
**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended: **September 30, 2016**

or

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

For the transition period from _____ to _____

Commission File Number: **001-15087**

I.D. SYSTEMS, INC.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

22-3270799

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

**123 Tice Boulevard
Woodcliff Lake, New Jersey**

(Address of principal executive offices)

07677

(Zip Code)

(201) 996-9000

(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. **Yes** **No**

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). **Yes** **No**

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

Large accelerated filer **Accelerated filer** **Non-accelerated filer** **Smaller reporting company**

(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Securities Exchange Act of 1934). **Yes** **No**

The number of shares of the registrant's common stock, \$0.01 par value per share, outstanding as of the close of business on November 8, 2016 was 13,753,500.

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

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

	December 31, 2015*	September 30, 2016 (Unaudited)
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 4,489,000	\$ 3,597,000
Restricted cash	304,000	304,000
Investments - short term	259,000	206,000
Accounts receivable, net of allowance for doubtful accounts of \$1,512,000 and \$605,000 in 2015 and 2016, respectively	10,901,000	8,854,000
Financing receivables - current, net of allowance for doubtful accounts of \$-0- in 2015 and 2016	1,950,000	1,886,000
Inventory, net	7,152,000	6,062,000
Deferred costs - current	3,310,000	3,548,000
Prepaid expenses and other current assets	2,263,000	2,392,000
	<hr/>	<hr/>
Total current assets	30,628,000	26,849,000
Investments - long term	1,339,000	1,408,000
Financing receivables - less current portion	3,078,000	2,707,000
Deferred costs - less current portion	3,320,000	5,520,000
Fixed assets, net	3,119,000	3,088,000
Goodwill	1,837,000	1,837,000
Intangible assets, net	842,000	740,000
Other assets	265,000	229,000
	<hr/>	<hr/>
	\$ 44,428,000	\$ 42,378,000
LIABILITIES		
Current liabilities:		
Short-term borrowings	\$ —	\$ 586,000
Accounts payable and accrued expenses	9,173,000	7,722,000
Deferred revenue - current	7,383,000	6,859,000
	<hr/>	<hr/>
Total current liabilities	16,556,000	15,167,000
Deferred rent	361,000	380,000
Deferred revenue - less current portion	6,941,000	9,134,000
	<hr/>	<hr/>
	23,858,000	24,681,000
Commitments and Contingencies (Note 20)		
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; 14,211,000 and 14,571,000 shares issued at December 31, 2015 and September 30, 2016, respectively; shares outstanding, 13,467,000 and 13,766,000 at December 31, 2015 and September 30, 2016, respectively	129,000	129,000
Additional paid-in capital	110,116,000	111,635,000
Accumulated deficit	(85,128,000)	(89,415,000)
Accumulated other comprehensive loss	(500,000)	(312,000)
Treasury stock; 744,000 and 805,000 common shares at cost at December 31, 2015 and September 30, 2016, respectively	(4,047,000)	(4,340,000)
	<hr/>	<hr/>
Total stockholders' equity	20,570,000	17,697,000
Total liabilities and stockholders' equity	\$ 44,428,000	\$ 42,378,000

*Derived from audited balance sheet as of December 31, 2015.

See accompanying notes to unaudited condensed consolidated financial statements.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2016	2015	2016
Revenue:				
Products	\$ 6,947,000	\$ 4,561,000	\$ 18,811,000	\$ 15,761,000
Services	3,634,000	3,654,000	12,816,000	11,835,000
	<u>10,581,000</u>	<u>8,215,000</u>	<u>31,627,000</u>	<u>27,596,000</u>
Cost of revenue:				
Cost of products	4,929,000	3,018,000	13,643,000	10,346,000
Cost of services	1,296,000	1,195,000	5,554,000	3,325,000
	<u>6,225,000</u>	<u>4,213,000</u>	<u>19,197,000</u>	<u>13,671,000</u>
Gross profit	<u>4,356,000</u>	<u>4,002,000</u>	<u>12,430,000</u>	<u>13,925,000</u>
Operating expenses:				
Selling, general and administrative expenses	5,207,000	4,984,000	18,201,000	14,789,000
Research and development expenses	1,114,000	1,098,000	3,463,000	3,420,000
	<u>6,321,000</u>	<u>6,082,000</u>	<u>21,664,000</u>	<u>18,209,000</u>
Loss from operations	(1,965,000)	(2,080,000)	(9,234,000)	(4,284,000)
Interest income	85,000	65,000	264,000	218,000
Interest expense	—	(78,000)	—	(222,000)
Other income, net	(15,000)	1,000	(12,000)	1,000
Net loss	<u>\$ (1,895,000)</u>	<u>\$ (2,092,000)</u>	<u>\$ (8,982,000)</u>	<u>\$ (4,287,000)</u>
Net loss per share - basic and diluted	<u>\$ (0.15)</u>	<u>\$ (0.16)</u>	<u>\$ (0.72)</u>	<u>\$ (0.33)</u>
Weighted average common shares outstanding -basic and diluted	<u>12,768,000</u>	<u>13,004,000</u>	<u>12,523,000</u>	<u>12,946,000</u>

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		Nine Months Ended	
	September 30,		September 30,	
	<u>2015</u>	<u>2016</u>	<u>2015</u>	<u>2016</u>
Net loss	\$ (1,895,000)	\$ (2,092,000)	\$ (8,982,000)	\$ (4,287,000)
Other comprehensive (loss) income, net:				
Unrealized (loss) gain on investments	(5,000)	4,000	(20,000)	8,000
Reclassification of net realized investment losses included in net loss	17,000	—	44,000	—
Foreign currency translation adjustment	141,000	(13,000)	—	180,000
Total other comprehensive income (loss)	153,000	(9,000)	24,000	188,000
Comprehensive loss	<u>\$ (1,742,000)</u>	<u>\$ (2,101,000)</u>	<u>\$ (8,958,000)</u>	<u>\$ (4,099,000)</u>

See accompanying notes to unaudited condensed consolidated financial statements.

I.D. Systems, Inc. and Subsidiaries
Condensed Consolidated Statement of Changes in Stockholders' Equity
(Unaudited)

	Common Stock		Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive (Loss) Income	Treasury Stock	Stockholders' Equity
	Number of Shares	Amount					
Balance at December 31, 2015	14,211,000	\$ 129,000	\$110,116,000	\$(85,128,000)	\$ (500,000)	\$(4,047,000)	\$ 20,570,000
Net loss	—	—	—	(4,287,000)	—	—	(4,287,000)
Foreign currency translation adjustment	—	—	—	—	180,000	—	180,000
Unrealized gain on investments	—	—	—	—	8,000	—	8,000
Shares issued pursuant to exercise of stock options	6,000	—	20,000	—	—	—	20,000
Issuance of restricted stock	383,000	—	—	—	—	—	—
Shares withheld pursuant to exercise of stock options and restricted stock	—	—	—	—	—	(293,000)	(293,000)
Forfeiture of restricted shares	(29,000)	—	—	—	—	—	—
Stock based compensation - restricted stock	—	—	904,000	—	—	—	904,000
Stock based compensation - options and performance shares	—	—	595,000	—	—	—	595,000
Balance at September 30, 2016	<u>14,571,000</u>	<u>\$ 129,000</u>	<u>\$111,635,000</u>	<u>\$(89,415,000)</u>	<u>\$ (312,000)</u>	<u>\$(4,340,000)</u>	<u>\$ 17,697,000</u>

See accompanying notes to unaudited condensed consolidated financial statements.

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

	Nine Months Ended September 30,	
	2015	2016
Cash flows from operating activities:		
Net loss	\$ (8,982,000)	\$ (4,287,000)
Adjustments to reconcile net loss to cash used in operating activities:		
Bad debt expense	347,000	48,000
Stock-based compensation expense	1,233,000	1,499,000
Depreciation and amortization	557,000	522,000
Inventory reserve	186,000	160,000
Other non-cash items	27,000	21,000
Changes in:		
Accounts receivable	1,604,000	1,996,000
Financing receivables	932,000	435,000
Inventory	(1,137,000)	930,000
Prepaid expenses and other assets	(478,000)	(93,000)
Deferred costs	(903,000)	(2,438,000)
Deferred revenue	(410,000)	1,669,000
Accounts payable and accrued expenses	(523,000)	(1,744,000)
Net cash used in operating activities	(7,547,000)	(1,282,000)
Cash flows from investing activities:		
Expenditures for fixed assets including website development costs	(1,871,000)	(389,000)
Purchase of investments	(2,524,000)	(768,000)
Proceeds from the sale and maturities of investments	8,258,000	758,000
Net cash provided by (used in) investing activities	3,863,000	(399,000)
Cash flows from financing activities:		
Borrowings under revolving credit facility	—	1,900,000
Repayments under revolving credit facility	—	(1,314,000)
Principal payments of capital lease obligation	(121,000)	—
Proceeds from exercise of stock options	1,965,000	20,000
Net cash provided by financing activities	1,844,000	606,000
Effect of foreign exchange rate changes on cash and cash equivalents	182,000	183,000
Net decrease in cash and cash equivalents	(1,658,000)	(892,000)
Cash and cash equivalents - beginning of period	5,974,000	4,489,000
Cash and cash equivalents - end of period	\$ 4,316,000	\$ 3,597,000
Supplemental disclosure of cash flow information:		
Cash paid for:		
Taxes	—	—
Interest	11,000	134,000
Noncash activities:		
Unrealized gain on investments	\$ 24,000	\$ 8,000
Shares withheld pursuant to stock issuance	\$ 455,000	\$ 293,000

See accompanying notes to unaudited condensed consolidated financial statements.

