



Dear Fellow Shareholders:

2017 was an exciting and foundation-building year for I.D. Systems, highlighted by consistent non-GAAP profitability from Q2 through Q4, as well as strong year-over-year revenue growth. We entered 2018 with a solid balance sheet and the best cash position we've had in many years.

Last March, we finalized our contract with Avis Budget Group resulting in a development and supply agreement that included an order for 50,000 Universal Telematics Platform devices. Product development, building production capacity and system acceptance testing were completed toward the end of 2017 and we started shipping units during the first quarter of 2018.

In July 2017, we acquired Keytroller, which improved our top and bottom line results, filled out our Industrial Truck product offerings and, most importantly, added a solid sales channel of more than 500 dealers. On top of this, Keytroller successfully released their Software-as-a-Service (SaaS) Infomatics platform shortly after we completed the acquisition. Today, Keytroller generates recurring revenue with all their 601 and 602 fleet management systems, building on our already solid base of recurring revenue.

Our *Industrial Truck Management* business (historically referred to as VMS) continued to capture significant wins throughout 2017, including two of the top-three auto makers, as well as the world's largest online retailer who deployed our system in Europe. With the release of our VisionPro SaaS platform in Q1 last year, we now support more than 150 customers and 5,000 vehicles on this platform. Our PowerFleet IQ data analytics platform continues to be the industry standard, especially given our recent integrations with SAP and Kronos, which have evolved our capabilities to offer a more complete and holistic view of safety, vehicle use, and operator productivity.

We are relabeling our Trailer and Asset Management (TAM) business to *Logistics Visibility Solutions* to better represent the value and enhanced capabilities we provide customers. 2017 was a year of consistent financial performance and stability for this business. We are particularly excited about the significant development programs underway, which we think will deliver game-changing solutions. We plan to release details on these new offerings later this year.

While 2017 can be viewed as a foundational year, we expect 2018 to be a year of product innovation, market excitement and large-scale roll-outs. We plan to deliver at least 50,000 UTP devices to Avis, introduce a new lower-end telematics solution in our ITM business as well as three new products in our LVS business, which will significantly expand our market opportunity.

Our strong performance in 2017 and future success depends on the continued support of our shareholders and customers, along with the efforts and dedication of our valued employees and vendors. We look forward to our building upon the progress we've made to-date and are even more excited for what the future holds for I.D. Systems.

Sincerely,

A handwritten signature in black ink, appearing to read "Chris Wolfe", is placed over a light gray rectangular background.

Chris Wolfe
CEO

I.D. Systems, Inc.
123 Tice Boulevard
Woodcliff Lake, New Jersey 07677

NOTICE OF 2018 ANNUAL MEETING OF STOCKHOLDERS

To Be Held On June 14, 2018

To the Stockholders of I.D. Systems, Inc.:

Notice is hereby given that the 2018 Annual Meeting of Stockholders (the “Annual Meeting”) of I.D. Systems, Inc. (the “Company,” “we,” “our” or “us”) will be held at the offices of Olshan Frome Wolosky LLP, located at 1325 Avenue of the Americas, New York, New York 10019, on Thursday, June 14, 2018, at 10:00 a.m., Eastern Time, and thereafter as it may be postponed or adjourned from time to time, for the following purposes, each of which is described more fully in the Proxy Statement accompanying this Notice of Annual Meeting:

1. To elect six (6) directors, the names of whom are set forth in the accompanying Proxy Statement, each to serve until the Company’s 2019 annual meeting of stockholders and until their respective successors are duly elected and qualified;
2. To vote upon the ratification of the appointment of EisnerAmper LLP as the independent registered public accounting firm of the Company for the fiscal year ending December 31, 2018;
3. To approve and adopt the I.D. Systems, Inc. 2018 Incentive Plan;
4. To hold an advisory (non-binding) vote to approve the Company’s executive compensation; and
5. To transact such other business as may properly come before the Annual Meeting, including any motion to adjourn to a later date to permit further solicitation of proxies, if necessary, or before any adjournment thereof.

The meeting will begin promptly at 10:00 a.m., Eastern Time. Only holders of record of shares of our common stock at the close of business on April 26, 2018, the date fixed by our Board of Directors as the record date for the Annual Meeting, will be entitled to notice of, and to vote at, the meeting and any postponements or adjournments of the meeting.

For a period of at least 10 days prior to the Annual Meeting, a complete list of stockholders entitled to vote at the meeting will be available and open to the examination of any stockholder for any purpose relating to the Annual Meeting during normal business hours at our principal executive offices located at 123 Tice Boulevard, Woodcliff Lake, New Jersey 07677.

Whether you expect to attend the Annual Meeting or not, please vote, sign, date and return in the self-addressed envelope provided the enclosed proxy card as promptly as possible. If you attend the Annual Meeting, you may vote your shares in person, even though you have previously signed and returned your proxy.

By order of the Board of Directors,

/s/ Ned Mavrommatis

Ned Mavrommatis
Corporate Secretary

Dated: April 30, 2018
Woodcliff Lake, New Jersey

Important Notice of Internet Availability of Proxy Materials for the 2018 Annual Meeting of Stockholders to be held on June 14, 2018. The Notice, this Proxy Statement, and our Annual Report on Form 10-K for the fiscal year ended December 31, 2017, are available through the Internet at <https://idsystemsinc.gcs-web.com/proxy-materials>. Under Securities and Exchange Commission rules, we are providing access to our proxy materials both by sending you this full set of proxy materials, and by notifying you of the availability of our proxy materials on the Internet.

**I.D. SYSTEMS, INC.
123 TICE BOULEVARD
WOODCLIFF LAKE, NEW JERSEY 07677**

PROXY STATEMENT

**Annual Meeting of Stockholders
June 14, 2018**

This Proxy Statement is furnished in connection with the solicitation of proxies by the Board of Directors (the “Board”) of I.D. Systems, Inc., a Delaware corporation (the “Company,” “we,” “our” or “us”), for use at our 2018 Annual Meeting of Stockholders (the “Annual Meeting”) to be held at the offices of Olshan Frome Wolosky LLP, located at 1325 Avenue of the Americas, New York, New York 10019, on Thursday, June 14, 2018, at 10:00 a.m., Eastern Time, and any adjournments or postponements thereof.

The Board is sending the proxy materials relating to the Annual Meeting, which include this Proxy Statement, our Annual Report on Form 10-K for the fiscal year ended December 31, 2017 and proxy card, to its stockholders beginning on or about May 7, 2018. The information included in this Proxy Statement relates to the proposals to be voted on at the Annual Meeting, the voting process, the compensation of our most highly paid executive officers and our directors, and certain other required information.

Important Notice of Internet Availability of Proxy Materials for the 2018 Annual Meeting of Stockholders to be held on June 14, 2018

The Notice, this Proxy Statement, and our Annual Report on Form 10-K for the fiscal year ended December 31, 2017 are available through the Internet at <https://idsystemsinc.gcs-web.com/proxy-materials>. Under Securities and Exchange Commission rules, we are providing access to our proxy materials both by sending you this full set of proxy materials, and by notifying you of the availability of our proxy materials on the Internet.

Record Date and Outstanding Shares

The Board has fixed the close of business on April 26, 2018, as the record date (the “Record Date”) for the determination of stockholders entitled to notice of, and to vote at, the Annual Meeting and any adjournments or postponements of the meeting. Only stockholders of record at the close of business on the Record Date will be entitled to vote at the Annual Meeting or any and all adjournments or postponements thereof.

As of the Record Date, we had issued and outstanding 17,634,904 shares of common stock. Our common stock comprises all of our issued and outstanding voting stock.

At least ten (10) days before the Annual Meeting, we will make a complete list of the stockholders entitled to vote at the meeting open to the examination of any of our stockholders for any purpose germane to the Annual Meeting. The list will be available for inspection during ordinary business hours at our offices at 123 Tice Boulevard, Woodcliff Lake, New Jersey 07677, and will be made available to stockholders present at the Annual Meeting.

Purposes of the Annual Meeting

The purposes of the Annual Meeting are (i) to elect six (6) directors to our Board, each to serve until our 2019 annual meeting of stockholders and until their respective successors are duly elected and qualified; (ii) to ratify the appointment of EisnerAmper LLP as the Company’s independent registered public accounting firm for the fiscal year ending December 31, 2018; (iii) to approve and adopt the I.D. Systems, Inc. 2018 Incentive Plan; (iv) to approve, on an advisory basis, the Company’s executive compensation; and (v) to transact such other business as may properly come before the Annual Meeting or at any adjournment or postponement thereof. In addition to the foregoing, there will be a report on the progress of our company and an opportunity for questions of general interest to the stockholders.

Unless we receive specific instructions to the contrary or unless such proxy is revoked, shares represented by each properly executed proxy will be voted: (i) “FOR” the election of each of our nominees as a director; (ii) “FOR” the ratification of the appointment of EisnerAmper LLP as our independent registered public accounting firm for the fiscal year ending December 31, 2018; (iii) “FOR” the approval and adoption of the I.D. Systems, Inc. 2018 Incentive Plan; (iv) “FOR” the approval, on an advisory basis, of our executive compensation; and (v) with respect to any other matters that may properly come before the Annual Meeting, at the discretion of the proxy holders. We do not presently anticipate that any other business will be presented for action at the Annual Meeting.

Voting at the Annual Meeting

Quorum Requirements

The presence at the Annual Meeting, in person or by proxy, of the holders of a majority of the total outstanding shares of our common stock is necessary to constitute a quorum for the transaction of business at the meeting. Abstentions and broker “non-votes” (as hereinafter defined) are counted as present and entitled to vote for purposes of determining whether a quorum is present. A broker “non-vote” on a matter occurs when a broker, bank or your representative may not vote on a particular matter because it does not have discretionary voting authority and has not received instructions from the beneficial owner.

Shareholders of Record and Beneficial Owners

Each share of our common stock outstanding on the Record Date will be entitled to one vote on each matter submitted to a vote of our stockholders. Cumulative voting by stockholders is not permitted. The shares to be voted include shares of our common stock that are (i) held of record directly in a stockholder’s name and (ii) held for stockholders in “street name” through a broker, bank or other nominee. If your shares are registered directly in your name with the Company’s stock transfer agent, American Stock Transfer & Trust Company, LLC, you are considered the “shareholder of record” with respect to those shares. If your shares are held in a stock brokerage account or by a bank or other nominee, you are considered the “beneficial owner” of those shares.

