | 0.5 | **0.2** |
| Interest expense | (0.4) | **(0.2)** | (0.4) | **(0.2)** |
| Other income | (0.1) | **-** | (0.2) | **(0.2)** |
| **Net loss** | (7.6)% | **(15.9)%** | (7.6)% | **(16.0)%** |

**Three Months Ended June 30, 2019 Compared to Three Months Ended June 30, 2019**

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

| | Three Months Ended June 30, | |
|---|---|---|
| | 2018 | **2019** |
| Product revenue: | | |
| Industrial truck management | $ 4,518,000 | **$ 5,423,000** |
| Logistics visibility | 1,493,000 | **2,099,000** |
| Connected vehicles | 4,773,000 | **3,121,000** |
| | 10,784,000 | **10,643,000** |
| Services revenue: | | |
| Industrial truck management | 1,862,000 | **1,850,000** |
| Logistics visibility | 1,979,000 | **2,212 ,000** |
| Connected vehicles | 184,000 | **1,569,000** |
| | 4,025,000 | **5,631,000** |
| | $ 14,809,000 | **$ 16,274,000** |

*REVENUES.* Revenues increased by approximately $1.5 million, or 9.9%, to $16.3 million in the three months ended June 30, 2019 from $14.8 million in the same period in 2018. The increase in revenue is principally attributable to an increase in total logistics visibility revenue of approximately $0.8 million to $4.3 million in 2019 from $3.5 million in 2018 and total industrial truck management revenue of approximately $0.9 million to $7.3 million in 2019 from $6.4 million in 2018.

Revenues from products decreased by approximately $0.1 million, or 1.3%, to $10.6 million in the three months ended June 30, 2019 from $10.8 million in the same period in 2018 principally from a decrease in connected vehicles product revenue of approximately $1.7 million to $3.1 in 2019 from $4.8 in 2018 principally due to the timing of unit deliveries in 2019 under SOW#5 with ABCR. Industrial truck management product revenue increased by approximately $0.9 million to $5.4 million in 2019 from $4.5 million in 2018 principally due to increases in product sales to Toyota Industries Corporation and Jungheinrich AG. Logistics visibility product revenue increased by approximately $0.6 million to $2.1 million in 2019 from $1.5 million in 2018 principally due to increased product sales from the CarrierWeb acquisition.

Revenues from services increased by approximately $1.6 million, or 39.9%, to $5.6 million in the three months ended June 30, 2019 from $4.0 million in the same period in 2018. Connected vehicles service revenue increased approximately $1.4 million to $1.6 million in 2019 from $0.2 million in 2018 principally due to $1.0 million from SOW#5 non-recurring engineering services with ABCR. Industrial truck management service revenue of approximately $1.9 million in 2019 remained generally consistent with 2018. Logistics visibility service revenue increased by approximately $0.2 million to $2.2 million in 2019 from $2.0 million in 2018 principally due to increased service revenue from the CarrierWeb acquisition.

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

| | Three Months Ended June 30, | |
|---|---|---|
| | 2018 | **2019** |
| Cost of products: | | |
| Industrial truck management | $ 2,379,000 | **$ 2,978,000** |
| Logistics visibility | 1,216,000 | **1,780,000** |
| Connected vehicles | 3,813,000 | **2,304,000** |
| | 7,408,000 | **7,062,000** |
| Cost of services: | | |
| Industrial truck management | 373,000 | **584,000** |
| Logistics visibility | 492,000 | **706,000** |
| Connected vehicles | 121,000 | **851,000** |
| | 986,000 | **2,141,000** |
| | $ 8,394,000 | **$ 9,203,000** |

*COST OF REVENUES.* Cost of revenues increased by approximately $0.8 million, or 9.6%, to $9.2 million in the three months ended June 30, 2019 from $8.4 million for the same period in 2018. Gross profit was $7.1 million in three months ended June 30, 2019 compared to $6.4 million for the same period in 2018. As a percentage of revenues, gross profit of 43.4% in 2019 remained generally consistent with the gross profit of 43.3% in 2018.