I.D. Systems, Inc. and Subsidiaries

Notes to Unaudited Condensed Consolidated Financial Statements September 30, 2016

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 (“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 dry van trailers, refrigerated trailers, railcars and containers. The Company’s patented systems utilize radio frequency identification (RFID), Wi-Fi, 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 software tool called I.D. Systems Analytics (“Analytics”) is designed to provide a single, integrated view of asset activity across multiple locations, generating enterprise-wide benchmarks and peer-industry comparisons. Analytics determines key performance indicators (“KPIs”) 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”) and I.D. Systems (UK) Ltd (formerly Didbox Ltd.) (“IDS Ltd”) (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 September 30, 2016, the consolidated results of its operations for the three-month and nine-month periods ended September 30, 2015 and 2016, the consolidated change in stockholders’ equity for the nine-month period ended September 30, 2016 and the consolidated cash flows for the nine-month periods ended September 30, 2015 and 2016. The results of operations for the nine-month period ended September 30, 2016 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, 2015 included in the Company’s Annual Report on Form 10-K for the year then ended.

As of September 30, 2016, the Company had cash, cash equivalents and marketable securities of \$5.5 million and working capital of \$11.7 million. The Company’s primary sources of cash are cash flows from operating activities and the Company’s holdings of cash, cash equivalents and investments. To date, the Company has not generated sufficient cash flow solely from operating activities to fund its operations.

We believe our available working capital, anticipated level of future revenues from the direct sales strategy which focuses on large enterprise customers and reducing inventory, expected cost savings from expense reduction initiatives implemented in the fourth quarter of 2016, the expected cash flows from operations and available borrowings under the revolving credit facility will provide sufficient funds to cover our capital requirements for at least the next twelve months.

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, 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 include debt securities, U.S. Treasury Notes, government and state agency bonds, corporate bonds, common stock and commercial paper, 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 September 30, 2015 and 2016, 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 gain and (losses) reported as comprehensive income or (loss). For the three- and nine-month periods ended September 30, 2015, the Company reported unrealized losses of \$(5,000) and \$(20,000), respectively, and for the three- and nine-month periods ended September 30, 2016, the Company reported unrealized gains of \$4,000 and \$8,000, 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 and common stock. All other securities are classified as long-term.

The following table summarizes the estimated fair value of investment in debt securities designated as available for sale classified by the contractual maturity date of the security as of September 30, 2016:

	<u>Fair Value</u>
Due within one year	\$ 155,000
Due one year through three years	1,225,000
Due after three years	<u>183,000</u>
	<u>\$ 1,563,000</u>

The cost, gross unrealized gains (losses) and fair value of available for sale securities by major security types as of December 31, 2015 and September 30, 2016 are as follows:

September 30, 2016	Cost	Unrealized Gain	Unrealized Loss	Fair Value
Investments - short term				
Available for sale				
U.S. Treasury Notes	\$ 80,000	—	—	\$ 80,000
Government agency bonds	50,000	—	—	50,000
Corporate bonds and commercial paper	25,000	—	—	25,000
Common stock	49,000	2,000	—	51,000
Total investments - short term	204,000	2,000	—	206,000
Investments - long term				
Available for sale				
U.S. Treasury Notes	944,000	4,000	—	948,000
Government agency bonds	100,000	—	—	100,000
Corporate bonds and commercial paper	358,000	2,000	—	360,000
Total investments - long term	1,402,000	6,000	—	1,408,000
Total investments	\$ 1,606,000	\$ 8,000	\$ —	\$ 1,614,000
December 31, 2015				
Investments - short term				
Available for sale				
Corporate bonds and commercial paper	\$ 101,000	—	—	\$ 101,000
U.S. Treasury Notes	100,000	—	—	100,000
Common stock	49,000	9,000	—	58,000
Total investments - short term	250,000	9,000	—	259,000
Marketable securities - long term				
Available for sale				
U.S. Treasury Notes	915,000	—	(6,000)	909,000
Government agency bonds	150,000	—	(1,000)	149,000
Corporate bonds and commercial paper	283,000	—	(2,000)	281,000
Total investments - long term	1,348,000	—	(9,000)	1,339,000
Total investments	\$ 1,598,000	\$ 9,000	\$ (9,000)	\$ 1,598,000

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, 2015 and September 30, 2016, 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 industrial and rental fleet wireless asset management systems and services, which includes training and technical support; (ii) sales of our transportation asset management systems and spare parts sold to customers (for which title transfers on the date of customer receipt) and from the related communication services under contracts that generally provide for service over periods ranging from one to five years; (iii) post-contract maintenance and support agreements; and (iv) periodically, from leasing arrangements.

Our industrial and rental fleet wireless asset management systems consist of on-asset hardware, communication infrastructure, software, and hosting infrastructure. Revenue derived from the sale of our industrial and rental fleet wireless asset management systems is allocated to each element based upon vendor specific objective evidence (VSOE) of the fair value of the element. VSOE of the fair value is based upon the price charged when the element is sold separately. Revenue is recognized as each element is earned based on the selling price of each element based on VSOE, and when there are no undelivered elements that are essential to the functionality of the delivered elements. The Company's system is typically implemented by the customer or a third party and, as a result, revenue is recognized when title and risk of loss passes to the customer, which usually is upon delivery of the system, persuasive evidence of an arrangement exists, sales price is fixed and determinable, collectability is reasonably assured and contractual obligations have been satisfied. In some instances, we are also responsible for providing installation services. The additional installation services, which could be performed by third parties, are considered another element in a multi-element deliverable and revenue for installation services is recognized at the time the installation is provided. Training and technical support revenue are recognized at time of performance.

The Company recognizes revenues from the sale of remote transportation asset management systems and spare parts when persuasive evidence of an arrangement exists, delivery has occurred, the price is fixed or determinable, and collectability is reasonably assured. These criteria include requirements that the delivery of future products or services under the arrangement is not required for the delivered items to serve their intended purpose. The Company has determined that the revenue derived from the sale of transportation asset management systems does not have stand-alone value to the customer separate from the communication services provided and, therefore, the arrangements constitute a single unit of accounting. 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, beginning at the time that a customer acknowledges acceptance of the equipment and service. The Company amortized and recognized \$1,273,000 and \$3,401,000 during the three- and nine-month periods ended September 30, 2015, respectively, and \$1,282,000 and \$3,887,000 during the three- and nine-month periods ended September 30, 2016, respectively.

The service revenue for our remote asset 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.

Revenue from remote asset monitoring equipment activation fees is deferred and amortized over the life of the contract.

Spare parts sales are reflected in product revenues and recognized on the date of customer receipt of the part.

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.

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

Under certain customer contracts, the Company invoices progress billings once certain milestones are met. The milestone terms vary by customer and can include the receipt of the customer purchase order, delivery, installation and launch. As the systems are delivered, and services are performed, and all of the criteria for revenue recognition are satisfied, the Company recognizes revenue. If the amount of revenue recognized for financial reporting purposes is greater than the amount invoiced, an unbilled receivable is recorded. If the amount invoiced is greater than the amount of revenue recognized for financial reporting purposes, deferred revenue is recorded. As of December 31, 2015 and September 30, 2016, unbilled receivables were \$-0-.

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.

In April 2015, the Company entered into a development project with Avis Budget Car Rental, LLC ("ABCR"), a subsidiary of Avis Budget Group. The Company recognized revenue of \$-0- and \$750,000 during the three- and nine-month periods ended September 30, 2015, respectively, and \$-0- and \$255,000 during the three- and nine-month periods ended September 30, 2016, respectively, from the completion of milestones in accordance with the milestone method of revenue recognition. Milestone payments are recognized as revenue upon achievement of the milestone only if the following conditions are met: (i) there is substantive uncertainty at the date of entering into the arrangement that the milestone would be achieved; (ii) the milestone is commensurate with either the vendor's performance to achieve the milestone or the enhancement of the value of the delivered item by the vendor; (iii) the milestone relates solely to past performance; and (iv) be reasonable in relation to the effort expended to achieve the milestone.

Deferred revenue consists of the following:

	<u>December 31, 2015</u>	<u>September 30, 2016</u> (Unaudited)
Deferred activation fees	\$ 466,000	\$ 419,000
Deferred revenue	489,000	37,000
Deferred maintenance and hosting revenue	3,377,000	3,307,000
Deferred remote asset management product revenue	9,992,000	12,230,000
	<u>14,324,000</u>	<u>15,993,000</u>
Less: Current portion	<u>7,383,000</u>	<u>6,859,000</u>
Deferred revenue - less current portion	<u>\$ 6,941,000</u>	<u>\$ 9,134,000</u>

NOTE 6 - FINANCING RECEIVABLES

Financing receivables include notes and sales-type lease receivables from the sale of the Company's products and services. Financing receivables consist of the following:

	<u>December 31, 2015</u>	<u>September 30, 2016</u> (Unaudited)
Notes receivable	\$ 1,000	\$ —
Present value of sales-type lease receivable	5,027,000	4,593,000
	<u>5,028,000</u>	<u>4,593,000</u>
Less: Current portion		
Notes receivable	1,000	—
Present value of sales-type lease receivable	1,949,000	1,886,000
	<u>1,950,000</u>	<u>1,886,000</u>
Financing receivables - less current portion	<u>\$ 3,078,000</u>	<u>\$ 2,707,000</u>

Notes receivable relate to product financing arrangements that exceed one year and bear interest at approximately 10%. The notes receivable are collateralized by the equipment being financed. Amounts collected on the notes receivable are included in net cash provided by operating activities in the Condensed Consolidated Statements of Cash Flows. Unearned interest income is amortized to interest income over the life of the notes using the effective-interest method. There were no sales of notes receivable during the three- and nine-month periods ended September 30, 2015 and 2016.