If you hold your shares of our common stock through a broker, bank or other representative, generally the broker, bank or representative may only vote the common stock that it holds for you in accordance with your instructions. However, under the rules that govern brokers who have record ownership of shares that are held in street name for their clients who are the beneficial owners of the shares, brokers have the discretion to vote such shares on routine matters. Therefore, if the broker, bank or representative has not timely received your instructions, it may vote on certain matters for which it has discretionary voting authority. The ratification of the appointment of an independent registered public accounting firm is considered a routine matter. Thus, if you do not otherwise instruct your broker, the broker may turn in a proxy card voting your shares “FOR” ratification of the independent registered public accounting firm. The Company believes that all of the other proposals to be voted upon at the meeting will be considered “non-routine.” Thus, a broker or other nominee cannot vote without instructions on these non-routine matters, and, consequently, if your shares are held in street name, you must provide your broker or nominee with instructions on how to vote your shares in order for your shares to be voted on those proposals.

Holders of our common stock will not have any rights of appraisal or similar dissenters’ rights with respect to any matter to be acted upon at the Annual Meeting.

Vote Required

For the election of directors, a plurality of the votes cast is required. Since the number of candidates is equal to the number of vacancies, receipt of any votes in favor of any candidate will ensure that that candidate is elected. If no voting direction is indicated on a proxy card that is signed and returned, the shares will be considered votes “FOR” the election of all director nominees set forth in this Proxy Statement. In accordance with Delaware law, stockholders entitled to vote for the election of directors may withhold authority to vote for all nominees for directors or may withhold authority to vote for certain nominees for directors. Abstentions and broker non-votes are not considered for the purpose of the election of directors.

The ratification of the selection of EisnerAmper LLP as the Company’s independent registered public accounting firm, the approval and adoption of the I.D. Systems, Inc. 2018 Incentive Plan and the advisory (non-binding) proposal to approve the Company’s executive compensation each requires the affirmative vote of a majority of the votes cast. Abstentions and broker non-votes will have no effect on the outcome on these matters.

Your vote will not be disclosed either within the Company or to third parties, except: (i) as may be necessary to meet applicable legal requirements or to assert or defend claims for or against the Company; (ii) to allow for the tabulation of votes and certification of the vote; and (iii) to facilitate a successful proxy solicitation.

Effect of Advisory Votes

The approval, on an advisory basis, of our executive compensation, also known as a “say on pay” vote, is an advisory vote mandated by the Dodd-Frank Wall Street Reform and Consumer Protection Act. This means that while we ask stockholders to approve our executive compensation, it is not an action that requires stockholder approval, and stockholders are not voting to approve or disapprove the Board’s recommendation with respect to this proposal. This advisory vote is non-binding on the Board, although the Board welcomes the input of our stockholders on the Company’s compensation policies and compensation program and will take the advisory vote into account in making determinations concerning executive compensation. At our 2017 annual meeting of stockholders held on June 15, 2017, we conducted a stockholder advisory vote on the frequency of future stockholders votes on the Company’s executive compensation (every one, two or three years), also known as a “say on frequency” vote. The Board considered the results of this “say on frequency” advisory vote and, since the most affirmative votes of all the votes cast on the “say on frequency” matter expressed a preference for having the “say on pay” vote every year, determined that an advisory vote on executive compensation would be conducted on an annual basis until the next vote on the frequency of such stockholder advisory votes. Notwithstanding the outcome of stockholder “say on frequency” votes, however, the Board may in the future decide to conduct advisory votes on a less frequent basis if appropriate and may vary its practice based on factors such as discussions with stockholders and the adoption of material changes to compensation programs.

Voting of Proxies

Shareholders of Record

As a shareholder of record, these proxy materials will be furnished directly to you by the Company, by mail. As the stockholder of record, you have the right to grant your voting proxy directly to the Company or to vote in person at the meeting.

Beneficial Owners

As a beneficial owner, you have the right to direct your broker, trustee or nominee as to how to vote your shares. Please refer to the voting instruction card provided by your broker, trustee or nominee. You are also invited to attend the Annual Meeting. However, because a beneficial owner is not the stockholder of record, you may not vote these shares in person at the meeting unless you obtain a “legal proxy” from the broker, trustee or nominee that holds your shares, giving you the right to vote the shares at the meeting. Note that it may take some time to obtain a legal proxy from your broker, trustee or nominee, so, if you plan to request a legal proxy, you should do so well in advance of the meeting.

Voting Without Attending the Meeting

Whether you hold shares directly as the shareholder of record or through a broker, trustee or other nominee as the beneficial owner, you may direct how your shares are voted without attending the Annual Meeting. There are two ways to vote by proxy without attending the meeting:

- **By Internet** — Stockholders of record may submit proxies over the Internet by following the instructions on the proxy card or voting instruction card.
- **By Mail** — Stockholders of record may submit proxies by completing, signing and dating their proxy card or voting instruction card and mailing it in the accompanying pre-addressed envelope.

Revocation of Proxies

Stockholders can revoke a proxy prior to the completion of voting at the Annual Meeting through any of the following methods:

- by writing a letter delivered to Ned Mavrommatis, our Corporate Secretary, stating that the proxy is revoked;
- by submitting another proxy bearing a later date; or
- by attending the Annual Meeting and voting in person (unless you are a beneficial owner without a legal proxy, as described below).

Please note, however, that if a stockholder’s shares are held of record by a broker, bank or other nominee and that stockholder wishes to vote at the Annual Meeting, the stockholder must bring to the Annual Meeting a letter or “legal proxy” from the broker, bank or other nominee confirming the stockholder’s beneficial ownership of the shares.

Solicitation

The cost of preparing, assembling, printing and mailing the proxy material and of reimbursing brokers, nominees and fiduciaries for the out-of-pocket and clerical expenses of transmitting copies of the proxy material to the beneficial owners of shares held of record by such persons will be borne by the Company. Certain officers and employees of the Company, without additional compensation, may use their personal efforts, by telephone or otherwise, to obtain proxies.

We have retained D.F. King & Co., Inc. to provide services as proxy solicitor in connection with this Proxy Statement. We expect that the costs for such services, including fees and expenses, will be in the aggregate amount of approximately \$27,500.

PROPOSAL NO. 1

ELECTION OF DIRECTORS

The Board has nominated Kenneth Brakebill, Michael Brodsky, Michael Casey, Christopher Formant, Ron Konezny and Chris Wolfe for election as directors of the Company. If elected to the Board, each nominee will hold office until our Annual Meeting of Stockholders to be held in 2019 and until his respective successor has been duly elected and qualified, or until his earlier death, resignation or removal. Each of Messrs. Brakebill, Brodsky, Casey, Formant, Konezny and Wolfe has consented to being named as a nominee and, if elected, to serve as a director. The Nominating Committee and the Board believe that each of these nominees possesses the attributes we seek in directors generally as well as the individual experiences, qualifications and skills included in their individual biographies below.

If any nominee is unable to serve, which the Board has no reason to expect, the persons named in the proxy intend to vote for the balance of those nominees named above and, if they deem it advisable, for a substitute nominee.

THE BOARD OF DIRECTORS RECOMMENDS THAT YOU VOTE “FOR” THE ELECTION OF ALL OF THE DIRECTOR NOMINEES LISTED ABOVE.

Information About Our Directors, Director Nominees and Executive Officers

The table below sets forth the names and ages of the directors, nominees for director and executive officers of the Company as of April 26, 2018, as well as the position(s) and office(s) with the Company held by those individuals. A summary of the background and experience of each of those individuals is set forth after the table.

<u>Name</u>	<u>Age</u>	<u>Position(s)</u>
DIRECTORS AND DIRECTOR NOMINEES:		
Chris Wolfe	60	Chief Executive Officer and Director
Kenneth Brakebill	48	Director
Michael Brodsky	50	Director and Chairman of the Board
Michael Casey	55	Director
Christopher Formant	66	Director Nominee
Ron Konezny	50	Director
EXECUTIVE OFFICERS WHO ARE NOT DIRECTORS OR DIRECTOR NOMINEES:		
Michael L. Ehrman	44	Chief Technology Officer
Ned Mavrommatis	46	Chief Financial Officer, Treasurer and Corporate Secretary

Directors and Director Nominees

Chris Wolfe. Mr. Wolfe has served as our Chief Executive Officer since December 2016 and as a director of the Company since June 2017. Mr. Wolfe previously served as our Chief Product Officer from August 2016 to December 2016 and as a strategy consultant for the Company from February 2016 to July 2016. From 2000 to 2005, Mr. Wolfe served as the President of Qualcomm Wireless Business Solutions, a division of Qualcomm Incorporated, a NASDAQ-listed company which provides wireless communications products and services. After leaving Qualcomm, Mr. Wolfe founded Americans for Energy Independence, a public awareness non-profit organization, which later merged into the Apollo Alliance. Mr. Wolfe has degrees in Data Processing, Business Management and Technical Education from the University of Akron. He has attended Stanford’s Executive Course and several MBA-level accounting and finance courses at Kent State University and Cleveland State.

Mr. Wolfe’s qualifications to serve on the Board include his years of experience as an executive in the wireless technology and data solutions sector. In addition, Mr. Wolfe’s role as the Chief Executive Officer of the Company and former role as Chief Product Officer of the Company provides the Board with invaluable insight into the management and daily operations of the Company.

Kenneth Brakebill. Mr. Brakebill has served as a director of the Company since June 2014. Mr. Brakebill is an intellectual property and trial lawyer. Following a one-year appellate clerkship out of law school, in 1998 Mr. Brakebill joined Morrison & Foerster, a global law firm of which he became a partner in 2005. At Morrison & Foerster, Mr. Brakebill primarily represented technology companies, both in the hardware and software sectors, in bet-the-company type intellectual property cases involving disputes over patents, copyrights and contracts concerning use of technology. He retired from the firm in 2010. Since that time, Mr. Brakebill has served as a director of several not-for-profit organizations. Mr. Brakebill received a Bachelor of Arts degree with Honors from Stanford University in 1991 and attended Harvard Law School and the University of California, Hastings, from which he received his law degree in 1997.

Mr. Brakebill has extensive experience representing technology companies in litigation concerning intellectual property rights and rightful use of technology, and accordingly, has insights in the area of intellectual property rights in technology. Mr. Brakebill participated on successful trial teams that represented Novell, Inc., then a publicly held software company, in a widely-followed case concerning ownership of the copyrights in the UNIX operating system; and Altera Corporation, a publicly traded global semiconductor company, in cases concerning the designs of Altera's reprogrammable logic device technology and its software tools. Through these representations, Mr. Brakebill gained significant experience working with senior executives of companies on issues relating to litigation-impacted product lines and strategic direction. We believe that Mr. Brakebill's legal and technology background and experience as a director of not-for-profit companies, give him the qualifications and skills to enable him to serve as an effective contributing member of the Board.