Cost of products decreased by approximately $0.3 million, or 4.7%, to $7.1 million in the three months ended June 30, 2019 from $7.4 million in the same period in 2018. Gross profit for products was $3.6 million in 2019 compared to $3.4 million in 2018. The increase in the product revenue gross profit was attributable to an increase in the industrial truck management gross profit to approximately $2.4 million in 2019 from $2.1 million in 2018 partially offset by a decrease in the connected vehicles product revenue gross profit to approximately $0.8 million in 2019 from $1.0 million 2018. The logistics visibility gross profit of approximately $0.3 million in 2019 remained generally consistent with 2018. As a percentage of product revenues, gross profit increased to 33.6% in 2019 from 31.3% in 2018. The connected vehicles product revenue gross profit percentage increased to 26.2% in 2019 from 20.1% in 2018 principally from lower hardware unit costs. The industrial truck management product revenue gross profit percentage decreased to 45.1% in 2019 from 47.3% in 2018 which was principally due to lower unit prices. The logistics visibility product revenue gross profit percentage decreased to 15.2% in 2019 from 18.6% in 2018 principally from lower hardware unit prices.

Cost of services increased by approximately $1.2 million, or 117.1%, to $2.1 million in the three months ended June 30, 2019 from $1.0 million in the same period in 2018. Gross profit for services was $3.5 million in 2019 compared to $3.0 million in 2018. The increase in the service revenue gross profit was attributable to an increase of approximately $0.7 million in the connected vehicles gross profit to $0.7 million in 2019 from $0.1 million in 2018 principally from the SOW#5 non-recurring engineering services with ABCR, partially offset by a decrease in the industrial truck management service revenue gross profit of approximately $0.2 million to $1.3 million in 2019 from $1.5 million in 2018. The logistics visibility gross profit of approximately $1.5 million in 2019 remained generally consistent with 2018. As a percentage of service revenues, gross profit decreased to 62.0% in 2019 from 75.5% in 2018. The industrial truck management service revenue gross profit percentage decreased to 68.4% in 2019 from 80.0% in 2018 principally due to an increase in services operating expenses. The logistics visibility service revenue gross profit percentage decreased to 68.1% in 2019 from 75.1% in 2018 principally due to an increase in communication expenses. The connected vehicles service revenue gross profit percentage increased to 45.8% in 2019 from 34.2% in 2018 principally due to increase service billing on activated units and SOW#5 non-recurring engineering services with ABCR.

*SELLING, GENERAL AND ADMINISTRATIVE EXPENSES.* Selling, general and administrative (“SG&A”) expenses increased by approximately $0.1 million, or 2.5%, to approximately $6.0 million in the three months ended June 30, 2019 compared to $5.8 million in the same period in 2018 principally due to CarrierWeb headcount related expenses. As a percentage of revenues, SG&A expenses decreased to 36.8% in the three months ended June 30, 2019 from 39.5% in the same period in 2018, primarily due to the increase in revenue from 2018 to 2019.

*RESEARCH AND DEVELOPMENT EXPENSES.* Research and development (“R&D”) expenses increased by approximately $0.5 million, or 31.3%, to approximately $2.0 million in the three months ended June 30, 2019 compared to $1.5 million in the same period in 2018 principally due to additional LV-series product development expenses. As a percentage of revenues, research and development expenses increased to 12.4% in the three months ended June 30, 2019 from 10.4% in the same period in 2018, primarily due to the increase in expenses noted above.

*ACQUISITION-RELATED FEES.* Acquisition related expenses increased by approximately $1.5 million, or 982.6%, to approximately $1.6 million in the three months ended June 30, 2019 compared to $0.1 million in the same period in 2018 principally from Pointer Telocation merger related expenses. As a percentage of revenues, acquisition-related expenses increased to 9.9% in the three months ended June 30, 2019 from 1.0% in the same period in 2018, primarily due to the increase in expenses noted above.

*NET LOSS.* Net loss was $2.6 million, or $(0.15) per basic and diluted share, for the three months ended June 30, 2019 as compared to net loss of $1.1 million, or $(0.07) per basic and diluted share, for the same period in 2018. The increase in the net loss was due primarily to the reasons described above.