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 income of \$442,000 and \$380,000 at December 31, 2015 and September 30, 2016, respectively, discounted at 1% - 26%.

Scheduled maturities of sales-type lease minimum lease payments outstanding as of September 30, 2016 are as follows:

Year ending December 31:

October - December 2016	\$	502,000
2017		1,783,000
2018		1,205,000
2019		640,000
2020		389,000
Thereafter		74,000
		<u>4,593,000</u>
Less: Current portion		<u>1,886,000</u>
Sales-type lease receivable - less current portion	\$	<u><u>2,707,000</u></u>

The allowance for doubtful accounts represents the Company's best estimate of the amount of credit losses in the Company's existing notes and sales-type lease receivable. The allowance for doubtful accounts is determined on an individual note and 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 note's effective interest rate. There were no impairment losses recognized for the three- and nine-month-periods ended September 30, 2015 and 2016. The Company does not accrue interest when a note or lease is considered impaired. When the ultimate collectability of the principal balance of the impaired note or lease is in doubt, all cash receipts on impaired notes or leases are applied to reduce the principal amount of such notes or 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. Notes and 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 when it is probable that the Company will collect the remaining principal and interest of an impaired note or lease. Notes and 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 market using the first-in first-out (FIFO) method. Inventory is shown net of a valuation reserve of \$374,000 at December 31, 2015, and \$432,000 at September 30, 2016.

Inventories consist of the following:

	<u>December 31, 2015</u>	<u>September 30, 2016</u> (Unaudited)
Components	\$ 2,762,000	\$ 2,890,000
Finished goods	<u>4,390,000</u>	<u>3,172,000</u>
	<u>\$ 7,152,000</u>	<u>\$ 6,062,000</u>

NOTE 8 - FIXED ASSETS

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

	<u>December 31, 2015</u>	<u>September 30, 2016</u> (Unaudited)
Equipment	\$ 1,659,000	\$ 1,673,000
Computer software and website development	5,398,000	5,763,000
Computer hardware	2,751,000	2,761,000
Furniture and fixtures	401,000	401,000
Automobiles	60,000	60,000
Leasehold improvements	181,000	181,000
	<u>10,450,000</u>	<u>10,839,000</u>
Accumulated depreciation and amortization	<u>(7,331,000)</u>	<u>(7,751,000)</u>
	<u>\$ 3,119,000</u>	<u>\$ 3,088,000</u>

As of December 31, 2015 and September 30, 2016, the Company had expenditures of approximately \$1,909,000 and \$1,824,000, respectively, for computer software and website development which had not been placed in service. Depreciation expense is not recorded for such assets until they are placed in service.

Depreciation and amortization expense for the three- and nine-month periods ended September 30, 2015 was \$130,000 and \$456,000, respectively, and for the three- and nine-month periods ended September 30, 2016 was \$134,000 and \$420,000, respectively. This includes amortization of costs associated with computer software and website development for the three- and nine-month periods ended September 30, 2015 of \$29,000 and \$129,000, respectively, and for the three- and nine-month periods ended September 30, 2016 of \$41,000 and \$128,000, respectively.

The Company capitalizes in fixed assets the costs of software development and website development. Specifically, the assets comprise an implementation of Enterprise Resource Planning (ERP) software, enhancements to the VeriWise™ systems, and a customer interface website (which is the primary tool used to provide data to our customers). The website employs updated web architecture and improved functionality and features, including, but not limited to, customization at the customer level, enhanced security features, custom virtual electronic geofencing of landmarks, 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 \$1,601,000 and \$366,000 for such projects for the nine-month periods ended September 30, 2015 and 2016, respectively.

NOTE 9 - INTANGIBLE ASSETS AND GOODWILL

The following table summarizes identifiable intangible assets of the Company, which include identifiable intangible assets from the acquisition of IDS Ltd, PowerKey (the industrial vehicle monitoring products division of International Electronics, Inc. acquired by the Company in 2008) and AI as of December 31, 2015 and September 30, 2016:

September 30, 2016	Useful Lives (In Years)	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Amortized:				
Patents	11	\$ 1,489,000	\$ (914,000)	\$ 575,000
Unamortized:				
Customer list		104,000	—	104,000
Trademark and Tradename		61,000	—	61,000
		165,000	—	165,000
Total		\$ 1,654,000	\$ (914,000)	\$ 740,000
December 31, 2015	Useful Lives (In Years)	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Amortized:				
Patents	11	\$ 1,489,000	\$ (812,000)	\$ 677,000
Unamortized:				
Customer list		104,000	—	104,000
Trademark and Tradename		61,000	—	61,000
		165,000	—	165,000
Total		\$ 1,654,000	\$ (812,000)	\$ 842,000

Amortization expense for the three- and nine-month periods ended September 30, 2015 was \$33,000 and \$101,000, respectively, and for the three- and nine-month periods ended September 30, 2016 was \$34,000 and \$102,000, respectively. Estimated future amortization expense for each of the five succeeding fiscal years for these intangible assets is as follows:

Year ending December 31:

October - December 2016	\$	34,000
2017		135,000
2018		135,000
2019		135,000
2020		135,000

There have been no changes in the carrying amount of goodwill from January 1, 2016 to September 30, 2016.

NOTE 10 - STOCK-BASED COMPENSATION

Stock Option Plans

The Company adopted the 1995 Stock Option Plan, pursuant to which the Company had the right to grant options to purchase up to an aggregate of 1,250,000 shares of common stock. The Company also adopted the 1999 Stock Option Plan, pursuant to which the Company had the right to grant stock awards and options to purchase up to 2,813,000 shares of common stock. The Company also adopted the 1999 Director Option Plan, pursuant to which the Company had the right to grant options to purchase up to an aggregate of 600,000 shares of common stock. The 1995 Stock Option Plan and 1999 Stock and Director Option Plans expired and the Company cannot issue additional options under these plans.

The Company adopted the 2007 Equity Compensation Plan, pursuant to which, as amended, the Company may grant stock options, restricted stock and other equity-based awards with respect to up to an aggregate of 2,500,000 shares of common stock. The Company also adopted the 2009 Non-Employee Director Equity Compensation Plan, pursuant to which, as amended (the "2009 Director Plan"), the Company may grant options to purchase up to an aggregate of 600,000 shares of common stock. In June 2015, the Company adopted the 2015 Equity Compensation Plan (the "2015 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 1,200,000 shares of common stock. The plans are administered by the Compensation Committee of the Company's Board of Directors, which has the authority to determine, among other things, the term during which an option may be exercised (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. As a result, the Company recorded stock-based compensation expense of \$65,000 and \$221,000, respectively, for the three- and nine-month periods ended September 30, 2015 and \$60,000 and \$221,000, respectively, for the three- and nine-month periods ended September 30, 2016, in connection with awards made under the stock option plans.

The following table summarizes the activity relating to the Company's stock options for the nine-month period ended September 30, 2016:

	<u>Options</u>	<u>Weighted- Average Exercise Price</u>	<u>Weighted- Average Remaining Contractual Term</u>	<u>Aggregate Intrinsic Value</u>
Outstanding at beginning of year	1,212,000	\$ 6.94		
Granted	150,000	4.37		
Exercised	(6,000)	3.29		
Forfeited or expired	(211,000)	15.05		
Outstanding at end of period	<u>1,145,000</u>	<u>\$ 5.12</u>	6 years	<u>\$ 503,000</u>
Exercisable at end of period	<u>832,000</u>	<u>\$ 5.16</u>	5 years	<u>\$ 417,000</u>

There were no stock options issued during the nine-month period ended September 30, 2015. The fair value of each option grant on the date of grant is estimated using the Black-Scholes option-pricing model reflecting the following weighted-average assumptions:

	<u>September 30,</u>	
	<u>2015</u>	<u>2016</u>
Expected volatility	—	45.5%
Expected life of options (in years)	—	4
Risk free interest rate	—	1.2%
Dividend yield	—	0%
Weighted average fair value of options granted during the period	\$ —	\$ 1.60

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 fair value of options vested during the nine-month periods ended September 30, 2015 and 2016 was \$497,000 and \$237,000, respectively. The total intrinsic value of options exercised during the nine-month periods ended September 30, 2015 and 2016 was \$1,522,000 and \$11,000, respectively.

As of September 30, 2016, there was approximately \$474,000 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 2.31 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 nine-month period ended September 30, 2016 is as follows:

	Number of Non-vested Shares	Weighted- Average Grant Date Fair Value
Restricted stock, non-vested, beginning of year	575,000	\$ 5.79
Granted	88,000	4.30
Vested	(255,000)	5.30
Forfeited	(8,000)	6.03
Restricted stock, non-vested, end of period	<u>400,000</u>	<u>\$ 5.76</u>

The Company recorded stock-based compensation expense of \$401,000 and \$1,010,000, respectively, for the three- and nine-month periods ended September 30, 2015 and \$288,000 and \$904,000, respectively, for the three- and nine-month periods ended September 30, 2016, in connection with restricted stock grants. As of September 30, 2016, there was \$1,906,000 of total unrecognized compensation cost related to non-vested shares. That cost is expected to be recognized over a weighted-average period of 2.42 years.