Michael Brodsky. Mr. Brodsky has served as a director of the Company since June 2014, as Chairman of the Board since December 2016 and as Lead Director of the Board from June 2014 until December 2016. Mr. Brodsky is the Managing Partner of Vajra Asset Management, LLC, an investment firm. Mr. Brodsky has served as the Chairman of the Board of Determine, Inc. (NASDAQ: DTRM), a provider of contract management, procurement and sourcing software that is headquartered in Carmel, Indiana, since August 2013, has served on its board of directors October 2010 and served as its Chief Executive Officer from August 2013 until December 2013. He has also served as the Chairman of the Board of Trans World Corporation (OTCQB: TWOC), an owner and operator of hotels and casinos throughout Europe that is headquartered in New York City, since June 2014 and as a director since September 2013. Since June 2012, he has served on the board of directors of Genesis Land Development Corporation (TSX: GDC), a residential land developer and homebuilder based in Calgary, Canada. Mr. Brodsky also served on the board of directors of Los Angeles-based Spark Networks, Inc. (AMEX: LOV), a collection of niche-oriented community websites, from November 2015 until its sale in November 2017. From February 2015 until its sale in July 2015, Mr. Brodsky also served on the board of directors of JPS Industries, Inc. (formerly OTCBK: JPST), a manufacturer of urethane film, sheet, tubing, and other highly-engineered components which is headquartered in Greenville, South Carolina. From February 2013 until July 2014, he was a member of the board of directors of AltiGen Communications, Inc. (OTCPK: ATGN), a provider of Voice over Internet Protocol (VoIP) phone systems and call center solutions based in San Jose, California. Previously, he was a member of the board of directors and served as the President, Chief Executive Officer and Executive Chairman of Youbet.com, Inc. (formerly NASDAQ: UBET), an online horse racing wagering provider based in Woodland Hills, California. Following the June 2010 acquisition of Youbet.com, Inc. by Churchill Downs Incorporated (NASDAQ: CHDN), an industry-leading racing, gaming and online entertainment company headquartered in Louisville, Kentucky, Mr. Brodsky served on the board of directors of Churchill Downs until April 2012. From 2005 to 2011, Mr. Brodsky was the managing partner of New World Opportunity Partners, LLC, an investment firm.

Mr. Brodsky possesses extensive business, operating and executive expertise. Among other things, Mr. Brodsky has served as the Chief Executive Officer of several companies and possesses skills in executive management and leadership. We believe Mr. Brodsky's management and leadership skills and experience as a member of the board of directors of various companies enable him to be an effective contributing member of the Board.

Michael Casey. Mr. Casey has served as a director of the Company since September 2016. Mr. Casey served on the board of directors and as a member of the nominating/corporate governance committee and as Chairperson of the audit committee for Determine, Inc. (DTRM) since 2010. Mr. Casey also serves on the board of directors of Revegy, Inc., a privately held software business, and on the board of directors of ServisFirst Bank of Atlanta, a subsidiary of ServisFirst Bancshares Inc. (SFBS). Since 2006, Mr. Casey has been a partner at TechCXO, LLC, a professional services firm that provides financial, strategic and operational consulting services to businesses in the technology industry. Mr. Casey's prior experience includes having served as chief financial officer for MAPICS, Inc., a publicly traded provider of enterprise resource planning software for the discrete manufacturing industries. Previously, Mr. Casey served as executive vice president, chief financial and administrative officer of iXL Enterprises, Inc., a publicly traded professional services firm, chief financial officer of Manhattan Associates, Inc., a publicly traded provider of supply chain execution solutions, and chief financial officer of IQ Software Corporation, a publicly traded provider of business intelligence software. Mr. Casey began his career as a CPA with Arthur Andersen & Co. and holds a B.B.A. degree in accounting from The University of Georgia.

Mr. Casey possesses extensive business, operating and executive expertise. Mr. Casey's experience includes more than eleven years as a Chief Financial Officer of publicly traded software and services companies including business intelligence and supply chain sectors. In addition, Mr. Casey has served as Chief Financial Officer, Chief Operating Officer and advisor for software businesses in the asset performance management, supply chain and business intelligence and analytics sectors. We believe Mr. Casey's management and leadership skills and experience with software businesses enable him to be an effective contributing member of the Board.

Christopher Formant. Mr. Formant served as the President of Verizon Enterprise Solutions, a division of Verizon Communications Inc. that provides technology and communications services and products to business and government customers, from January 2014 until December 2017. Mr. Formant previously served as the Senior Vice President of Avaya Inc. and President of Avaya Government Solutions, a provider of collaboration and communications products to governmental agencies, from August 2010 until April 2013. Mr. Formant has served on the board of directors of Vox Mobile, Inc. since December 2016, Emtec, Inc. since December 2011, and Proposal Software Inc. since January 2017. Mr. Formant is also on the board of trustees of the Rock and Roll Hall of Fame and Maryland University of Integrative Health.

Mr. Formant possesses extensive business, operating and executive expertise. Through his experience over the past decade as an executive of various companies in the technology and communications sectors, Mr. Formant has acquired skills in executive management and leadership. We believe Mr. Formant's management and leadership skills and experience with technology and communications businesses enable him to be an effective contributing member of the Board.

Ron Konezny. Mr. Konezny has served as a director of the Company since June 2014. Mr. Konezny has served as the President and Chief Executive Officer and a director of Digi International Inc., a publicly held provider of machine-to-machine ("M2M") networking hardware and solutions, since December 2014. Mr. Konezny served as Vice President, Global Transportation and Logistics of Trimble Navigation Limited, a publicly held provider of technology solutions for field and mobile worker productivity ("Trimble"), from September 2013 until December 2014, and as Chief Executive Officer of PeopleNet Communications Corporation ("PeopleNet"), an onboard computing and carrier fleet communications provider, from 2007 until December 2014. Mr. Konezny served as General Manager of Trimble's Global Transportation and Logistics division from August 2011, when Trimble acquired PeopleNet, to December 2014. Mr. Konezny served in several positions with PeopleNet since he co-founded it in 1994, including Chief Operating Officer and Chief Financial Officer from 2001 to 2007 and Chief Technology Officer from 1996 to 2007. Mr. Konezny has previously served on the boards of directors of the National Private Truck Council Institute and the Truckload Carriers Association. Mr. Konezny received a Bachelor of Arts degree from Northwestern University.

Mr. Konezny possesses extensive business, operating and executive expertise. Through his executive positions with PeopleNet, Mr. Konezny has acquired skills in executive management and leadership. Specifically, in his positions as Chief Executive Officer, Chief Operating Officer and Chief Financial Officer of PeopleNet, Mr. Konezny led PeopleNet's growth, profitability, and solution innovation. He also led PeopleNet's technology team and platform vision, which resulted in the first internet-based solution in the market, patented OTAP (over-the-air-programming), email messaging, handheld integration, Vehicle Management engine data interface, eDriver Logs, Automated Fuel Tax, and Automated Workflow. We believe Mr. Konezny's management and leadership skills and technological background enable him to be an effective contributing member of the Board.

Executive Officers

Chris Wolfe. See narrative description under the caption "Directors and Director Nominees" above.

Michael L. Ehrman. Mr. Ehrman serves as our Chief Technology Officer, a position he has held since March 2010. Mr. Ehrman previously served as our Executive Vice President of Engineering from August 1999 until March 2010. Prior to that, he served as our Executive Vice President of Software Development since joining us in 1995. Mr. Ehrman graduated from Stanford University in 1994 with a Master of Science in Engineering - Economics Systems as well as a Bachelor of Science in Computer Systems Engineering. Upon his graduation in 1994, Mr. Ehrman was employed as a consultant for Andersen Consulting in New York.

Ned Mavrommatis. Mr. Mavrommatis has served as our Chief Financial Officer since joining us in August 1999, as our Treasurer since June 2001, and as our Corporate Secretary since November 2003. Mr. Mavrommatis is also the Managing Director of our wholly-owned subsidiaries, I.D. Systems GmbH and I.D. Systems (UK) Ltd. Prior to joining us, Mr. Mavrommatis was a Senior Manager at the accounting firm of Eisner LLP (currently known as EisnerAmper LLP). Mr. Mavrommatis received a Master of Business Administration in finance from New York University's Leonard Stern School of Business and a Bachelor of Business Administration in accounting from Bernard M. Baruch College, The City University of New York. Mr. Mavrommatis is also a Certified Public Accountant.

Bankruptcies

Other than as set forth below, during the past ten years, a petition under the Federal bankruptcy laws or any state insolvency law has not been filed by or against, or a receiver, fiscal agent or similar officer has not been appointed by a court for the business or property of any of our directors, executive officers or nominees for election as director at the Annual Meeting, or any partnership in which he was a general partner at or within two years before the time of such filing, or any corporation or business association of which he was an executive officer at or within two years before the time of such filing. Mr. Brodsky served as the Co-Chief Executive Officer of Federated Sports & Gaming Inc. (“Federated”) and Federated Heartland, Inc. (“Federated Heartland”) from October 2010 until his resignation from Federated and Federated Heartland, effective March 1, 2012. On February 28, 2012, each of Federated and Federated Heartland filed a voluntary petition for relief under Chapter 11 of the United States Bankruptcy Code in the United States Bankruptcy Court for the District of Maryland.

CORPORATE GOVERNANCE AND BOARD MATTERS

General

Our Board is responsible for the management and direction of our Company and for establishing broad corporate policies. Members of the Board are kept informed of our business through various documents and reports provided by the Chief Executive Officer and other corporate officers, and by participating in Board and committee meetings. Each director has access to all of our books, records and reports, and members of management are available at all times to answer their questions.

Currently, there are five members of the Board. The Board is not classified or staggered, and all directors hold office until the next annual meeting of stockholders or until their respective successors are elected and qualified.

Director Independence

Our Board has determined that each of our current directors and Mr. Formant satisfies the current “independent director” standards established by the Nasdaq Rules and, as to the members of the Audit Committee of our Board, the additional independence requirements under applicable rules and regulations of the SEC. Thus, a majority of the Board is comprised of independent directors as required by the Nasdaq rules. The Audit Committee of the Board is composed of Messrs. Brodsky, Casey and Konezny, each of whom is an independent director in accordance with Nasdaq Rule 5605(c). The Compensation Committee of the Board is composed of Messrs. Brakebill, Casey and Konezny, each of whom is an independent director in accordance with Nasdaq Rule 5605(d). The Nominating Committee of the Board is composed of Messrs. Brakebill, Brodsky and Casey, each of whom is independent in accordance with Nasdaq Rule 5605(e).

In determining the independence of Mr. Casey, the Board considered and deemed immaterial to Mr. Casey’s independence a transaction involving certain sales consulting services performed by a partner of TechCXO, LLC, a firm of which Mr. Casey is a partner. Mr. Casey did not receive any direct or indirect compensation from the Company in connection with the services performed by his partner. Effective May 31, 2017, the Company and TechCXO, LLC mutually terminated the agreement pursuant to which such consulting services were performed.