**Six Months Ended June 30, 2019 Compared to Six Months Ended June 30, 2018**

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

| | Six Months Ended June 30, | |
|---|---|---|
| | 2018 | **2019** |
| Product revenue: | | |
| Industrial truck management | $ 10,694,000 | **$ 11,008,000** |
| Logistics visibility | 2,959,000 | **3,763,000** |
| Connected vehicles | 7,029,000 | **3,121,000** |
| | 20,682,000 | **17,892,000** |
| Services revenue: | | |
| Industrial truck management | 3,306,000 | **3,664,000** |
| Logistics visibility | 3,983,000 | **4,432,000** |
| Connected vehicles | 217,000 | **3,897,000** |
| | 7,506,000 | **11,993,000** |
| | $ 28,188,000 | **$ 29,885,000** |

*REVENUES.* Revenues increased by approximately $1.7 million, or 6.0%, to $29.9 million in the six months ended June 30, 2019 from $28.2 million in the same period in 2018. The increase in revenue is principally attributable to an increase in total logistics visibility revenue of approximately $1.3 million to $8.2 million in 2019 from $6.9 million in 2018 and an increase in total industrial truck management revenue of approximately $0.7 million to $14.7 million in 2019 from $14.0 million in 2018, partially offset by a decrease in total connected vehicles revenue of approximately $0.2 million to $7.0 million in 2019 from $7.2 million in 2018.

Revenues from products decreased by approximately $2.8 million, or 13.5%, to $17.9 million in the six months ended June 30, 2019 from $20.7 million in the same period in 2018 principally from a decrease in connected vehicles product revenue of approximately $3.9 million to $3.1 million in 2019 from $7.0 million in 2018 principally due to the timing of unit deliveries in 2019 under SOW#5 with ABCR. Industrial truck management product revenue increased by approximately $0.3 million to $11.0 million in 2019 from $10.7 million in 2018 principally due to an increase in product sales to Jungheinrich AG. Logistics visibility product revenue increased by approximately $0.8 million to $3.8 million in 2019 from $3.0 million in 2018 principally due to increased product sales from the CarrierWeb acquisition.

Revenues from services increased by approximately $4.5 million, or 59.8%, to $12.0 million in six months ended June 30, 2019 from $7.5 million in the same period in 2018. Connected vehicles service revenue increased approximately $3.7 million to $3.9 million in 2019 from $0.2 million in 2018 principally due to $2.8 million from SOW#5 non-recurring engineering services with ABCR. Industrial truck management service revenue increased by approximately $0.4 million to $3.7 million in 2019 from $3.3 million in 2018 principally due to an increase in service revenue from Toyota Industries Corporation. Logistics visibility service revenue increased by approximately $0.4 million to $4.4 million in 2019 from $4.0 million in 2018 principally due to increased service revenue from the CarrierWeb acquisition.

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

| | Six Months Ended June 30, | |
|---|---|---|
| | 2018 | **2019** |
| Cost of products: | | |
| Industrial truck management | $ 5,204,000 | **$ 5,934,000** |
| Logistics visibility | 2,463,000 | **3,063,000** |
| Connected vehicles | 5,583,000 | **2,304,000** |
| | 13,250,000 | **11,301,000** |
| Cost of services: | | |
| Industrial truck management | 866,000 | **1,105,000** |
| Logistics visibility | 1,029,000 | **1,265,000** |
| Connected vehicles | 166,000 | **2,125,000** |
| | 2,061,000 | **4,495,000** |
| | $ 15,311,000 | **$ 15,796,000** |

*COST OF REVENUES.* Cost of revenues increased by approximately $0.5 million, or 3.2%, to $15.8 million in the six months ended June 30, 2019 from $15.3 million for the same period in 2018. Gross profit was $14.1 million in six months ended June 30, 2019 compared to $12.9 million for the same period in 2018. As a percentage of revenues, gross profit increased to 47.1% in 2019 from 45.7% in 2018.