Performance Shares

In January 2016, the Company granted performance shares to employees pursuant to the 2015 Equity Compensation Plan. The shares are unvested at the time of grant and, upon vesting, there are no contractual restrictions on the shares. The vesting of the shares is subject to the achievement of performance goals during a two-year period from the date of issuance, with the ability to achieve prorated vesting of the shares during interim annual measurement periods. If the performance goals are not met, the performance shares will not vest and will automatically be returned to the plan. If the performance goals are met, then the shares will be issued to the employees. 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 performance shares for the nine-month period ended September 30, 2016 is as follows:

	Number of Non-vested Shares	Weighted- Average Grant Date Fair Value
Performance shares, non-vested, beginning of year	—	—
Granted	295,000	\$ 4.07
Vested	—	—
Forfeited	(19,000)	4.07
Performance shares, non-vested, end of period	<u>276,000</u>	<u>\$ 4.07</u>

Stock-based compensation expense related to performance shares for the three- and nine-month periods ended September 30, 2015 was insignificant. The Company recorded stock-based compensation expense of \$124,000 and \$374,000, respectively, for the three- and nine-month periods ended September 30, 2016, in connection with the performance share grants. As of September 30, 2016, there was \$693,000 of total unrecognized compensation cost related to non-vested performance shares. That cost is expected to be recognized over a weighted-average period of 1.30 years.

NOTE 11 - STOCKHOLDERS' EQUITY

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 nine-month period ended September 30, 2016 are as follows:

	<u>Foreign currency items</u>	<u>Unrealized gain (losses) on investments</u>	<u>Accumulated other comprehensive income</u>
Balance at January 1, 2016	\$ (500,000)	\$ —	\$ (500,000)
Net current period change	180,000	8,000	188,000
Balance at September 30, 2016	<u>\$ (320,000)</u>	<u>\$ 8,000</u>	<u>\$ (312,000)</u>

The accumulated balances for each classification of other comprehensive loss for the nine-month period ended September 30, 2015 are as follows:

	<u>Foreign currency items</u>	<u>Unrealized gain (losses) on investments</u>	<u>Accumulated other comprehensive income</u>
Balance at January 1, 2015	\$ (360,000)	\$ (15,000)	\$ (375,000)
Net current period change	—	24,000	24,000
Balance at September 30, 2015	<u>\$ (360,000)</u>	<u>\$ 9,000</u>	<u>\$ (351,000)</u>

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 financial statements and the effect of exchange rate changes on intercompany transactions of a long-term investment nature with IDS GmbH resulted in translation (losses) gains of \$- and \$180,000 for the nine-month periods ended September 30, 2015 and 2016, 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 on the intercompany transactions are included in 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 gains (losses) for the three- and nine-month periods ended September 30, 2015 of \$(2,000) and \$(56,000), respectively, and for the three- and nine-month periods ended September 30, 2016 of \$(41,000) and \$(164,000) respectively, are included in selling, general and administrative expenses in the Condensed Consolidated Statement of Operations.

Shares Withheld

During the nine-month periods ended September 30, 2015 and 2016, 75,000 and 61,000 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 \$455,000 and \$293,000, respectively.

NOTE 12 - NET LOSS PER SHARE OF COMMON STOCK

Net loss per share for the three- and nine-month periods ended September 30, 2015 and 2016 are as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2016	2015	2016
Basic and diluted loss per share				
Net loss	\$ (1,895,000)	\$ (2,092,000)	\$ (8,982,000)	\$ (4,287,000)
Weighted-average shares outstanding	12,768,000	13,004,000	12,523,000	12,946,000
Basic and diluted net loss per share	\$ (0.15)	\$ (0.16)	\$ (0.72)	\$ (0.33)

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 nine-month periods ended September 30, 2015, 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 1,949,000 would have been anti-dilutive. For the three- and nine-month periods ended September 30, 2016, the basic and diluted weighted-average shares outstanding are the same, since the effect from the potential exercise of outstanding stock options and vesting of restricted stock and performance shares of 1,821,000 would have been anti-dilutive.

NOTE 13 - ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts payable and accrued expenses consist of the following:

	December 31, 2015	September 30, 2016 (Unaudited)
Accounts payable	\$ 8,026,000	\$ 6,871,000
Accrued warranty	614,000	508,000
Accrued compensation	418,000	289,000
Other current liabilities	115,000	54,000
	<u>\$ 9,173,000</u>	<u>\$ 7,722,000</u>

The Company's products are warranted against defects in materials and workmanship for a period of 12 months from the date of acceptance of the product by the customer. The customers may purchase an extended warranty providing coverage up to a maximum of 60 months. A provision for estimated future warranty costs is recorded for expected or historical warranty matters related to equipment shipped and is included in accounts payable and accrued expenses in the Condensed Consolidated Balance Sheets as of December 31, 2015 and September 30, 2016.

The following table summarizes warranty activity for the nine-month periods ended September 30, 2015 and 2016:

	Nine Months Ended September 30,	
	2015	2016
Accrued warranty reserve, beginning of period	\$ 942,000	\$ 614,000
Accrual for product warranties issued	371,000	387,000
Product replacements and other warranty expenditures	(162,000)	(245,000)
Expiration of warranties	(644,000)	(248,000)
Accrued warranty reserve, end of period	<u>\$ 507,000</u>	<u>\$ 508,000</u>

NOTE 14 - REVOLVING CREDIT FACILITY

On December 18, 2015 (the “Closing Date”), the Company and AI (collectively, the “Loan Parties”) entered into a loan and security agreement (the “Revolver”) with Siena Lending Group LLC. As of September 30, 2016, the Company had \$586,000 outstanding under the Revolver.

The Revolver provides a revolving credit facility in an aggregate principal amount of up to \$7.5 million and a maturity date of December 18, 2017 (which date may be accelerated in certain cases). Outstanding indebtedness under the Revolver may be voluntarily prepaid at any time, in whole or in part, subject to payment of an early termination premium equal to (i) 3% of the amount of such prepayment if prepayment occurs on or before December 18, 2016, or (ii) 1.5% of the amount of such prepayment if prepayment occurs after December 18, 2016 but on or before June 18, 2017, but no early termination premium is payable if prepayment occur after June 18, 2017. In addition, no early termination premium is payable if the Revolver is refinanced with Bank of America, N.A. The Company intends to use borrowings under the Revolver for a variety of purposes, including working capital and general corporate purposes.

The Company has an available borrowing base subject to reserves established at the lender’s discretion of 85% of Eligible Accounts (as defined in the Revolver) and 75% of Eligible Lease Receivables (as defined in the Revolver) up to \$7.5 million under the Revolver. Eligible Accounts and Eligible Lease Receivables do not include certain receivables deemed ineligible by the lender.

Borrowings under the Revolver bear interest at a rate equal to the sum of 2.00% per annum plus the base rate as it is defined in the loan and security agreement governing the Revolver (the greater of (i) the Prime Rate, (ii) the Federal Funds Rate plus 0.5%, or (iii) 3.25%). In addition, the Company is charged an unused line fee equal to 0.50% per annum on unused amounts of the revolving credit facility and a minimum borrowing fee equal to the excess, if any, of (i) interest which would have been payable in respect of each month if, at all time during such month, the principal balance of the Revolving Loans (as defined in the Revolver) was equal to \$2,000,000 over (ii) the actual interest payable in respect of such month on the Revolving Loans.

The Loan Parties guarantee the payment obligations under the Revolver. Any borrowings are further secured by (i) certain equity interests owned or held by the Loan Parties and 65% of the voting stock of all present and future foreign subsidiaries of the Loan Parties and (ii) substantially all of the tangible and intangible personal property and assets of the Loan Parties.

The Revolver contains a financial covenant regarding liquidity which requires the Loan Parties to maintain a minimum liquidity of (a) \$3,500,000 from the Closing Date through and including January 31, 2016 and (b) \$4,000,000 on February 1, 2016 or at any time thereafter. The Revolver also includes customary affirmative and negative covenants for credit facilities of this type, including limitations on our indebtedness, liens, investments, restricted payments, mergers and acquisitions, dispositions of assets, transactions with affiliates, ability to amend our organizational documents. Any failure to comply with such covenants could lead to an acceleration of our obligations under the Revolver. The Company is in compliance with the covenants under the Revolver as of September 30, 2016.

NOTE 15 - INCOME TAXES

The Company accounts for income taxes under the asset and liability approach. Deferred tax assets and liabilities are recognized for the expected future tax consequences attributed to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis. Deferred tax assets and liabilities are measured using the enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to reverse. As of September 30, 2016, 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 16 - 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 17 - CONCENTRATION OF CUSTOMERS

For the nine-month period ended September 30, 2016 and as of September 30, 2016, one customer accounted for 18% of the Company's revenue and 10% of the Company's accounts receivable, respectively.

One customer accounted for 23% of the Company's revenue during the nine-month period ended September 30, 2015. Two customers accounted for 16% and 13% of the Company's accounts receivable as of September 30, 2015. One customer accounted for 12% of financing receivables as of September 30, 2015.