Board Leadership Structure

In December 2016, we experienced a CEO transition and made changes in our Board leadership structure. Our former Chairman and Chief Executive Officer, Kenneth S. Ehrman, resigned from the Company effective December 6, 2016. Michael Brodsky, our independent lead director, was appointed as the new Chairman and Mr. Wolfe was appointed as the new Chief Executive Officer. The separation of the roles of Chairman and Chief Executive Officer allows our independent Chairman to focus on governance of our Board, Board meeting agenda planning, Board committee responsibilities, investor engagement and outreach on governance matters, and our Chief Executive Officer to focus his attention on our business and execution of our Company’s strategy. While the Board believes that this leadership structure is the most effective for the Company at this time, it continues to evaluate the composition of the Board to determine what leadership structure is most appropriate for the Company and our stockholders.

Risk Oversight

The Board has the ultimate oversight responsibility for the risk management process and regularly reviews issues that present particular risk to us, including those involving competition, customer demands, economic conditions, planning, strategy, finance, sales and marketing, products, information technology, facilities and operations, supply chain, legal and environmental matters and insurance. The Board further relies on the Audit Committee for oversight of certain areas of risk management. In particular, the Audit Committee focuses on financial and enterprise risk exposures, including internal controls, and discusses with management and the Company’s independent registered public accounting firm our policies with respect to risk assessment and risk management, including risks related to fraud, liquidity, credit operations and regulatory compliance, and advises the internal audit function as to overall risk assessment of the Company.

While the Board oversees risk management, Company management is charged with managing risk. Management communicates routinely with the Board, committees of the Board and individual directors on significant risks that have been identified and how they are being managed. Directors are free to, and indeed frequently do, communicate directly with senior management.

The Company believes that its leadership structure, discussed above, supports the risk oversight function of the Board. The separation of the Chairman and Chief Executive Officer positions aids in the Board’s oversight of management, independent directors chair the various Board committees involved with risk oversight, there is frequent and open communication among management and directors, and all directors are actively involved in the risk oversight function. The Board believes that this approach provides appropriate checks and balances against undue risk-taking.

Board and Committee Meetings

The Board held 10 meetings during our fiscal year ended December 31, 2017. Each director attended over 75% of the aggregate number of meetings of the Board and the meetings held by committees of the Board during 2017. Actions were also taken by the unanimous written consent of the members of the Board on 2 occasions during the fiscal year ended December 31, 2017.

We have adopted a policy of encouraging, but not requiring, members of the Board to attend our annual meetings of stockholders. Mr. Wolfe attended our 2017 annual meeting of stockholders held on June 15, 2017 in person, and Mr. Casey attended the meeting by telephone.

Committees of the Board

The standing committees of the Board include the Audit Committee, the Compensation Committee and the Nominating Committee.

Audit Committee

The Audit Committee, which is a separately designated standing audit committee established in accordance with Section 3(a)(58)(A) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), is composed of Messrs. Brodsky, Casey and Konezny, each of whom is independent under Nasdaq Rule 5605(c)(2) and Rule 10A-3 under the Exchange Act.

The Board has determined that it has at least one “audit committee financial expert” serving on the Audit Committee. Mr. Casey serves as the audit committee financial expert. Mr. Casey also serves as the Chairman of the Audit Committee.

The Audit Committee held 5 meetings during the fiscal year ended December 31, 2017. The Audit Committee acted by unanimous written consent on 1 occasion during the fiscal year ended December 31, 2017.

The Board has adopted a written charter for the Audit Committee, a copy of which is publicly available on our website at www.id-systems.com. The Audit Committee’s charter sets forth the responsibilities, authority and specific duties of the Audit Committee and is reviewed and reassessed annually. The information on our website is not a part of this Proxy Statement. The charter specifies, among other things, the structure and membership requirements of the Audit Committee, as well as the relationship of the Audit Committee to our independent registered public accounting firm and management.

In accordance with its written charter, the Audit Committee assists the Board in monitoring (i) the integrity of our financial reporting process including our internal controls regarding financial reporting, (ii) our compliance with legal and regulatory requirements and (iii) the independence and performance of our internal and external auditors, and serves as an avenue of communication among the independent registered public accounting firm, management and the Board.

The report of the Audit Committee appears on page 16 of this Proxy Statement.

Compensation Committee

The Compensation Committee is composed of Messrs. Brakebill, Casey and Konezny, each of whom is independent within the meaning of Nasdaq Rule 5605(a)(2). Mr. Konezny serves as the Chairman of the Compensation Committee.

The Compensation Committee held 1 meeting during the fiscal year ended December 31, 2017. The Compensation Committee acted by unanimous written consent on 3 occasions during the fiscal year ended December 31, 2017.

The Compensation Committee recommends to the Board for its approval our executive officers' annual compensation and long-term incentives and option and other equity grants, reviews management's performance, development and compensation, and administers our incentive plans. The Board has adopted a written charter for the Compensation Committee, a copy of which is publicly available on our website at www.id-systems.com. The Compensation Committee's charter sets forth the responsibilities, authority and specific duties of the Compensation Committee and is reviewed and reassessed annually. The charter specifies that the Compensation Committee has overall responsibility for evaluating and recommending to the Board for approval our director and officer compensation plans, policies and programs and for producing an annual report on executive compensation for inclusion in our annual report on Form 10-K or annual proxy statement, in accordance with applicable rules and regulations. The charter also specifies that the Compensation Committee may form and delegate authority to subcommittees of the Compensation Committee when appropriate; however, the Compensation Committee may not delegate authority to any other persons. As discussed below under "Compensation Discussion and Analysis," for compensation decisions, the Compensation Committee considers recommendations relating to compensation for executive officers (other than our Chief Executive Officer, if any) of our Chief Executive Officer and includes him in its discussions with respect to such compensation, and considers compensation information provided by compensation consultants, if any, retained by the Compensation Committee for such purpose.

The Compensation Committee Process. Compensation Committee meetings typically involve a preliminary discussion with our Chief Executive Officer prior to the Compensation Committee deliberating without any members of management present. For compensation decisions, including decisions regarding the grant of equity compensation relating to executive officers (other than our Chief Executive Officer), the Compensation Committee considers the recommendations of our Chief Executive Officer and includes him in its discussions. The Compensation Committee may form and delegate authority to subcommittees of the Compensation Committee when appropriate.

Compensation Consultants. The Company did not engage a compensation consultant for 2017.

The report of the Compensation Committee appears on page 17 of this Proxy Statement.

Nominating Committee

The Nominating Committee is composed of Messrs. Brakebill, Brodsky and Casey, each of whom is independent within the meaning of Nasdaq Rule 5605(a)(2). Mr. Brakebill serves as the Chairman of the Nominating Committee.

The Nominating Committee acted by unanimous written consent on 1 occasion during the fiscal year ended December 31, 2017.

The Board has adopted a written charter for the Nominating Committee, which is publicly available on our website at www.id-systems.com. The Nominating Committee's charter authorizes the committee to develop certain procedures and guidelines addressing certain nominating matters, such as procedures for considering nominations made by stockholders, minimum qualifications for nominees and identification and evaluation of candidates for the Board, and the Nominating Committee has adopted procedures addressing the foregoing.

Procedures for Considering Nominations Made by Stockholders. The Nominating Committee has adopted guidelines regarding procedures for nominations to be submitted by stockholders and other third parties, other than candidates who have previously served on the Board or who are recommended by the Board. These guidelines provide that a nomination must be delivered to our Corporate Secretary at our principal executive offices not later than the close of business on the 90th day nor earlier than the close of business on the 120th day prior to the first anniversary of the preceding year's annual meeting; provided, however, that if the date of the annual meeting is more than 30 days before or more than 60 days after such anniversary date, notice to be timely must be so delivered not earlier than the close of business on the 120th day prior to such annual meeting and not later than the close of business on the later of the 90th day prior to such annual meeting or the close of business on the 10th day following the day on which public announcement of the date of such meeting is first made by the Company. The public announcement of an adjournment or postponement of an annual meeting will not commence a new time period (or extend any time period) for the giving of a notice as described above. The guidelines require a nomination notice to set forth as to each person whom the proponent proposes to nominate for election as a director: (i) all information relating to such person that is required to be disclosed in solicitations of proxies for election of directors in an election contest, or is otherwise required, in each case pursuant to Regulation 14A under the Exchange Act (including such person's written consent to being named in the proxy statement as a nominee and to serving as a director if elected), and (ii) information that will enable the Nominating Committee to determine whether the candidate or candidates satisfy the criteria established pursuant to the charter for director candidates. The Nominating Committee's policy is to consider all persons proposed to be nominated for election as a director in accordance with these procedures.

Qualifications. The Nominating Committee has adopted guidelines describing the minimum qualifications for nominees and the qualities or skills that are necessary for directors to possess. Each nominee:

- must satisfy any legal requirements applicable to members of the Board;
- must have business or professional experience that will enable such nominee to provide useful input to the Board in its deliberations;
- must have a reputation, in one or more of the communities serviced by the Company and its affiliates, for honesty and ethical conduct;
- must have a working knowledge of the types of responsibilities expected of members of the board of directors of a public company; and
- must have experience, either as a member of the board of directors of another public or private company or in another capacity, that demonstrates the nominee's capacity to serve in a fiduciary position.

We believe that each member of our Board should possess the qualities of character, judgment, business acumen, diligence, lack of conflicts of interest, familiarity with our business and industry, ability to work collegially and ability to act in the best interests of all stockholders. While we do not have a formal diversity policy, we seek to have directors representing a range of experiences, qualifications, skills and backgrounds.

Identification and Evaluation of Candidates for the Board. Candidates to serve on the Board will be identified from all available sources, including recommendations made by stockholders of the Company. The Nominating Committee has a policy that there will be no differences in the manner in which the Nominating Committee evaluates nominees recommended by stockholders and nominees recommended by the Committee or management, except that no specific process shall be mandated with respect to the nomination of any individuals who have previously served on the Board. The evaluation process for individuals other than existing members of the Board will include:

- a review of the information provided to the Nominating Committee by the proponent;
- a review of reference letters from at least two sources determined to be reputable by the Nominating Committee; and
- a personal interview of the candidate, together with a review of such other information as the Nominating Committee shall determine to be relevant.

Mr. Formant was recommended to the Nominating Committee for nomination for election as a director by Michael Casey, a current director of the Company.