Cost of products decreased by approximately $1.9 million, or 14.7%, to $11.3 million in the six months ended June 30, 2019 from $13.3 million in the same period in 2018. Gross profit for products was $6.6 million in 2019 compared to $7.4 million in 2018. The decrease in the product revenue gross profit was principally attributable to a decrease in the connected vehicles product revenue gross profit of $0.6 million to $0.8 million in 2019 from $1.4 million and decrease of approximately $0.4 million in the industrial truck management gross profit to $5.1 million in 2019 from $5.5 million in 2018. The logistics visibility gross profit increased approximately $0.2 million to $0.7 million in 2019 from $0.5 million in 2018. As a percentage of product revenues, gross profit of 36.8% in 2019 remained generally consistent with the gross profit of 35.9% in 2018. The connected vehicles product revenue gross profit percentage increased to 26.2% in 2019 from 20.6% in 2018 principally from lower hardware unit costs. The industrial truck management product revenue gross profit percentage decreased to 46.1% in 2019 from 51.3% in 2018 which was principally due to lower unit prices. The logistics visibility product revenue gross profit percentage increased to 18.6% in 2019 from 16.8% in 2018 principally from lower production expenses.

Cost of services increased by approximately $2.4 million, or 118.1%, to $4.5 million in the six months ended June 30, 2019 from $2.1 million in the same period in 2018. Gross profit for services was $7.5 million in 2019 compared to $5.4 million in 2018. The increase in the service revenue gross profit was principally attributable to an increase of approximately $1.7 million in the connected vehicles gross profit to $1.8 million in 2019 from $0.1 million in 2018 from SOW#5 non-recurring engineering services with ABCR. The industrial truck management service revenue gross profit increased $0.1 million to $2.6 million in 2019 from $2.4 million in 2018. The logistics visibility gross profit increased approximately $0.2 million to $3.2 million in 2019 from $3.0 million in 2018. As a percentage of service revenues, gross profit decreased to 62.5% in 2019 from 72.5% in 2018. The industrial truck management service revenue gross profit percentage decreased to 69.8% in 2019 from 73.8% in 2018 principally due to an increase in services operating expenses. The connected vehicles service revenue gross profit percentage increased to 45.5% in 2019 from 23.5% in 2018 principally due to increase service billing on activated units and SOW#5 non-recurring engineering services with ABCR. The logistics visibility service revenue gross profit percentage decreased to 71.5% in 2019 from 74.2% in 2018 principally due to an increase in communication expenses.

*SELLING, GENERAL AND ADMINISTRATIVE EXPENSES.* Selling, general and administrative ("SG&A") expenses increased by approximately $0.7 million, or 6.5%, to approximately $12.1 million in the six months ended June 30, 2019 compared to $11.4 million in the same period in 2018 principally due to CarrierWeb headcount related expenses. As a percentage of revenues, SG&A expenses increased to 40.5% in the six months ended June 30, 2019 from 40.3% in the same period in 2018, primarily due to the increase in expenses noted above.

*RESEARCH AND DEVELOPMENT EXPENSES.* Research and development ("R&D") expenses increased by approximately $0.4 million, or 12.1%, to approximately $3.7 million in the six months ended June 30, 2019 compared to $3.3 million in the same period in 2018 principally due to additional LV-series product development expenses. As a percentage of revenues, research and development expenses increased to 12.3% in six months ended June 30, 2019 from 11.7% in the same period in 2018, primarily due to the increase in expenses noted above.

*ACQUISITION-RELATED FEES.* Acquisition related expenses increased by approximately $2.7 million, or 833.5%, to approximately $3.1 million in the six months ended June 30, 2019 compared to $0.3 million in the same period in 2018 principally from Pointer Telocation merger related expenses. As a percentage of revenues, acquisition-related expenses increased to 10.2% in the six months ended June 30, 2019 from 1.2% in the same period in 2018, primarily due to the increase in expenses noted above.

*NET LOSS.* Net loss was $4.8 million, or $(0.27) per basic and diluted share, for the six months ended June 30, 2019 as compared to net loss of $2.1 million, or $(0.12) per basic and diluted share, for the same period in 2018. The decrease in the net loss was due primarily to the reasons described above.