NOTE 18 - 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 nine-month period ended September 30, 2016. As of September 30, 2016, 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.

NOTE 19 - 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 September 30,		For the Nine Months Ended September 30,	
	2015	2016	2015	2016
Net revenue	\$ 157,000	\$ 311,000	\$ 1,032,000	\$ 1,779,000
Net income (loss)	(209,000)	41,000	(245,000)	590,000

Total assets of IDS GmbH were \$2,549,000 and \$1,356,000 as of December 31, 2015 and September 30, 2016, 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 September 30,		For the Nine Months Ended September 30,	
	2015	2016	2015	2016
Net revenue	\$ 89,000	\$ 70,000	\$ 374,000	\$ 211,000
Net loss	(120,000)	(104,000)	(199,000)	(368,000)

Total assets of IDS Ltd were \$1,317,000 and \$1,111,000 as of December 31, 2015 and September 30, 2016, respectively. IDS Ltd operates in a local currency environment using the British Pound as its functional currency.

NOTE 20 - COMMITMENTS AND CONTINGENCIES

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

Contingencies

The Company is not currently subject to any material commitments or contingencies and legal proceedings, nor, to management's knowledge, is any material legal proceeding threatened against the Company.

Severance agreements

The Company entered into severance agreements with three of its executive officers. The severance agreements, each of which is substantially identical in form, provide each executive with certain severance and change in control benefits upon the occurrence of a "Trigger Event," as defined in the severance agreements. As a condition to the Company's obligations under the severance agreements, each executive has executed and delivered to the Company a restrictive covenants agreement.

Under the terms of the severance agreements, in general, each executive is entitled to the following: (i) a cash payment at the rate of the executive's annual base salary as in effect immediately prior to the Trigger Event for a period of 12 or 15 months, depending on the executive, (ii) continued healthcare coverage during the severance period, (iii) partial accelerated vesting of the executive's previously granted stock options and restricted stock awards, and (iv) as applicable, an award of "Performance Shares" under the Restricted Stock Unit Award Agreement previously entered into between the Company and the executive.

NOTE 21 - RECENT ACCOUNTING PRONOUNCEMENTS

In June 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 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. We do not expect the impact of adopting this standard to have a material impact on the consolidated financial statements.

In March 2016, the FASB issued ASU 2016-09, “Compensation – Stock Compensation” (Topic 718), which includes provisions intended to simplify various aspects related to how share-based payments are accounted for and presented in the financial statements. This standard is effective for annual periods beginning after December 15, 2016, with early adoption permitted. The Company is currently in the process of assessing the impact of the ASU on the consolidated financial statements.

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. 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 in the quarter ending March 31, 2019. The Company is currently evaluating the impact of this ASU on the consolidated financial statements.

In April 2015, the FASB issued ASU No. 2015-05 “Intangibles-Goodwill and Other-Internal-Use Software (Subtopic 350-40): Customer’s Accounting for Fees Paid in a Cloud Computing Arrangement” which provides guidance on determining whether a cloud computing arrangement contains a software license that should be accounted for as internal-use software by the customer. If a cloud computing arrangement does not contain a software license, it should be accounted for as a service contract by the customer. This guidance is effective for fiscal years beginning after December 15, 2015 and for interim periods within those fiscal years, with early adoption permitted. The adoption of this guidance did not have a material impact on the Company’s financial results.

In July 2015, the FASB issued ASU No. 2015-11 “Inventory (Topic 330): Simplifying the Measurement of Inventory” which requires entities to measure most inventory “at the lower of cost and net realizable value (“NRV”),” thereby simplifying the current guidance under which an entity must measure inventory at the lower of cost or market. Under the new guidance, inventory is “measured at the lower of cost and net realizable value,” which eliminates the need to determine replacement cost and evaluate whether it is above the ceiling (NRV) or below the floor (NRV less a normal profit margin). The guidance defines NRV as the “estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation.” The guidance is effective for annual periods beginning after December 15, 2016, and interim periods therein. Early application is permitted. The Company is currently evaluating the impact of this ASU on the consolidated financial statements.

In May 2014, the FASB issued ASU No. 2014-09, “Revenue from Contracts with Customers” (Topic 606). This ASU is intended to clarify the principles for recognizing revenue by removing inconsistencies and weaknesses in revenue requirements; providing a more robust framework for addressing revenue issues; improving comparability of revenue recognition practices across entities, industries, jurisdictions and capital markets; and providing more useful information to users of financial statements through improved revenue disclosure requirements. The new standard is required to be applied retrospectively to each prior reporting period presented or retrospectively with the cumulative effect of initially applying it recognized at the date of initial application. In July 2015, the FASB approved a deferral of the ASU effective date from annual and interim periods beginning after December 15, 2016 to annual and interim periods beginning after December 15, 2017, while allowing for early adoption for fiscal periods after December 15, 2016. The Company is currently evaluating the impact of this ASU on the consolidated financial statements.

In June 2014, the FASB issued ASU No. 2014-12, “Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period.” This ASU requires a reporting entity to treat a performance target that affects vesting and that could be achieved after the requisite service period as a performance condition, and apply existing guidance under the Stock Compensation Topic of the ASC as it relates to awards with performance conditions that affect vesting to account for such awards. The provisions of this ASU are effective for interim and annual periods beginning after December 15, 2015. The adoption of this guidance did not have a material impact on the Company’s financial results.

In August 2014, the FASB issued ASU No. 2014-15, “Disclosure of Uncertainties about an Entity’s Ability to Continue as a Going Concern” (“ASU 2014-15”), to provide guidance on management’s responsibility to evaluate whether there is substantial doubt about a company’s ability to continue as a going concern within one year after the date that the financial statements are issued. ASU 2014-15 also provides guidance for related footnote disclosures. ASU 2014-15 is effective for the Company beginning on January 1, 2016 with early adoption permitted. The adoption of this guidance did not have a material impact on the Company’s financial results.

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, 2015 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 dry van trailers, refrigerated trailers, railcars and containers. Our patented systems utilize radio frequency identification (RFID), Wi-Fi, satellite or cellular communications, and sensor technology to address the needs of organizations to control, track, monitor and analyze their assets. Our solutions enable customers to achieve tangible economic benefits by providing them with information to make timely, informed decisions that increase the safety, security, revenue, productivity and efficiency of their operations.

We have focused our business activities on three primary applications: (i) industrial fleet management, (ii) transportation asset management, and (iii) rental fleet management. Our solution for industrial fleet management allows our customers to reduce operating costs and capital expenditures and to comply with certain safety regulations by accurately and reliably measuring and controlling fleet activity. This solution also enhances security at industrial facilities and areas of critical infrastructure, such as airports, by controlling access to, and restricting the use of, vehicles and equipment. Our solution for transportation asset management allows our customers to increase revenue per asset deployed, reduce fleet size, and improve the monitoring and control of sensitive cargo. Our solution for rental fleet management assists rental car companies 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, 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 tool called I.D. Systems Analytics (“Analytics”), which is designed to provide a single, integrated view of asset activity across multiple locations, generating enterprise-wide benchmarks and peer-industry comparisons. Analytics determines key performance indicators (“KPIs”) relating to the performance of managed assets. Values for the KPIs may then be calculated and used to identify cost benefit measurements which translate the KPI values into monetized metrics. We expect that our growing database from monitored assets 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 and division-level management. Typically, our initial system deployment serves as a basis for potential expansion across the customer’s organization. We work closely with customers to help maximize the utilization and benefits of our system and demonstrate the value of enterprise-wide deployments. 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. We have made a strategic decision to refocus our sales and marketing efforts primarily on large enterprise customers and opportunities while working in concert with our channel partners to better serve customers with smaller implementations.

Our Solutions

We design and implement wireless M2M asset management solutions that deliver an enterprise-level return on investment for our customers. Our solutions can be categorized as either closed-loop systems for managing campus-based assets, or mobile systems for managing remote, “over-the-road” assets.

Industrial and Rental Fleet Asset Management Solutions

Our closed-loop campus-based asset management solutions incorporate short range 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 architectural and functional advantages that differentiate them from systems used for inventory and logistics tracking. For example, while inventory tracking systems rely on constant, continuous radio frequency (RF) connectivity to perform core functions, our systems require only periodic RF communications, and our on-asset devices perform their core functions autonomously.

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

- miniature wireless programmable computers attached to assets;
- fixed-position communication infrastructure consisting of network devices with two-way wireless communication capabilities and, optionally RF-based location-emitting beacons;
- application-specific network servers, which may be hosted on the site's local area network (LAN), on an enterprise wide area network (WAN), or at a remote data center; and
- proprietary software, which is a user-friendly, browser-accessible graphical user interface that provides visibility and control of the system database, and which is hosted either at the local installation site or at a remote data center.

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 RF range of any other system component or if the facility computer network is unavailable. Our communication infrastructure independently processes data and executes programmable application logic, in addition to linking monitored mobile asset data automatically to our system's database. The link to the system's database may leverage secure cellular communication, thereby permitting remotely-hosted server software without access to local IT infrastructure. Our server software populates the database and is designed to mitigate the effects of any computer outages that could affect real-time availability of the database. Finally, our client software interfaces only with the database, not directly with our communication infrastructure or on-asset hardware, which restricts access to, and limits corruption of, system information and minimizes network bandwidth usage.