Stock Ownership Guidelines. On April 29, 2009, the Board adopted stock ownership guidelines to further align the interests of our non-employee directors with the interests of our stockholders and to promote our commitment to sound corporate governance. Pursuant to these guidelines, each outside director is required to hold shares of our common stock with a value equal to three times the amount paid in cash to such director for services as a director (including for in-person and telephonic meetings of the Board and meetings of committees of the Board) during the fiscal year ended December 31, 2008 or, if all such meetings were not attended by such director during such year, the amount that would have been paid in cash to such director for services as a director had such director attended all such meetings. The ownership guideline value for each outside director initially was calculated with respect to the fiscal year ended December 31, 2008, was re-calculated with respect to the fiscal year ended December 31, 2012 and will be re-calculated with respect to each third fiscal year thereafter. Outside directors are required to achieve the applicable level of ownership within three (3) years of the later of the date the guidelines were adopted and the date the person first became an outside director. Under the stock ownership guidelines, the value of the shares of common stock held by each outside director will be determined on April 1st of each year based on the average for the twenty (20) consecutive trading days preceding and including such date of the reported last sale prices per share on the Nasdaq Global Market or other principal national securities exchange or inter-dealer quotation system on which our common stock is listed or admitted to trading. During the fiscal year ended December 31, 2017, each of our non-employee directors elected to be paid in restricted shares of common stock in lieu of cash in consideration for his services as a director of the Company. As of April 1, 2018, each non-employee director had achieved his applicable level of ownership in accordance with the stock ownership guidelines.

Third Party Recommendations. In connection with the Annual Meeting, the Nominating Committee did not receive any nominations from any stockholder or group of stockholders which owned more than 5% of our common stock for at least one year.

Compensation of Directors

General

All directors are entitled to reimbursement for travel and lodging and other reasonable out-of-pocket expenses incurred by them in connection with their attendance at Board and/or Board committee meetings or other activities on our behalf.

Employee Directors

Directors who are current officers or employees of the Company or any subsidiary of the Company do not receive any additional compensation for their service as members of either the Board or any committees of the Board.

Non-Employee Directors

On August 1, 2017, the Board adopted a non-employee director compensation program pursuant to which non-employee directors are entitled to receive annual compensation having economic value of approximately \$119,000, which includes a cash retainer of \$59,000 and restricted stock grants with an economic value of approximately \$60,000. The cash retainer may be paid, at each director's election, in cash or in restricted shares of our common stock. Each of the non-employee directors elected to be paid his retainer for 2017 in restricted shares of our common stock. With respect to restricted stock awards, the number of shares issuable was calculated based on the average of the reported closing price per share of the stock on the NASDAQ Global Market for the twenty (20) consecutive trading days prior to and the twenty (20) consecutive trading days following and including the date of our earnings release for the fiscal quarter ended June 30, 2017.

The Chairman of the Board and the chairperson of each of the committees of the Board are also entitled to a supplemental retainer, which may be paid, at each director's election, in cash or in restricted shares of our common stock. Specifically, the Chairman of the Board receives an additional \$36,000 per year of service; the chairperson of the Audit Committee receives an additional \$18,000 per year of service; the chairperson of the Compensation Committee receives an additional \$12,000 per year of service; and the chairperson of the Nominating Committee receives an additional \$10,000 per year of service. In addition, if during the year, any director attends, in person or by telephone, more than eight meetings of the Board and/or any committee thereof, in the aggregate, such director will be entitled to receive for each additional meeting attended in person or by telephone a payment of \$1,000 or \$500; however, the directors maintain discretion to waive, and have on occasion agreed to waive, those additional meeting fees. Each of the non-employee directors elected to be paid his supplemental retainer in 2017 in restricted shares of our common stock.

In addition, on February 17, 2017, the Compensation Committee awarded each of the non-employee directors 5,000 restricted shares of our common stock, which is intended to be a one-time grant in light of the fact that each non-employee director has elected to be paid in restricted stock in lieu of cash during the entirety of such director's tenure and the increase in the number of Board meetings due in part to the CEO transition and change in Board leadership structure. The Board believes that it is in the best interests of the Company and its stockholders for the non-employee directors to be paid their retainers in stock in lieu of cash.

On February 17, 2017, the Compensation Committee also awarded Michael Brodsky, the Chairman of the Board, a one-time grant of options to purchase 50,000 shares of our common stock, which options vest in equal increments over a four-year period, such that 25% of the options will vest on the first, second, third and fourth anniversaries of the date of grant, provided that Mr. Brodsky is serving as a director of the Company on each such date. This one-time award was made in consideration of the additional responsibilities that Mr. Brodsky has undertaken as Chairman of the Board and as a result of the CEO transition.

Our non-employee directors are entitled to participate in the Company's 2009 Non-Employee Director Equity Compensation Plan (the "2009 Plan"), which was adopted by the Board in April 2009, and approved by our stockholders in June 2009. In June 2011, our stockholders also approved an amendment to the 2009 Plan, which increased the number of shares available for issuance under the 2009 Plan from 300,000 to 600,000. As of April 26, 2018, a total of 13,644 shares of our common stock remain reserved and available for issuance under the 2009 Plan, as amended. Non-employee directors are eligible to be awarded non-qualified stock options and shares of restricted stock under the 2009 Plan. A recipient of restricted stock under the 2009 Plan is entitled to vote such shares and would be entitled to dividends, if any, paid on such shares, but is not entitled to dispose of such shares until they have vested in accordance with the terms of the applicable award.

Our non-employee directors are also entitled to participate in the Company’s 2015 Equity Compensation Plan (the “2015 Plan”), which was adopted by the Board in May 2015 and approved by our stockholders in June 2015. As of April 26, 2018, a total of 10,780 shares of our common stock remain reserved and available for issuance under the 2015 Plan. Non-employee directors are eligible to be awarded non-qualified stock options, shares of restricted stock, stock appreciation rights and other awards under the 2015 Plan. A recipient of restricted stock under the 2015 Plan is entitled to vote such shares and would be entitled to dividends, if any, paid on such shares, but is not entitled to dispose of such shares until they have vested in accordance with the terms of the applicable award.

During the fiscal year ended December 31, 2017, each of Kenneth Brakebill, Michael Brodsky, Michael Casey and Ron Konezny was awarded an aggregate of 24,406, 28,317, 25,609 and 24,706 restricted shares of common stock, respectively, in consideration for his services as a director of the Company and Mr. Brodsky was awarded stock options to purchase 50,000 shares of common stock as additional compensation for his services as the Chairman of the Board, as previously discussed. All of these awards were made pursuant to the 2015 Plan. The restricted stock awards consist of (i) 5,000 restricted shares of common stock that were granted to each of Messrs. Brakebill, Brodsky, Casey and Konezny on February 17, 2017, which vest as to 100% of such shares on the first anniversary of the date of grant, provided that such non-employee director is then serving as a director of the Company, and (ii) 19,406, 23,317, 20,609 and 19,706 restricted shares of common stock, respectively, that were granted to Messrs. Brakebill, Brodsky, Casey and Konezny on August 31, 2017, which vest as to 100% of such shares on June 15, 2018, provided that such non-employee director is then serving as a director of the Company.

Our non-employee directors are not entitled to retirement, benefit or other perquisite programs.

The following table provides certain information with respect to the compensation paid to our non-employee directors during the fiscal year ended December 31, 2017.

<u>Name</u>	Fees Earned or Paid in Cash	Stock Awards	Option Awards	Total (\$)
	(\$)⁽¹⁾⁽³⁾⁽⁴⁾	(\$)⁽²⁾⁽³⁾⁽⁴⁾	(\$)⁽⁵⁾⁽⁶⁾	
Kenneth Brakebill.....	\$ 69,000	\$ 87,224	-	\$ 156,224
Michael Brodsky.....	\$ 95,000	\$ 87,224	\$ 105,455	\$ 287,679
Michael Casey	\$ 77,000	\$ 87,224	-	\$ 164,224
Ron Konezny	\$ 71,000	\$ 87,224	-	\$ 158,224

- (1) The amount under this column with respect to each of Kenneth Brakebill, Michael Brodsky, Michael Casey and Ron Konezny reflects the dollar amount of fees for which such non-employee director elected to be paid in restricted shares of our common stock in lieu of cash, which shares were issued under the 2015 Plan on August 31, 2017. The number of restricted shares issued to each of such non-employee directors in lieu of cash was calculated based on the average of the reported closing price per share of the stock on the NASDAQ Global Market for the twenty (20) consecutive trading days prior to and the twenty (20) consecutive trading days following and including the date of our earnings release for the fiscal quarter ended June 30, 2017. Messrs. Brakebill, Brodsky, Casey and Konezny were granted 10,380, 14,291, 11,583 and 10,681 restricted shares of our common stock, respectively, in lieu of cash, the aggregate grant date fair value of which, computed in accordance with ASC 718, disregarding any service-based vesting conditions, is \$65,808, \$90,605, \$73,437 and \$67,715, respectively.
- (2) The amounts under this column reflect the sum of the aggregate grant date fair value of 5,000 restricted shares of our common stock granted to each of Kenneth Brakebill, Michael Brodsky, Michael Casey and Ron Konezny, under the 2015 Plan on February 17, 2017, and the aggregate grant date fair value of 9,026 restricted shares of our common stock granted to each of Kenneth Brakebill, Michael Brodsky, Michael Casey and Ron Konezny, under the 2015 Plan on August 31, 2017, computed in accordance with ASC 718, disregarding any service-based vesting conditions. For a discussion of the assumptions we made in valuing the stock awards, see “Note 2(S) — Summary of Significant Accounting Policies — Stock-based compensation” and “Note 11 — Stock-Based Compensation” in the notes to our consolidated financial statements contained in our Annual Report on Form 10-K for the fiscal year ended December 31, 2017. The amounts set forth under this column do not include the restricted shares of common stock granted in lieu of cash for fees set forth under the column “Fees Earned or Paid in Cash.”
- (3) Of the restricted stock awards granted to Messrs. Brakebill, Brodsky, Casey and Konezny, 5,000 restricted shares of common stock will vest in full on February 17, 2018, provided that such non-employee director is then serving as a director of the Company on such date, and 19,406, 23,317, 20,609 and 19,706 restricted shares of common stock, respectively, will vest in full on June 15, 2018, provided that such non-employee director is then serving as a director of the Company on such date.

- (4) At December 31, 2017, Kenneth Brakebill held 73,192 shares of restricted stock; Michael Brodsky held 160,674 shares of restricted stock; Michael Casey held 42,522 shares of restricted stock; and Ron Konezny held 72,379 shares of restricted stock.
- (5) The amounts under this column reflect the aggregate grant date fair value of options to purchase 50,000 shares of our common stock granted to Michael Brodsky under the 2015 Plan on February 17, 2017, computed in accordance with ASC 718, disregarding any service-based vesting conditions. For a discussion of the assumptions we made in valuing the stock options, see “Note 2(S) — Summary of Significant Accounting Policies — Stock-based compensation” and “Note 11 — Stock-Based Compensation” in the notes to our consolidated financial statements contained in our Annual Report on Form 10-K for the fiscal year ended December 31, 2017.
- (6) At December 31, 2017, each of Kenneth Brakebill, Michael Casey and Ron Konezny held options to purchase 45,000 shares of our common stock and Michael Brodsky held options to purchase 95,000 shares of our common stock.