**Liquidity and Capital Resources**

Historically, our capital requirements have been funded primarily from the net proceeds from the issuance of our securities, including any issuances of our common stock upon the exercise of options. As of June 30, 2019, we had cash (including restricted cash) and cash equivalents of $8.4 million and working capital of $12.1 million, compared to cash (including restricted cash), cash equivalents and marketable securities of $15.0 million and working capital of $15.8 million as of December 31, 2018.

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

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

On March 13, 2019, we entered into the Investment Agreement, pursuant to which, upon consummation of the transactions described therein, Parent will issue and sell in a private placement shares of Parent's newly created Series A Convertible Preferred Stock for an aggregate purchase price of $50 million. The net proceeds received from such sale will be used to finance a portion of the cash consideration payable in the Pointer Merger.

Also, on March 13, 2019, we entered into a commitment letter with Bank Hapoalim B.M. providing for two five-year senior secured term loan facilities to Pointer Holdco in an aggregate principal amount of $30 million and a five-year revolving credit facility to Pointer in an aggregate principal amount of $10 million. The term loan facilities will be used to finance a portion of the cash consideration payable in the Pointer Merger and the revolving credit facility will be used by Pointer for general working capital purposes, or, at Pointer's discretion, to finance a portion of the cash consideration payable in the Pointer Merger. The term loan facilities and the revolving credit facility are subject to customary closing conditions. No amounts will be borrowed under either the term loan facilities or the revolving credit facility prior to the closing of the pending Merger Transactions.

***Capital Requirements***

As of June 30, 2019, we had cash (including restricted cash) and cash equivalents of $8.4 million and working capital of $12.1 million. Our primary sources of cash are cash flows from operating activities and our holdings of cash and cash equivalents from the sale of common stock. To date, we have not generated sufficient cash flow solely from operating activities to fund our operations.

We believe our available working capital, anticipated level of future revenues and expected cash flows from operations will provide sufficient funds to cover capital requirements through at least August 14, 2020.

Our capital requirements depend on a variety of factors, including, but not limited to, the length of the sales cycle, the rate of increase or decrease in our existing business base, the success, timing, and amount of investment required to bring new products to market, revenue growth or decline and potential acquisitions. Failure to generate positive cash flow from operations will have a material adverse effect on our business, financial condition and results of operations.

***Operating Activities***

Net cash used in operating activities was $2.3 million for the six-month period ended June 30, 2019, compared to net cash used in operating activities of $3.3 million for the for the same period in 2018. The net cash used in operating activities for the six-month period ended June 30, 2019 reflects a net loss of $4.8 million and includes non-cash charges of $1.2 million for stock-based compensation and $0.9 million for depreciation and amortization expense. Changes in working capital items included:

- an increase in accounts receivables of $1.7 million;
- an increase in inventory of $2.2 million;
- an increase in deferred costs of $0.6 million;
- an increase in deferred revenue of $.07 million; and
- an increase in accounts payable and accrued expenses of $3.6 million, primarily due to the timing of payments to our vendors.

***Investing Activities***

Net cash provided by investing activities was $0.3 million for the six-month period ended June 30, 2019, compared to net cash provided by investing activities of $1.8 million for the same period in 2018. The change from the same period in 2018 was primarily due to $3.8 million used in the acquisitions partially offset by an increase in net proceeds from the sale of investment of approximately $2.6 million in 2019.

***Financing Activities***

Net cash used in financing activities was $0.1 million for the six-month period ended June 30, 2019, compared to net cash used in financing activities of $0.3 million for the same period in 2018.

**Off-Balance Sheet Arrangements**

We do not have any off-balance sheet arrangements that have, or are reasonably likely to have, a current or future effect on our financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources.

**Contractual Obligations**

As of June 30, 2019, there have been no material changes in contractual obligations as disclosed under the caption “Contractual Obligations and Commitments” in Item 7 of our Annual Report on Form 10-K for the fiscal year ended December 31, 2018.

**Inflation**

Inflation has not had, nor is it expected to have, a material impact on our consolidated financial results.