Our campus-based asset management solutions focus on two primary applications: (i) industrial fleet management and (ii) rental fleet management. In addition to focusing on these core applications, we have adapted, and intend to continue to adapt, our wireless solutions to meet our customers' broader asset management needs.

Industrial Fleet Asset Management

Our PowerFleet® and didBOX solutions for industrial fleet 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 PowerFleet® and didBOX systems provide vehicle operator access control to ensure that only trained and authorized personnel are able to use equipment, and impact sensing to assign responsibility for abusive driving.

PowerFleet® 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 PowerFleet® system is compatible with a wide range of electronic driver identification technologies and can communicate using the customer's Wi-Fi network. PowerFleet® also provides 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. PowerFleet® also supports 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 PowerFleet® systems 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 fleet and personnel reductions as well as increases in productivity. The PowerFleet® system also provides real-time and historical visibility of vehicle movements and other advanced asset management options.

To help reduce fleet maintenance costs, our PowerFleet® systems are able to 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.

The PowerFleet® system also enables 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 Aviation and Transportation Security Act of 2001 mandates security for aircraft servicing equipment, including aircraft tow tractors, baggage tugs, cargo loaders, catering vehicles and fuel trucks. 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).

Rental Fleet Asset Management

Our solution for traditional rental fleet management is designed both to enhance the consumer's rental experience and benefit the rental company by providing information that can be used to increase revenues, reduce costs and improve customer service. Our 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.

In addition, we provide a wireless solution for "car sharing", whereby a rental car company (i) positions vehicles strategically around cities, universities and corporate campuses for shared use by its members, (ii) remotely controls the vehicles, (iii) manages member reservations by smart phone or Internet, and (iv) 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. We currently have units deployed across the Northeast U.S. rental fleet of the Avis Budget Group, Inc.

Transportation Asset Management Solutions

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 satellite and cellular wireless communications and Web data management technologies, the Asset Intelligence VeriWise™ product family provides shippers and carriers with tools to better manage their trailer and container fleets, freight transport operations, and maintenance controls. VeriWise systems enable quick access to actionable intelligence that results in better utilization, control, and security of our customers' freight-carrying assets.

Our remote asset management systems consist of five principal elements:

- satellite or cellular communicators 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, temperature, motion, light, tire inflation, and door, that provide additional status information for the remote asset.

To increase asset utilization, our VeriWise™ system can reduce the number of assets needed and/or increase the revenue generated per asset by:

- 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 VeriWise™ system provides:

- integration into refrigerated asset microcontrollers to provide temperature and set point data and alerts via our VeriWise Intelligent Portal (VIP) or by an e-mail notification directly to the customer when an alarm condition develops;
- change in cargo status of an asset via our patented full-length cargo sensor;
- on-device 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 VeriWise™ system 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;
- door sensors, which detect an unauthorized open door either by time or location, resulting in a door breach alert;
- 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
- utilization of our Tractor ID product notification if the incorrect tractor connects to the asset.

Analytics

We recently introduced a data reporting and analysis software tool platform called I.D. Systems Analytics PowerFleet IQ (for fleets of forklifts and other industrial trucks) and VeriWise IQ (for fleets of containers, trailers and other transportation assets).

PowerFleet IQ and VeriWise IQ provide a holistic view of asset activity across an enterprise supply chain.

This cloud-based cloud-hosted, web-based software platform provides a single, integrated view of industrial asset activity across multiple locations, generating enterprise-wide benchmarks, peer-industry comparisons, and deeper insights into asset operations. Analytics PowerFleet IQ and VeriWise IQ can enable management to make more informed, effective decisions, raise asset performance standards, increase productivity, reduce costs, and enhance safety.

Specifically, I.D. Systems Analytics PowerFleet IQ and VeriWise IQ allows user 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; and
- Enable performance comparisons to broad, industry-specific benchmarks.

We look for Analytics 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 nine-month period ended September 30, 2016, we generated revenues of \$27.6 million, and Wal-Mart Stores, Inc. accounted for 18% of our revenues. During the nine-month period ended September 30, 2015, we generated revenues of \$31.6 million, and Wal-Mart Stores, Inc. accounted for 23% of our revenues.

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 September 30, 2016, we had cash, cash equivalents and marketable securities of \$5.5 million and working capital of \$11.7 million. The Company's primary sources of cash are cash flows from operating activities and the Company's holdings of cash, cash equivalents and investments. To date, the Company has not generated sufficient cash flow solely from operating activities to fund its operations.

We believe our available working capital, anticipated level of future revenues from the direct sales strategy which focuses on large enterprise customers and reducing inventory, expected cost savings from expense reduction initiatives implemented in the fourth quarter of 2016, the expected cash flows from operations and available borrowings under the revolving credit facility will provide sufficient funds to cover our capital requirements for at least the next twelve months. As of September 30, 2016, there was \$586,000 outstanding under the Revolver.

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, 2015.

Critical Accounting Policies

For the nine-month period ended September 30, 2016, 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, 2015.

Results of Operations

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2016	2015	2016
Revenue:				
Products	65.7%	55.5%	59.5%	57.1%
Services	34.3	44.5	40.5	42.9
	100.0	100.0	100.0	100.0
Cost of revenues:				
Cost of products	46.6	36.7	43.1	37.5
Cost of services	12.2	14.5	17.6	12.0
Total gross profit	41.2	48.8	39.3	50.5
Operating expenses:				
Selling, general and administrative expenses	49.2	60.7	57.5	53.6
Research and development expenses	10.5	13.4	10.9	12.4
	59.7	74.1	68.4	66.0
Loss from operations	(18.5)	(25.3)	(29.1)	(15.5)
Interest income	0.8	0.8	0.8	0.8
Interest expense	-	(0.9)	-	(0.8)
Other income	(0.1)	-	-	-
Net loss	(17.8)%	(25.4)%	(28.3)%	(15.5)%

Three Months Ended September 30, 2016 Compared to Three Months Ended September 30, 2015

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

	Three Months Ended September 30,	
	2015	2016
Product revenue:		
Industrial and rental fleet management	\$ 3,516,000	\$ 2,826,000
Transportation asset management	3,431,000	1,735,000
	<u>6,947,000</u>	<u>4,561,000</u>
Services revenue:		
Industrial and rental fleet management	1,365,000	1,424,000
Transportation asset management	2,269,000	2,230,000
	<u>3,634,000</u>	<u>3,654,000</u>
	<u>\$ 10,581,000</u>	<u>\$ 8,215,000</u>

REVENUES. Revenues decreased by approximately \$2.4 million, or 22.4%, to \$8.2 million in the three months ended September 30, 2016 from \$10.6 million in the same period in 2015. The decrease in revenue is attributable to a decrease in total transportation asset management revenue of approximately \$1.7 million to \$4.0 million in 2016 from \$5.7 million in 2015 and a decrease in total industrial and rental fleet management revenue of approximately \$0.6 million to \$4.3 million in 2016 from \$4.9 million in 2015.

Revenues from products decreased by approximately \$2.4 million, or 34.3%, to \$4.6 million in the three months ended September 30, 2016 from \$6.9 million in the same period in 2015. Industrial and rental fleet management product revenue decreased by approximately \$0.7 million to \$2.8 million in 2016 from \$3.5 million in 2015 principally due to decreased product sales to The Procter & Gamble Company. Transportation asset management product revenue decreased by approximately \$1.7 million to \$1.7 million in 2016 from \$3.4 million in 2015 principally due to decreased spare parts sales to Wal-Mart Stores, Inc.

Revenues from services of approximately \$3.7 million in the three months ended September 30, 2016 remained generally consistent with service revenue of \$3.6 million in the same period in 2015. Industrial and rental fleet management service revenue of approximately \$1.4 million in 2016 remained generally consistent with service revenue in 2015. Transportation asset management service revenue of approximately \$2.2 million in 2016 remained generally consistent with service revenue of \$2.3 million in 2015.

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

	Three Months Ended September 30,	
	2015	2016
Cost of products:		
Industrial and rental fleet management	\$ 2,338,000	\$ 1,640,000
Transportation asset management	2,591,000	1,378,000
	<u>4,929,000</u>	<u>3,018,000</u>
Cost of services:		
Industrial and rental fleet management	605,000	560,000
Transportation asset management	691,000	635,000
	<u>1,296,000</u>	<u>1,195,000</u>
	<u>\$ 6,225,000</u>	<u>\$ 4,213,000</u>

COST OF REVENUES. Cost of revenues decreased by approximately \$2.0 million, or 32.3%, to \$4.2 million in the three months ended September 30, 2016 from \$6.2 million for the same period in 2015. The decrease is principally attributable to decreases in cost of products and services in 2016. Gross profit was \$4.0 million in three months ended September 30, 2016 compared to \$4.4 million for the same period in 2015. As a percentage of revenues, gross profit increased to 48.8% in 2016 from 41.2% in 2015.

Cost of products decreased by approximately \$1.9 million, or 38.8%, to \$3.0 million in the three months ended September 30, 2016 from \$4.9 million in the same period in 2015. Gross profit for products was \$1.5 million in 2016 compared to \$2.0 million in 2015. The decrease in gross profit was attributable to a decrease of approximately \$0.5 million in the transportation asset management gross profit to \$0.4 million in 2016 from \$0.8 million in 2015. The industrial and rental fleet management gross profit of approximately \$1.2 million in 2016 remained generally consistent with the product gross margin in 2015. As a percentage of product revenues, gross profit increased to 33.8% in 2016 from 29.0% in 2015. The increase in gross profit as a percentage of product revenue was due to an increase in the industrial and rental fleet management gross profit percentage to 42.0% in 2016 from 33.5% in 2015, which was principally due to improved customer pricing. The transportation asset management product revenue gross profit percentage decreased to 20.6% in 2016 from 24.5% in 2015 principally due to an increase in production expenses.