Process for Sending Communications to the Board of Directors

The Board has established a procedure that enables stockholders to communicate in writing with members of the Board. Any such communication should be addressed and sent to our Corporate Secretary at c/o I.D. Systems, Inc., 123 Tice Boulevard, Woodcliff Lake, New Jersey 07677. Any such communication must state, in a conspicuous manner, that it contains a stockholder communication and that it is intended for distribution to the entire Board or to one or more members of the Board, as applicable. All such stockholder communications will be forwarded to the director or directors to whom the communications are addressed. Under the procedures established by the Board, upon the Corporate Secretary’s receipt of such a communication, our Corporate Secretary will send a copy of such communication to each member of the Board or to the applicable director(s), identifying it as a communication received from a stockholder. Absent unusual circumstances, at the next regularly scheduled meeting of the Board held more than two days after such communication has been distributed, the Board will consider the substance of any such communication.

Code of Ethics

We have a code of ethics (the “Code of Ethics”) that applies to our Chief Executive Officer, Chief Financial Officer and Controller and other persons who perform similar functions. A copy of our Code of Ethics can be found on our website at www.id-systems.com. The Code of Ethics also is available in print, free of charge, to any stockholder who requests a copy by writing to the Company at the following address: I.D. Systems, Inc., 123 Tice Boulevard, Woodcliff Lake, New Jersey 07677, Attention: Corporate Secretary. Our Code of Ethics is intended to be a codification of the business and ethical principles that guide the Company, and to deter wrongdoing, to promote honest and ethical conduct, to avoid conflicts of interest, and to foster full, fair, accurate, timely and understandable disclosures, compliance with applicable governmental laws, rules and regulations, the prompt internal reporting of violations and accountability for adherence to this code. We will post any amendment to the Code of Ethics, as well as any waivers that are required to be disclosed by the rules of the SEC or The NASDAQ Stock Market LLC, on our website.

Certain Relationships and Related Transactions

Our policy prohibits conflicts between the interests of our employees, officers and directors and our company. A conflict of interest exists when an employee, officer, or director’s personal interest interferes or may interfere with the interests of the Company. When it is deemed to be in the best interests of our company and our stockholders, the Audit Committee may grant waivers to employees, officers and directors who have disclosed an actual or potential conflict of interest, which waivers are subject to approval by our Board. This policy is included in our Code of Business Conduct and Ethics for Employees, Officers and Directors.

In accordance with its charter, the Audit Committee is responsible for annually reviewing any transactions or series of similar transactions to which we are or were a party and in which any director, executive officer or beneficial holder of more than 5% of any class of our voting securities, or members of any such person’s immediate family, have had or will have a direct or indirect material interest. Our Audit Committee’s procedures for reviewing related party transactions are not in writing. Except as described below, since January 1, 2016, there has not been, nor is there currently proposed, any transaction or series of similar transactions to which the Company is or was a party in which the amount involved exceeds \$120,000 and in which any director, executive officer or beneficial holder of more than 5% of any class of our voting securities, or members of any such person’s immediate family, have had or will have a direct or indirect material interest. As of April 26, 2018, our common stock is the Company’s only class of voting securities.

REPORT OF THE AUDIT COMMITTEE

The Report of the Audit Committee does not constitute soliciting material, and shall not be deemed to be filed or incorporated by reference into any other Company filing under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, whether made before or after the date of this Proxy Statement and irrespective of any general incorporation language in those filings, except to the extent that the Company specifically incorporates the Report of the Audit Committee by reference therein.

The Audit Committee of the Board of Directors is currently comprised solely of independent directors meeting the requirements of applicable rules of the SEC and of The NASDAQ Stock Market LLC. All members of the Audit Committee were appointed by the Board. The Audit Committee operates pursuant to a written charter adopted by the Board. The Audit Committee reviews and assesses the adequacy of its charter on an annual basis. As more fully described in the charter, the purpose of the Audit Committee is to provide general oversight of the Company's financial reporting, integrity of financial statements, internal controls and internal audit functions.

Management is responsible for the preparation, presentation and integrity of the Company's financial statements, accounting and financial reporting principles, and internal controls and procedures designed to ensure compliance with applicable accounting standards, laws and regulations. The Company's independent registered public accounting firm, EisnerAmper LLP, is responsible for performing an independent audit of the Company's financial statements in accordance with standards of the Public Accounting Oversight Board (United States) ("PCAOB") and expressing an opinion in its report on those financial statements.

The Audit Committee reviewed the Company's audited financial statements for the year ended December 31, 2017 and met with both management and EisnerAmper LLP to discuss those financial statements and EisnerAmper LLP's related opinion.

The Audit Committee has discussed with EisnerAmper LLP the matters required to be discussed by Statement on Auditing Standards No. 1301, Communications with Audit Committees.

The Audit Committee has received and reviewed the written disclosures and the letter from EisnerAmper LLP required by applicable requirements of the PCAOB regarding EisnerAmper LLP's communications with the Audit Committee concerning independence and has discussed with EisnerAmper LLP its independence.

Based on its review and the meetings, discussions and reports described above, and subject to the limitations of its role and responsibilities referred to above and in its charter, the Audit Committee recommended to the Board of Directors that the audited consolidated financial statements of the Company for the fiscal year ended December 31, 2017, be included in the Company's Annual Report on Form 10-K for the year ended December 31, 2017 for filing with the SEC.

Members of the Audit Committee:

Michael Casey, Chairman
Michael Brodsky
Ron Konezny

EXECUTIVE COMPENSATION

Compensation Committee Report

The Compensation Committee has reviewed and discussed with management the following Compensation Discussion and Analysis. Based on such review and discussion, the Compensation Committee has recommended to the Board of Directors that the following Compensation Discussion and Analysis be included in this Proxy Statement.

Members of the Compensation Committee:

Ron Konezny, Chairman
Kenneth Brakebill
Michael Casey

Compensation Discussion and Analysis

Introduction

This discussion presents the principles underlying our executive officer compensation program. Our goal in this discussion is to provide the reasons why we award compensation as we do and to place in perspective the data presented in the tables that follow this discussion. The focus is primarily on compensation of our executive officers for the fiscal year ended December 31, 2017, but some historical and forward-looking information is also provided to put such year's compensation information in context. The information presented herein relates to the following individuals who are considered "named executive officers," under applicable rules and regulations of the SEC, each of whom is sometimes referred to in this Proxy Statement as a "Named Executive Officer:" (i) Chris Wolfe, who served as the Company's Chief Executive Officer during the fiscal year ended December 31, 2017, (ii) Ned Mavrommatis, who served as the Company's Chief Financial Officer during the fiscal year ended December 31, 2017, and (iii) Michael L. Ehrman, who served as the Company's Chief Technology Officer during the fiscal year ended December 31, 2017.

Compensation Philosophy and Objectives

We attempt to apply a consistent philosophy to compensation for all employees, including senior management. This philosophy is based on the premises that our success is dependent upon the efforts of each employee and that a cooperative, team-oriented environment is an essential part of our culture. We believe in the importance of rewarding our employees for our successes, which is why we emphasize pay-for-performance incentive compensation. Particular emphasis is placed on broad employee equity participation through the use of stock options and restricted stock awards, as well as on annual cash bonuses linked to achievement of our corporate performance goals. We considered the results of the "say on pay" proposal with respect to executive compensation presented to the stockholders at our 2017 annual meeting held on June 15, 2017, and in light of the support the proposal received, we continue to emphasize pay-for-performance incentive compensation, as explained in detail in this Compensation Discussion and Analysis.

Our compensation programs for our Named Executive Officers are designed to achieve a variety of goals, including:

- attracting and retaining talented and experienced executives;
- motivating and rewarding executives whose knowledge, skills and performance are critical to our success;
- aligning the interests of our executives and stockholders by motivating executives to increase stockholder value in a sustained manner; and
- providing a competitive compensation package which rewards achievement of our goals.

Total compensation paid to our executive officers is influenced significantly by the need to attract and retain management employees with a high level of expertise and to motivate and retain key executives for our long-term success. Some of the components of compensation, such as salary, are generally fixed and do not vary based on our financial and other performance. Some components, such as bonus and in some cases, such as our long-term incentive plans adopted in prior years, stock options and stock award grants, are dependent upon the achievement of certain goals approved by the Compensation Committee; and for such purpose, the Compensation Committee considers goals for executive officers (other than our Chief Executive Officer) recommended by our Chief Executive Officer, and includes him in its discussions with respect to such goals. Furthermore, the value of certain of these components, such as stock options and restricted stock, is dependent upon our future stock price.

We compensate our executive officers in these different ways in order to achieve different goals. Cash compensation, for example, provides executive officers with a minimum base salary. Incentive bonus compensation is generally linked to the achievement of financial and business goals (as described in greater detail below), and is intended to reward executive officers for our overall performance. Stock options and grants of restricted stock are intended to link our executive officers' longer-term compensation with the performance of our stock and to build executive ownership positions in our stock. This encourages our executive officers to remain with us and to act in ways intended to maximize stockholder value, and serves to penalize them if we and/or our stock fails to perform to expectations.

We view the three components of our executive officer compensation as related but distinct. Although the Compensation Committee does review total compensation, it does not believe that compensation derived from one component of compensation necessarily should negate or reduce compensation from other components. We determine the appropriate level for each compensation component based in part, but not exclusively, on its historical practices with the individual and our view of individual performance and other information we deem relevant. The Compensation Committee has not adopted any formal or informal policies or guidelines for allocating compensation between long-term and currently paid out compensation, between cash and non-cash compensation, or among different forms of compensation. We have not reviewed wealth and retirement accumulation as a result of employment with us and have only focused on fair compensation for the year in question.

The Compensation Committee monitors the results of the annual advisory "say-on-pay" proposal and incorporates such results as one of many factors considered in connection with the discharge of its responsibilities. At our 2017 annual meeting of stockholders, the stockholders approved, on an advisory basis, the compensation of the Named Executive Officers, and in light of such approval, the Compensation Committee continued with its performance-based compensation philosophy and its balanced approach to the components of its compensation program.