**Impact of Recently Issued Accounting Pronouncements**

The Company is subject to recently issued accounting standards, accounting guidance and disclosure requirements. For a description of these new accounting standards, see Note 22 (entitled “RECENT ACCOUNTING PRONOUNCEMENTS”) of the Notes to our Unaudited Condensed Consolidated Financial Statements contained in Item 1 of Part I of this Quarterly Report on Form 10-Q, which is incorporated herein by reference.

## Item 3. Quantitative and Qualitative Disclosures About Market Risk

We are subject to market risks in the form of changes in corporate income tax rates, which risks are currently immaterial to us.

The Company has international operations, giving rise to exposure to market risks from changes in foreign exchange rates. The Company faces both translation and transaction risks related to foreign currency exchange. Our results of operations and cash flows are subject to fluctuations in the Euro and British Pound Sterling against the United States Dollar ("USD"). Our statement of operations and balance sheet accounts are also impacted by the re-measurement of non-functional currency transactions such as USD denominated intercompany loans, cash accounts held by our overseas subsidiaries, accounts receivable denominated in foreign currencies, and accounts payable denominated in foreign currencies. These exposures may change over time as business practices evolve and economic conditions change. Changes in foreign currency exchange rates could have an adverse impact on our financial results and cash flows. An assumed one percent adverse change in foreign currency exchange rates would result in losses of approximately $60,000 for the six-month period ended June 30, 2019.

For the six-month periods ended June 30, 2018 and 2019 revenues denominated in foreign currencies were approximately 2.3% and 4.8%, respectively. Cumulative foreign currency translation gains (losses) of 52,000 and $(58,000) related to the Company's German and United Kingdom subsidiaries are included in accumulated other comprehensive loss in the stockholders' equity section of the consolidated balance sheet at June 30, 2018 and 2019, respectively. The aggregate foreign currency transaction exchange rate losses included in loss before income taxes were $96,000 and $30,000 for the six-month periods ended June 30, 2018 and 2019, respectively.

We also are subject to market risk from changes in interest rates which could affect our future results of operations and financial condition. We manage our exposure to these risks through our regular operating and financing activities.

Our cash (including restricted cash) and cash equivalents consist of cash and money market funds. As of June 30, 2019, the carrying value of our cash and cash equivalents approximated fair value. We maintain our cash and cash equivalents with major financial institutions; however, our cash and cash equivalent balances with these institutions exceed the Federal Deposit Insurance Corporation insurance limits. While we monitor on a systematic basis the cash and cash equivalent balances in our operating accounts and adjust the balances as appropriate, these balances could be impacted if one or more of the financial institutions with which we deposit funds fails or is subject to other adverse conditions in the financial or credit markets. To date, we have experienced no loss of principal or lack of access to our invested cash or cash equivalents; however, we can provide no assurance that access to our invested cash and cash equivalents will not be affected if the financial institutions in which we hold our cash and cash equivalents fail or the financial and credit markets continue to deteriorate.

## Item 4. Controls and Procedures

### a. Disclosure controls and procedures.

Disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) are controls and other procedures that are designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission (the "SEC"). Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed in the reports that we file under the Exchange Act is accumulated and communicated to our management, including our principal executive officer and our principal financial officer, as appropriate, to allow timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. Due to the inherent limitations of control systems, not all misstatements may be detected. These inherent limitations include the realities that judgments in decision-making can be faulty and that breakdowns can occur because of a simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the control. Controls and procedures can only provide reasonable, not absolute, assurance that the above objectives have been met.

As of June 30, 2019, we carried out an evaluation, with the participation of our management, including our principal executive officer and our principal financial officer, of the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act). Based on that evaluation, our principal executive officer and our principal financial officer concluded that our disclosure controls and procedures were effective, at the reasonable assurance level, in ensuring that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms and is accumulated and communicated to our management, including our principal executive officer and our principal financial officer, as appropriate, to allow timely decisions regarding required disclosure.

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

There was no change in our system of internal control over financial reporting (as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934) during the quarter ended June 30, 2019 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting. There were no significant changes to our internal control over financial reporting due to the adoption of the new leasing standard.