Cost of services decreased by approximately \$0.1 million, or 7.8%, to \$1.2 million in the three months ended September 30, 2016 from \$1.3 million in the same period in 2015. Gross profit for services was \$2.5 million in 2016 compared to \$2.3 million in 2015. The increase in gross profit was attributable to an increase of approximately \$0.1 million in the industrial and rental fleet management gross profit to \$0.9 million in 2016 from \$0.8 million in 2015. The transportation asset management gross profit of approximately \$1.6 million in 2016 remained generally consistent with the service gross margin in 2015. As a percentage of service revenues, gross profit increased to 67.3% in 2016 from 64.3% in 2015. The increase in gross profit as a percentage of service revenue was principally due to an increase in the industrial and rental fleet management gross profit percentage to 60.7% in 2016 from 55.7% in 2015 and an increase in the transportation asset management gross profit percentage to 71.5% in 2016 from 69.5% in 2015. The increase in the industrial and rental fleet management gross profit margin was principally due to a decrease in installation expenses. The increase in transportation asset management gross profit margin was principally due to a decrease in communication expenses.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES. Selling, general and administrative expenses decreased by approximately \$0.2 million, or 4.3%, to approximately \$5.0 million in the three months ended September 30, 2016 compared to \$5.2 million in the same period in 2015, principally from the reduction in workforce and other cost-cutting measures implemented in the second half of 2015. As a percentage of revenues, selling, general and administrative expenses increased to 60.7% in the three months ended September 30, 2016 from 49.2% in the same period in 2015, primarily due to the decrease in revenues from 2015 to 2016.

RESEARCH AND DEVELOPMENT EXPENSES. Research and development expenses of approximately \$1.1 million in the three months ended September 30, 2016 remained generally consistent with research and development expenses in the same period in 2015. As a percentage of revenues, research and development expenses increased to 13.4% in the three months ended September 30, 2016 from 10.5% in the same period in 2015, primarily due to the decrease in revenues from 2015 to 2016.

INTEREST EXPENSE. Interest expense increased to approximately \$78,000 in the three months ended September 30, 2016 from \$-0- in the same period in 2015, principally due to an increase in interest expense from the revolving credit facility.

NET LOSS. Net loss was \$2.1 million, or \$(0.16) per basic and diluted share, for the three months ended September 30, 2016 as compared to net loss of \$1.9 million, or \$(0.15) per basic and diluted share, for the same period in 2015. The increase in the net loss was due primarily to the reasons described above.

Nine Months Ended September 30, 2016 Compared to Nine Months Ended September 30, 2015

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

	Nine Months Ended September 30,	
	2015	2016
Product revenue:		
Industrial and rental fleet management	\$ 10,165,000	\$ 10,393,000
Transportation asset management	8,646,000	5,368,000
	<u>18,811,000</u>	<u>15,761,000</u>
Services revenue:		
Industrial and rental fleet management	5,354,000	5,142,000
Transportation asset management	7,462,000	6,693,000
	<u>12,816,000</u>	<u>11,835,000</u>
	<u>\$ 31,627,000</u>	<u>\$ 27,596,000</u>

REVENUES. Revenues decreased by approximately \$4.0 million, or 12.7%, to \$27.6 million in the nine months ended September 30, 2016 from \$31.6 million in the same period in 2015. The decrease in revenue is attributable to a decrease in total transportation asset management revenue of approximately \$4.0 million to \$12.1 million in 2016 from \$16.1 million in 2015. Industrial and rental fleet management revenue of approximately \$15.5 million in 2016 remained generally consistent with 2015.

Revenues from products decreased by approximately \$3.1 million, or 16.2%, to \$15.8 million in the nine months ended September 30, 2016 from \$18.8 million in the same period in 2015. Transportation asset management product revenue decreased by approximately \$3.3 million to \$5.4 million in 2016 from \$8.6 million in 2015. The decrease in transportation asset management product revenue resulted principally from decreased spare parts sales of approximately \$2.3 million to Wal-Mart Stores, Inc. and \$0.9 million to Knight Transportation Inc. Industrial and rental fleet management product revenue increased by approximately \$0.2 million to \$10.4 million in 2016 from \$10.2 million in 2015. The increase in industrial and rental fleet management product revenue resulted principally from increased product sales of approximately \$1.2 million to the Ford Motor Company partially offset by decreased product sales of approximately \$0.7 million to the Raymond Corporation.

Revenues from services decreased by approximately \$1.0 million, or 7.7%, to \$11.8 million in the nine months ended September 30, 2016 from \$12.8 million in the same period in 2015. Industrial and rental fleet management service revenue decreased by approximately \$0.3 million to \$5.1 million in 2016 from \$5.4 million in 2015 principally due to decreased service revenue of approximately \$0.5 million from Avis Budget, Inc. Transportation asset management service revenue decreased by approximately \$0.8 million to \$6.7 million in 2016 from \$7.5 million in 2015 principally due to a decrease in the number of active units and the revenue per active unit from contract renewals.

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

	Nine Months Ended September 30,	
	2015	2016
Cost of products:		
Industrial and rental fleet management	\$ 6,785,000	\$ 6,203,000
Transportation asset management	6,858,000	4,143,000
	<u>13,643,000</u>	<u>10,346,000</u>
Cost of services:		
Industrial and rental fleet management	3,153,000	1,434,000
Transportation asset management	2,401,000	1,891,000
	<u>5,554,000</u>	<u>3,325,000</u>
	<u>\$ 19,197,000</u>	<u>\$ 13,671,000</u>

COST OF REVENUES. Cost of revenues decreased by approximately \$5.5 million, or 28.8%, to \$13.7 million in the nine months ended September 30, 2016 from \$19.2 million for the same period in 2015. The decrease is principally attributable to decreases in cost of products and services in 2016. Gross profit was \$13.9 million in the nine months ended September 30, 2016 compared to \$12.4 million for the same period in 2015. As a percentage of revenues, gross profit increased to 50.5% in 2016 from 39.3% in 2015.

Cost of products decreased by approximately \$3.3 million, or 24.2%, to \$10.3 million in the nine months ended September 30, 2016 from \$13.6 million in the same period in 2015. Gross profit for products was \$5.4 million in 2016 compared to \$5.2 million in 2015. The increase in gross profit was attributable to an increase of approximately \$0.8 million in the industrial and rental fleet management gross profit to \$4.2 million in 2016 from \$3.4 million in 2015 partially offset by a decrease in the transportation asset management gross profit of approximately \$0.6 million of \$1.2 million in 2016 from \$1.8 million in 2015. As a percentage of product revenues, gross profit increased to 34.4% in 2016 from 27.5% in 2015. The increase in gross profit as a percentage of product revenue was due to an increase in the industrial and rental fleet management gross profit percentage to 40.3% in 2016 from 33.3% in 2015, which was principally due to improved customer pricing. The transportation asset management product revenue gross profit percentage increased to 22.8% in 2016 from 20.7% in 2015 principally from a decrease in spare parts sales which have a lower gross margin.

Cost of services decreased by approximately \$2.2 million, or 40.1%, to \$3.3 million in the nine months ended September 30, 2016 from \$5.6 million in the same period in 2015. Gross profit for services was \$8.5 million in 2016 compared to \$7.3 million in 2015. The increase in gross profit was attributable to an increase of approximately \$1.5 million in the industrial and rental fleet management gross profit to \$3.7 million in 2016 from \$2.2 million in 2015, partially offset by a decrease in the transportation asset management gross profit of approximately \$0.3 million to \$4.8 million in 2016 from \$5.1 million in 2015. As a percentage of service revenues, gross profit increased to 71.9% in 2016 from 56.7% in 2015. The increase in gross profit as a percentage of service revenue was principally due to an increase in the industrial and rental fleet management gross profit percentage to 72.1% in 2016 from 41.1% in 2015 and an increase in the transportation asset management gross profit percentage to 71.7% in 2016 from 67.8% in 2015. The increase in the industrial and rental fleet management gross profit margin was principally due to a decrease in installation expenses. The increase in transportation asset management gross profit margin was principally due to a decrease in communication expenses.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES. Selling, general and administrative expenses decreased by approximately \$3.4 million, or 18.7%, to approximately \$14.8 million in the nine months ended September 30, 2016 compared to \$18.2 million in the same period in 2015, principally from the reduction in workforce and other cost-cutting measures implemented in the second half of 2015 and a \$0.6 million decrease in professional fees from an unconsummated strategic initiative in 2015. As a percentage of revenues, selling, general and administrative expenses decreased to 53.6% in the nine months ended September 30, 2016 from 57.5% in the same period in 2015, primarily due to the decrease in expenses noted above partially offset by the decrease in revenues from 2015 to 2016.

RESEARCH AND DEVELOPMENT EXPENSES. Research and development expenses of approximately \$3.4 million in the nine months ended September 30, 2016 remained generally consistent with research and development expenses in the same period in 2015. As a percentage of revenues, research and development expenses increased to 12.4% in the nine months ended September 30, 2016 from 10.9% in the same period in 2015, primarily due to the decrease in revenues from 2015 to 2016.