Elements of Executive Officer Compensation

Base Salary. We pay our executive officers a base salary, which we review and determine annually. We believe that a competitive base salary is a necessary element of any compensation program. We believe that attractive base salaries can motivate and reward executives for their overall performance. Base salaries are established in part based on the particular executive's position, responsibility, experience, skills and expected contributions during the coming year and such individual's performance during the prior year. We also have generally sought to align base compensation levels comparable to our competitors and other companies in similar stages of development. We do not view base salaries as primarily serving our objective of paying for performance, but in attracting and retaining the most qualified executives necessary to run the Company's business. On February 17, 2017, each of Ned Mavrommatis and Michael Ehrman elected to reduce their annual base salaries for the remainder of 2017 and, in exchange for such salary reduction, receive restricted shares of the Company's common stock. The annual base salary of each of Mr. Mavrommatis and Mr. Ehrman decreased from \$283,250 to \$258,466 and each of Mr. Mavrommatis and Mr. Ehrman received 4,957 restricted shares of the Company's common stock, which shares vested on February 17, 2018. The Company continues to focus on pay-for-performance structure, which is discussed below.

Cash Incentive Bonus Programs

The primary objective of our annual cash incentive bonus program is to motivate and reward our employees, including our Named Executive Officers, for meeting our short-term objectives using a pay-for-performance program with objectively determinable performance goals. Each of our Named Executive Officers was eligible to receive a cash incentive bonus under our Executive Incentive Plan ("EIP") for the fiscal year ended December 31, 2017, which is discussed below.

Executive Incentive Plan

The objectives of the EIP, which was adopted by the Board upon recommendation of the Compensation Committee, are to align the interests of all employees with the Company's performance goals. The EIP focuses on rewarding executives for the achievement of financial objectives with competitive financial incentives and provides a systemic plan for establishing definitive performance goals. On February 17, 2017, the Compensation Committee approved the EIP for 2017. The objectives of the EIP are to align the interests of all employees with the Company's performance goals. Under the EIP for 2017, the Company's performance goals are based on (i) revenue growth and (ii) "operating income," which for these purposes is defined as operating income (loss) from operations, excluding depreciation and amortization and stock-based compensation expense. Executives are eligible to be awarded cash bonus compensation based on the Company's annual and quarterly results with respect to revenue growth and operating income.

The Company accrues funds for the EIP over the course of the applicable plan year. The EIP may be modified or terminated by the Compensation Committee at any time, but incentive awards that have been earned by the participating Named Executive Officers through the date of termination of the EIP will be payable. In addition, target awards and weightings may be modified by the Compensation Committee during the plan year based upon a shift in focus or changing industry standards, or any other factors that the Compensation Committee deems appropriate. The Compensation Committee has the authority to administer the EIP and has the final decision on any discrepancies in interpretation of the EIP.

Awards under the EIP are calculated as a percentage of an executive's base salary and, as noted above, are based upon revenue growth and operating income. The target award under the EIP for 2017, which is calculated as a percentage of base salary, for Chris Wolfe was set at 100% of his base salary and for each of Ned Mavrommatis and Michael L. Ehrman was set at 67% of his base salary. The target award (expressed as a percentage of base salary) for each Named Executive Officer is as follows:

<u>Named Executive Officer</u>	<u>Target Award Percentage</u>
Chris Wolfe.....	100%
Ned Mavrommatis	67%
Michael L. Ehrman	67%

The maximum aggregate amount of the Quarterly Bonuses and the Annual Bonus (each, as defined below), for each executive is 300% of the target award for such executive.

2017 Quarterly Bonuses. Forty-five percent of the executive's bonus under the EIP for 2017 was based on quarterly revenue and operating income targets (such portion, the "Quarterly Bonus"). For these purposes, "operating income" is defined as operating income (loss) from operations, excluding depreciation and amortization and stock-based compensation, and was calculated after all bonus expenses (the "Operating Income"). For 2017, for each of the Named Executive Officers entitled to participate in the EIP, the Company's quarterly revenues (the "Quarterly Revenues") were required to equal or exceed dollar amounts ranging from \$9.9 million to \$10.3 million and the Company's quarterly Operating Income (the "Quarterly Operating Income") was required to equal or exceed dollar amounts ranging from \$250 to \$8,800 (each, the "Quarterly Target Amount") in order for the executives to receive their Quarterly Bonus. For each of the first three quarters of the fiscal year, if the Quarterly Revenues were equal to at least 92.5% of the respective Quarterly Target Amount and the Quarterly Operating Income was equal to at least 100% of the respective Quarterly Target Amount, the executive would be entitled to receive 15% of the target award for such executive. If either the Quarterly Revenues for any quarter did not equal or exceed 92.5% of the respective Quarterly Target Amount for such quarter or the Quarterly Operating Income for any quarter did not equal or exceed 100% of the respective Quarterly Target Amount for such quarter, the executive would not be entitled to receive any bonus for such quarter. In the event that both the Quarterly Revenues and the Quarterly Operating Income for any quarter exceeded the Quarterly Target Amount for such quarter, the executives would not be entitled to receive any additional bonus; however, the cumulative Quarterly Revenues and Quarterly Operating Incomes for all four quarters would be considered for calculating the Annual Revenues (as defined below) for purposes of determining the Annual Bonus.

Any Quarterly Bonuses for any fiscal quarter are payable to the executives after completion of the Company's financial statements for such quarter. Participants are not entitled to receive an award unless they are employed by the Company at the time the award is payable by the Company. Based on the Quarterly Revenues and the Quarterly Operating Income for each of the quarters during the fiscal year ended December 31, 2017, each of Chris Wolfe, Ned Mavrommatis and Michael L. Ehrman received Quarterly Bonuses under the EIP for 2017 in the aggregate amount of \$87,000, \$56,933 and \$56,933, respectively.

2017 Annual Bonus. Fifty-five percent of the executive's bonus under the EIP for 2017 was based on annual revenue and operating income targets (such portion, the "Annual Bonus"). For 2017, for each of the Named Executive Officers entitled to participate in the EIP, the Company's annual revenues (the "Annual Revenues") were required to equal or exceed \$40.8 million and the Company's annual operating income (the "Annual Operating Income") was required to equal or exceed \$20,700 (each, the "Annual Target Amount") in order for the executives to receive their Annual Bonus. If the Annual Revenues were equal to 92.5% of the Annual Target Amount and the Annual Operating Income was equal to 100% of the Annual Target Amount, the executive would be entitled to receive 55% of the target award for such executive. If either the Annual Revenues did not equal or exceed 92.5% of the respective Annual Target Amount or the Annual Operating Income did not equal or exceed 100% of the respective Annual Target Amount, the executive would not be entitled to receive any Annual Bonus.

Any Annual Bonuses are payable to the executives after completion of the Company's audited financial statements for the applicable year. Participants are not entitled to receive an award unless they are employed by the Company at the time the award is payable by the Company. Based on the Annual Revenues and the Annual Operating Income for the fiscal year ended December 31, 2017, none of Chris Wolfe, Ned Mavrommatis or Michael L. Ehrman received an Annual Bonus under the EIP for 2017.

Equity Compensation

We believe that stock options and restricted stock awards are an important long-term incentive for our executive officers and employees and that our stock option and restricted stock award program has been effective in aligning officer and employee interests with those of our stockholders. We review our equity compensation plans annually. Employees are eligible for annual stock option and restricted stock award grants. These options and grants are intended to produce value for each executive officer if (i) our stockholders derive significant sustained value and (ii) the executive officer remains employed with us.

Historically, the Company did not have any program, plan or obligation under which it was required to grant equity compensation to any executive officer on specified dates or upon the achievement of certain performance goals. The authority to make equity grants to executive officers rests with the Compensation Committee, although, as noted, the Compensation Committee does consider the recommendations of our Chief Executive Officer in setting the compensation of our other executive officers.

On February 17, 2017, the Compensation Committee granted restricted shares of common stock and options to purchase common stock to each of Ned Mavrommatis and Michael L. Ehrman in consideration of his continued services as an officer of the Company. The number of restricted shares of our common stock granted to and held by our Named Executive Officers are set forth in the "Summary Compensation Table" and the "Grants of Plan-Based Awards" table below.

Severance and Change-in-Control Benefits. Except for the severance and change-in-control benefits described below under the captions "Severance Arrangements" and "Potential Payments Upon Termination or Change in Control," we do not provide to any of our executive officers any severance or change in control benefits in the event of termination or retirement, whether following a change in control or otherwise.

Benefits. The executive officers participate in all of our employee benefit plans, such as medical and 401(k) plans, on the same basis as our other employees, except that we pay 100% of the premiums for health and dental insurance of our executive officers and 75% of the premiums for health and dental insurance of our other employees.

Perquisites. Certain of our Named Executive Officers receive an allowance for automobile and related expenses, which amounts are reflected under column titled "All Other Compensation" in the "Summary Compensation Table" below. Our use of perquisites as an element of compensation is very limited. We do not view perquisites as a significant element of our comprehensive compensation structure.

Peer Group

In making decisions regarding the compensation of our executive officers, the Compensation Committee generally considers compensation and survey data for similarly situated executives at a comparison group of companies it considers our peer group. These comparison data are primarily used to gauge the reasonableness and competitiveness of executive compensation decisions. The Compensation Committee utilized as a reference for determining competitive total compensation packages for our Named Executive Officers for 2017, our peer group of companies that were identified by CRI, the compensation consultant retained by the Compensation Committee in 2012, together with a group of companies identified as our peer group by the Hay Group (the "Hay Group"), the compensation consultant retained by the Compensation Committee in 2014; however, the Compensation Committee determined not to place a significant amount of reliance on the information provided by the Hay Group since although the companies identified by the Hay Group as part of the peer group were in the same M2M industry as the Company, such companies had significantly greater revenues and market capitalizations than the Company. While the Compensation Committee refers to information with respect to its peer group for purposes of determining compensation of the executive officers, it does not benchmark compensation for the Named Executive Officers against the peer group. The peer group of companies determined by CRI was based on revenue, organizational profile and geographic location and the peer group of companies determined by the Hay Group was based primarily on industry.

We believe that the compensation practices of our industry, in general, and of our select peer group, in particular, provide useful information to help us establish compensation practices that allow us to attract, retain, and motivate a highly talented executive team. We review the levels of cash, equity, and total compensation for comparable executives in our peer group relative to the elements of compensation paid to our executives. In considering how these data relate to our existing compensation structure, we take into account our size, performance, and geographic location as compared to these peer companies, as well as what we know about the comparable scope of responsibilities of our executives versus those of comparable executives at such peer group companies.