## PART II - OTHER INFORMATION

### Item 1. Legal Proceedings

In the ordinary course of its business, the Company is at times subject to various legal proceedings. As of August 14, 2019, the Company was not a party to any material legal proceedings.

Additional information on the Company's commitments and contingencies can be found in the Company's Annual Report on Form 10-K for the year ended December 31, 2018.

### Item 1A. Risk Factors

In addition to the other information set forth under the heading "Risks to Our Business" in Part 1, Item 2 of this report, you should carefully consider the factors discussed in Part I, Item 1A. "Risk Factors," in the Company's Annual Report on Form 10-K for the year ended December 31, 2018, as such factors could materially affect the Company's business, financial condition, and future results. In the three months ended June 30, 2019, there were no material changes to the risk factors disclosed in the Company's Annual Report on Form 10-K. The risks described in the Annual Report on Form 10-K are not the only risks that the Company faces. Additional risks and uncertainties not currently known to the Company, or that the Company currently deems to be immaterial, also may have a material adverse impact on the Company's business, financial condition, or results of operations.

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

Purchases of Equity Securities by the Issuer

On November 4, 2010, the Company announced that its Board of Directors authorized the repurchase of issued and outstanding shares of the Company's common stock having an aggregate value of up to $3,000,000 pursuant to a share repurchase program. The repurchases under the share repurchase program are made from time to time in the open market or in privately negotiated transactions and are funded from the Company's working capital. The amount and timing of such repurchases is dependent upon the price and availability of shares, general market conditions and the availability of cash, as determined at the discretion of the Company's management. All shares of common stock repurchased under the Company's share repurchase program are held as treasury stock (until such time, if ever, that they are re-issued by the Company). The share repurchase program does not have an expiration date, and the Company may discontinue or suspend the share repurchase program at any time.

The following table provides information regarding our common stock repurchases under our publicly announced share repurchase program, shares withheld for taxes due upon vesting of restricted stock and to pay the exercise price of stock options exercised for each month of the quarterly period ended June 30, 2019. As the table indicates, the Company did not make any share repurchases under the share repurchase program during the quarterly period ended June 30, 2019 and the Company has no present intention to make any share repurchases under the share repurchase program.

| Period | Total Number of Shares Purchased | Average Price Paid per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs | Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs |
|---|---|---|---|---|
| April 1, 2019 - April 30, 2019 | - | - | - | $ 1,660,000 |
| May 1, 2019 - May 31, 2019 | - | $ - | - | 1,660,000 |
| June 1, 2019 - June 30, 2019 | 3,000(1) | 5.38 | - | 1,660,000 |
| Total | 3,000 | $ 5.38 | - | $ 1,660,000 |

(1) Represents shares of common stock repurchased to satisfy minimum tax withholding obligations in connection with the vesting of restricted stock during June 2019.