INTEREST EXPENSE. Interest expense increased to approximately \$222,000 in the nine months ended September 30, 2016 from \$-0- in the same period in 2015, principally due to an increase in interest expense from the revolving credit facility.

NET LOSS. Net loss was \$4.3 million, or \$(0.33) per basic and diluted share, for the nine months ended September 30, 2016 as compared to net loss of \$9.0 million, or \$(0.72) per basic and diluted share, for the same period in 2015. 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 September 30, 2016, we had cash, cash equivalents and marketable securities of \$5.5 million and working capital of \$11.7 million, compared to cash, cash equivalents and marketable securities of \$6.4 million and working capital of \$14.1 million as of December 31, 2015.

Capital Requirements

As of September 30, 2016, we had cash, cash equivalents and marketable securities of \$5.5 million and working capital of \$11.7 million. The Company's primary sources of cash are cash flows from operating activities and the Company's holdings of cash, cash equivalents and investments. To date, the Company has not generated sufficient cash flow solely from operating activities to fund its operations.

We believe our available working capital, anticipated level of future revenues from the direct sales strategy which focuses on large enterprise customers and reducing inventory, expected cost savings from expense reduction initiatives implemented in the fourth quarter of 2016, the expected cash flows from operations and available borrowings under the revolving credit facility will provide sufficient funds to cover our capital requirements for at least the next twelve months.

On December 18, 2015 (the "Closing Date"), the Company and AI (collectively, the "Loan Parties") entered into a loan and security agreement (the "Revolver") with Siena Lending Group LLC. As of September 30, 2016, there was \$586,000 outstanding under the Revolver.

The Revolver provides a revolving credit facility in an aggregate principal amount of up to \$7.5 million and a maturity date of December 18, 2017 (which date may be accelerated in certain cases). Outstanding indebtedness under the Revolver may be voluntarily prepaid at any time, in whole or in part, subject to payment of an early termination premium equal to (i) 3% of the amount of such prepayment if prepayment occurs on or before December 18, 2016, or (ii) 1.5% of the amount of such prepayment if prepayment occurs after December 18, 2016 but on or before June 18, 2017, but no early termination premium is payable if prepayment occur after June 18, 2017. In addition, no early termination premium is payable if the Revolver is refinanced with Bank of America, N.A. The Company intends to use borrowings under the Revolver for a variety of purposes, including working capital and general corporate purposes.

The Company has an available borrowing base subject to reserves established at the lender's discretion of 85% of Eligible Accounts (as defined in the Revolver) and 75% of Eligible Lease Receivables (as defined in the Revolver) up to \$7.5 million under the Revolver. Eligible Accounts and Eligible Lease Receivables do not include certain receivables deemed ineligible by the lender.

Borrowings under the Revolver bear interest at a rate equal to the sum of 2.00% per annum plus the base rate as it is defined in the loan and security agreement governing the Revolver (the greater of (i) the Prime Rate, (ii) the Federal Funds Rate plus 0.5%, or (iii) 3.25%). In addition, the Company is charged an unused line fee equal to 0.50% per annum on unused amounts of the revolving credit facility and a minimum borrowing fee equal to the excess, if any, of (i) interest which would have been payable in respect of each month if, at all time during such month, the principal balance of the Revolving Loans (as defined in the Revolver) was equal to \$2,000,000 over (ii) the actual interest payable in respect of such month on the Revolving Loans.

The Loan Parties guarantee the payment obligations under the Revolver. Any borrowings are further secured by (i) certain equity interests owned or held by the Loan Parties and 65% of the voting stock of all present and future foreign subsidiaries of the Loan Parties and (ii) substantially all of the tangible and intangible personal property and assets of the Loan Parties.

The Revolver contains a financial covenant regarding liquidity which requires the Loan Parties to maintain a minimum liquidity of (a) \$3,500,000 from the Closing Date through and including January 31, 2016 and (b) \$4,000,000 on February 1, 2016 or at any time thereafter. The Revolver also includes customary affirmative and negative covenants for credit facilities of this type, including limitations on our indebtedness, liens, investments, restricted payments, mergers and acquisitions, dispositions of assets, transactions with affiliates, ability to amend our organizational documents. Any failure to comply with such covenants could lead to an acceleration of our obligations under the Revolver. The Company is in compliance with the covenants under the Revolver as of September 30, 2016.

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 \$1.3 million for the nine-month period ended September 30, 2016, compared to net cash used in operating activities of \$7.5 million for the same period in 2015. The net cash used in operating activities for the nine-month period ended September 30, 2016 reflects a net loss of \$4.3 million and includes non-cash charges of \$1.5 million for stock-based compensation and \$0.5 million for depreciation and amortization expense. Changes in working capital items included:

- a decrease in accounts receivable of \$2.0 million;
- a decrease in inventory of \$0.9 million;
- an increase in deferred revenue of \$1.7 million;
- an increase in deferred costs of \$2.4 million; and
- a decrease in accounts payable and accrued expenses of \$1.7 million, primarily due to the timing of payments to our vendors.

Investing Activities

Net cash used in investing activities was \$0.4 million for the nine-month period ended September 30, 2016, compared to net cash provided by investing activities of \$3.9 million for the same period in 2015. The change from the same period in 2015 was primarily due to a decrease in net proceeds from the sale and maturities of investments of \$5.7 million and a decrease in expenditures for fixed assets and website development costs of \$1.5 million from 2015.

Financing Activities

Net cash provided by financing activities was \$0.6 million for the nine-month period ended September 30, 2016, compared to net cash provided by financing activities of \$1.8 million for the same period in 2015. The change from the same period in 2015 was primarily due to a decrease in proceeds from the exercise of stock options of \$2.0 million from 2015 partially offset by net borrowing of \$0.6 million from the revolving credit facility.

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 September 30, 2016, 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, 2015.

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 21 (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 risk from changes in interest rates, which could affect our future results of operations and financial condition. We manage our exposure to these risks through our regular operating and financing activities. As of September 30, 2016, we had cash, cash equivalents and marketable securities of \$5.5 million.

Our cash and cash equivalents consist of cash, money market funds, and short-term investments with original maturities of three months or less. As of September 30, 2016, the carrying value of our cash and cash equivalents approximated fair value. In a declining interest rate environment, as short-term investments mature, reinvestment occurs at less favorable market rates, negatively impacting future investment income. We maintain our cash and cash equivalents with major financial institutions; however, our cash and cash equivalent balances with these institutions exceed the Federal Deposit Insurance Corporation (“FDIC”) insurance limits. While we monitor on a systematic basis the cash and cash equivalent balances in our operating accounts and adjust the balances as appropriate, these balances could be impacted if one or more of the financial institutions with which we deposit 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 September 30, 2016, 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.

We reviewed our internal control over financial reporting at September 30, 2016. There have been no changes in our internal control over financial reporting that occurred during the quarter ended September 30, 2016 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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 November 11, 2016, 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, 2015.

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, 2015, as such factors could materially affect the Company's business, financial condition, and future results. In the three months ended September 30, 2016, 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 and shares withheld for taxes due upon vesting of restricted stock for each month of the quarterly period ended September 30, 2016. As the table indicates, the Company did not make any share repurchases under the share repurchase program during the quarterly period ended September 30, 2016.

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
July 1, 2016 - July 31, 2016	-	-	-	\$ 1,660,000
August 1, 2016 - August 31, 2016	-	-	-	1,660,000
September 1, 2016 - September 30, 2016	26,000 ⁽¹⁾	\$ 4.98	-	1,660,000
Total	26,000	\$ 4.98	-	\$ 1,660,000

(1) Represents shares of common stock withheld to satisfy minimum tax withholding obligations in connection with the vesting of restricted stock during September 2016.

Item 6. Exhibits

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

Exhibits:

Exhibit Number	Description
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.

* 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: November 14, 2016

By: */s/ Kenneth S. Ehrman*

Kenneth S. Ehrman
President and Chief Executive Officer
(Principal Executive Officer)

Date: November 14, 2016

By: */s/ Ned Mavrommatis*

Ned Mavrommatis
Chief Financial Officer
(Principal Financial Officer and Principal Accounting Officer)

INDEX TO EXHIBITS

Exhibit Number	Description
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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.

* Furnished herewith.

CERTIFICATION

I, Kenneth S. Ehrman, 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: November 14, 2016

/s/ Kenneth S. Ehrman

Kenneth S. Ehrman
President and Chief Executive Officer
(Principal Executive Officer)

CERTIFICATION

I, Ned Mavrommatis, certify that:

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

Date: November 14, 2016

/s/ Ned Mavrommatis

Ned Mavrommatis
Chief Financial Officer
(Principal Financial Officer)

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

I, Kenneth S. Ehrman, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report on Form 10-Q of I.D. Systems, Inc. for the quarter ended September 30, 2016, 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 September 30, 2016, 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/ Kenneth S. Ehrman

Kenneth S. Ehrman
President and Chief Executive Officer
(Principal Executive Officer)
Date: November 14, 2016

By: /s/ Ned Mavrommatis

Ned Mavrommatis
Chief Financial Officer
(Principal Financial Officer)
Date: November 14, 2016

The foregoing certification is being furnished solely pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code) and is not being filed as part of the Quarterly Report on Form 10-Q of I.D. Systems, Inc. for the quarter ended September 30, 2016 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.