**Item 6. Exhibits**

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

**Exhibits:**

| Exhibit Number | Description |
|---|---|
| 2.1 | Agreement and Plan of Merger, dated March 13, 2019, by and among PowerFleet, Inc., Powerfleet Israel Holding Company Ltd., Powerfleet Israel Acquisition Company Ltd., I.D. Systems, Inc. and Pointer Telocation Ltd. (incorporated by reference to Exhibit 2.1 to the Current Report on Form 8-K of I.D. Systems, Inc. (File No. 001-15087) filed with the SEC on March 15, 2019). † |
| 2.2 | Investment and Transaction Agreement, dated March 13, 2019, by and among I.D. Systems, Inc., PowerFleet, Inc., PowerFleet US Acquisition Inc. and ABRY Senior Equity V, L.P. and ABRY Senior Equity Co-Investment Fund V., L.P. (incorporated by reference to Exhibit 2.2 to the Current Report on Form 8-K of I.D. Systems, Inc. (File No. 001-15087) filed with the SEC on March 15, 2019). † |
| 10.1 | Commitment Letter, dated March 13, 2019, by and between I.D. Systems, Inc. and Bank Hapoalim B.M. (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K of I.D. Systems, Inc. (File No. 001-15087) filed with the SEC on March 15, 2019). |
| 10.2 | Voting and Support Agreement, dated March 13, 2019, by and among Emancipation Management LLC, Emancipation Capital Master, Ltd., Emancipation Capital SPV IV LLC and Emancipation Capital LLC, as the Stockholder, and I.D. Systems, Inc., ABRY Senior Equity V, L.P., ABRY Senior Equity Co-Investment Fund V, L.P. and Pointer Telocation Ltd. (incorporated by reference to Exhibit 10.2 to the Current Report on Form 8-K of I.D. Systems, Inc. (File No. 001-15087) filed with the SEC on March 15, 2019). |
| 10.3 | Voting and Support Agreement, dated March 13, 2019, by and among DBSI Investments Ltd., as the Stockholder, and Pointer Telocation Ltd., I.D. Systems, Inc., ABRY Senior Equity V, L.P. and ABRY Senior Equity Co-Investment Fund V, L.P. (incorporated by reference to Exhibit 10.3 to the Current Report on Form 8-K of I.D. Systems, Inc. (File No. 001-15087) filed with the SEC on March 15, 2019). |
| 31.1 | Certification of Principal Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. * |
| 31.2 | Certification of Principal Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. * |
| 32 | Certification of Principal Executive Officer and Principal Financial Officer pursuant to 18 U.S.C. §1305 As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. * |
| 101.INS | XBRL Instance Document. |
| 101.SCH | XBRL Taxonomy Extension Schema Document. |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase Document. |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase Document. |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase Document. |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase Document. |

† We have omitted certain schedules and exhibits to this agreement in accordance with Item 601(b)(2) of Regulation S-K, and we will supplementally furnish a copy of any omitted schedule and/or exhibit to the Securities and Exchange Commission upon request.

* Furnished herewith.

**Signatures**

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

| | |
|---|---|
| | I.D. SYSTEMS, INC. |
| Date: August 14, 2019 | By: */s/ Chris A. Wolfe*<br>Chris A. Wolfe<br>Chief Executive Officer<br>(Principal Executive Officer) |
| Date: August 14, 2019 | By: */s/ Ned Mavrommatis*<br>Ned Mavrommatis<br>Chief Financial Officer<br>(Principal Financial Officer and Principal Accounting Officer) |

## INDEX TO EXHIBITS

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| 101.DEF | XBRL Taxonomy Extension Definition Linkbase Document. |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase Document. |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase Document. |

† We have omitted certain schedules and exhibits to this agreement in accordance with Item 601(b)(2) of Regulation S-K, and we will supplementally furnish a copy of any omitted schedule and/or exhibit to the Securities and Exchange Commission upon request.

* Furnished herewith.

**Exhibit 31.1**

**CERTIFICATION**

I, Chris A. Wolfe, certify that:

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

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

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

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

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

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

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

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 14, 2019

*/s/ Chris A. Wolfe*

Chris A. Wolfe
Chief Executive Officer
(Principal Executive Officer)

**Exhibit 31.2**

**CERTIFICATION**

I, Ned Mavrommatis, certify that:

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

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

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

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

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

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

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

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 14, 2019

*/s/ Ned Mavrommatis*
Ned Mavrommatis
Chief Financial Officer
(Principal Financial Officer)

**Exhibit 32**

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

I, Chris A. Wolfe, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report on Form 10-Q of I.D. Systems, Inc. for the quarter ended June 30, 2019, fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that the information contained in such Quarterly Report on Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of I.D. Systems, Inc.

I, Ned Mavrommatis, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report on Form 10-Q of I.D. Systems, Inc. for the quarter ended June 30, 2019, fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that the information contained in such Quarterly Report on Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of I.D. Systems, Inc.

By: */s/ Chris A. Wolfe*
Chris A. Wolfe
Chief Executive Officer
(Principal Executive Officer)
Date: August 14, 2019

By: */s/ Ned Mavrommatis*
Ned Mavrommatis
Chief Financial Officer
(Principal Financial Officer)
Date: August 14, 2019

The foregoing certification is being furnished solely pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code) and is not being filed as part of the Quarterly Report on Form 10-Q of I.D. Systems, Inc. for the quarter ended June 30, 2019 or as a separate disclosure document.

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