The following companies were identified as members of our peer group by CRI in 2012:

ANADIGICS Inc.	NVE Corporation
CalAmp Corp.	ORBCOMM Inc.
Chyron Corporation	Orbit International Corp.
Identive Group Inc. (formerly SCM Microsystems, Inc.)	Par Techonology Corp.
RELM Wireless Corporation	
LoJack Corporation	Telular Corp.
Memsic, Inc.	Vasco Data Sec. Int'l Inc.
Numerex Corp.	XATA Corporation

The following companies were identified as members of our peer group by the Hay Group in 2014:

CalAmp Corp.	Novatel Wireless Inc.
Digi International Inc.	Numerex Corp
Fleetmatics Group PLC	ORBCOMM Inc.
Globalstar, Inc.	Sierra Wireless, Inc.
Iridium Communications Inc.	Telular Corp.
LoJack Corp	XRS Corporation

Regulatory Considerations

We account for the equity compensation expense for our employees under the rules of Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 718 (“ASC 718”), which requires us to estimate and record an expense for each award of equity compensation over the service period of the award. Accounting rules also require us to record cash compensation as an expense at the time the obligation is accrued.

Employment Agreements

The Company has not entered into employment agreements with any of its executive officers. All executive officers serve at the discretion of the Board, with no fixed term of employment.

Severance Agreements

On September 22, 2009, the Company entered into severance agreements with each of Ned Mavrommatis, the Company’s Chief Financial Officer, Treasurer and Corporate Secretary, and Michael L. Ehrman, the Company’s Chief Technology Officer. Ned Mavrommatis and Michael L. Ehrman are sometimes collectively referred to in this section as the “Executives” and each, an “Executive.” The Severance Agreements were previously approved by the Compensation Committee of the Board and presented to the full Board.

Except as described below, each of the Severance Agreements is substantially identical in form. The Severance Agreements provide each Executive with certain severance and change in control benefits upon the occurrence of a “Trigger Event” (as defined in the Severance Agreements). Under the Severance Agreements, a Trigger Event will have occurred if (i) the Company terminates the Executive without Cause or (ii) the Executive resigns for Good Reason within six months following a Change in Control Event (provided, however, that the termination of the Executive’s employment due to his death or Disability will in no event be considered a Trigger Event).

Within 45 days after the occurrence of a Trigger Event (or such shorter period as may be required under the terms of a general release agreement (“Release”) to be entered into by the Executive in order to obtain benefits under the Severance Agreement, a form of which is attached to the Severance Agreement), the Executive must execute and deliver the Release to the Company. Upon the earlier of the expiration of any applicable revocation period required for the Release to be effective with respect to age discrimination claims and the date on which it is otherwise permitted to be effective and irrevocable under applicable law, the Executive will be 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 2 months (such period, as applicable, the “Severance Period”), made as a series of payments that are payable in accordance with the Company’s standard payroll practices; (ii) a waiver of any remaining portion of the Executive’s healthcare continuation payments under COBRA for the Severance Period, provided that the Executive timely elects COBRA coverage and continues to make contributions for such coverage equal to his contribution amount in effect immediately preceding the date of his termination of employment; (iii) partial accelerated vesting of the Executive’s previously granted stock options and restricted stock awards, such that (to the extent not already then vested) a portion of these awards shall vest and/or become exercisable, in each case on a pro-rated basis that takes into account the number of months elapsed since the date of grant as compared to the scheduled vesting date (provided that the terms of the Company’s 2007 Equity Compensation Plan and 2015 Plan will continue to govern acceleration of vesting in the event of a “Change of Control” as defined therein); and (iv) an award of “Performance Shares” under the Restricted Stock Unit Award Agreement previously entered into between the Company and the Executive, in an amount and to the extent of the sum of the “Interim Shares” determined (and defined) in accordance with Exhibit A to that agreement.

As a condition to the Company’s obligations under the Severance Agreements, each Executive is required to execute and deliver to the Company a restrictive covenants agreement, a form of which is attached to the Severance Agreements, containing covenants regarding confidentiality, assignment of inventions, non-competition and non-solicitation. These restrictive covenants will remain in effect during the Severance Period.

On December 6, 2016, in connection with Chris Wolfe’s appointment as the Company’s Chief Executive Officer, the Company entered into an employment offer letter with Mr. Wolfe, pursuant to which Mr. Wolfe is entitled to a lump sum severance payment equivalent to nine months of salary in the event Mr. Wolfe’s employment is terminated without cause during the first twenty-four months of employment.

Compensation Tables

The following table, which should be read in conjunction with the explanations provided above, sets forth summary compensation information for the year ended December 31, 2017 for our Named Executive Officers.

Summary Compensation Table

Name and Principal Position	Year	Salary (\$)	Bonus (\$)	Stock Awards (\$) ⁽¹⁾	Option Awards (\$) ⁽¹⁾	Non-equity	All Other	Total (\$)
						Incentive Plan Compensation (\$) ⁽²⁾	Compensation (\$) ⁽³⁾	
Chris Wolfe,.....	2017	290,000	—	—	—	87,000	11,290	388,290
Chief Executive Officer ⁽⁴⁾	2016	89,853 ⁽⁵⁾	—	544,578	342,675	—	23,000	1,000,106
Ned Mavrommatis	2017	283,250 ⁽⁶⁾	—	104,960 ⁽⁶⁾	105,500	56,933	39,654	590,297
Chief Financial Officer, Treasurer and Corporate Secretary	2016	283,250	—	65,550	48,043	28,467	34,126	459,436
	2015	282,563 ⁽⁷⁾	—	209,400	—	—	36,811	528,774
Michael L. Ehrman,	2017	283,250 ⁽⁶⁾	—	79,958 ⁽⁶⁾	79,125	56,933	37,085	536,351
Chief Technology Officer	2016	283,250	—	65,550	48,043	28,467	30,231	455,541
	2015	282,563 ⁽⁷⁾	—	209,400	—	—	32,775	524,738

- (1) The dollar amount shown under the headings “Stock Awards” and “Option Awards” with respect to each of the Named Executive Officers for the fiscal years ended December 31, 2017, 2016 and 2015 reflect the aggregate grant date fair value of restricted stock, performance shares and option awards granted in the fiscal year indicated, computed in accordance with ASC 718, disregarding service-based vesting conditions. For a discussion of the assumptions we made in valuing the stock and option awards, see “Note 2(S) — Summary of Significant Accounting Policies — Stock-based compensation” and “Note 11 — Stock-Based Compensation” in the notes to our consolidated financial statements contained in our Annual Report on Form 10-K for the fiscal year ended December 31, 2017.

- (2) The dollar amount shown under the heading “Non-Equity Incentive Plan Compensation” (i) for each of Chris Wolfe, Ned Mavrommatis and Michael L. Ehrman for 2017 represents bonus earned for such fiscal year pursuant to the Executive Incentive Plan for 2017, and (ii) for each of Chris Wolfe, Ned Mavrommatis and Michael L. Ehrman for 2016 represents bonus earned for such fiscal year pursuant to the Executive Incentive Plan for 2016.
- (3) The dollar amounts shown under the heading “All other compensation” represent the incremental cost of all perquisites and other personal benefits to our Named Executive Officers for automobile allowance and related expenses and health insurance premiums and, with respect to Chris Wolfe for 2016, moving expenses. The automobile allowance and related expenses for 2017 for each of Ned Mavrommatis and Michael L. Ehrman were \$22,475 and \$19,906, respectively; the health insurance premiums for 2017 for each of Chris Wolfe, Ned Mavrommatis and Michael L. Ehrman were \$11,290, \$17,179 and \$17,179, respectively. The automobile allowance and related expenses for 2016 for each of Ned Mavrommatis and Michael L. Ehrman were \$19,720 and \$15,825, respectively; the health insurance premiums for 2016 for each of Ned Mavrommatis and Michael L. Ehrman were \$14,406. The moving expenses for 2016 for Chris Wolfe was \$23,000. Chris Wolfe did not receive an automobile allowance or payments for health insurance premiums for 2016. The automobile allowance and related expenses for 2015 for each of Ned Mavrommatis and Michael L. Ehrman were \$24,046 and \$20,010, respectively; the health insurance premiums for 2015 for each of Ned Mavrommatis and Michael L. Ehrman were \$12,765.
- (4) Chris Wolfe was appointed to serve as the Chief Executive Officer of the Company effective as of December 7, 2016.
- (5) Effective as of August 4, 2016, Chris Wolfe was appointed to serve as our Chief Product Officer. His annual base salary as Chief Product Officer was \$220,000. Upon his appointment to serve as our Chief Executive Officer, effective as of December 7, 2016, Mr. Wolfe’s annual base salary was increased to \$290,000.
- (6) On February 17, 2017, each of Ned Mavrommatis and Michael L. Ehrman elected to reduce their annual base salaries for the remainder of 2017 and, in exchange for such salary reduction, receive restricted shares of the Company’s common stock. The annual base salary of each of Mr. Mavrommatis and Mr. Ehrman decreased from \$283,250 to \$258,466 and each of Mr. Mavrommatis and Mr. Ehrman received 4,957 restricted shares of the Company’s common stock. The incremental value of such 4,957 restricted shares over the \$24,785 of reduced salary is reported under the heading “Stock Awards.”
- (7) Effective as of February 1, 2015, the base salary of each of Ned Mavrommatis and Michael S. Ehrman was increased from \$275,000 to \$283,250.

Grants of Plan-Based Awards

The following table provides certain information with respect to restricted stock awards and options granted to our Named Executive Officers during the fiscal year ended December 31, 2017.

Name	Grant Date	Estimated Future Payouts Under Non-Equity Incentive Plan Awards (\$) ⁽¹⁾			Estimated Future Payouts Under Equity Incentive Plan Awards (#)			All Other Stock Awards: Number of Shares of Stock or Units (#)	All Other Awards: Number of Securities Underlying Options (#)	Exercise or Base Price of Option Awards (\$/Sh)	Grant Date Fair Value of Stock and Option Awards (\$) ⁽²⁾
		Threshold	Target	Maximum	Threshold	Target	Maximum				
Chris Wolfe ⁽⁵⁾	2/17/2017	43,500	290,000	870,000	—	—	—	—	—	—	—
Ned Mavrommatis..	2/17/2017	28,467	189,778	569,332	—	—	—	—	—	—	—
	2/17/2017	—	—	—	—	—	—	16,667 ⁽³⁾	—	—	100,002
	2/17/2017	—	—	—	—	—	—	4,957 ⁽⁴⁾	—	—	29,742
	2/17/2017	—	—	—	—	—	—	—	50,000 ⁽⁵⁾	6.00	105,500
Michael L. Ehrman	2/17/2017	28,467	189,778	569,332	—	—	—	—	—	—	—
	2/17/2017	—	—	—	—	—	—	12,500 ⁽³⁾	—	—	75,000
	2/17/2017	—	—	—	—	—	—	4,957 ⁽⁴⁾	—	—	29,742
	2/17/2017	—	—	—	—	—	—	—	37,500 ⁽⁵⁾	6.00	79,125

- (1) The information under “Estimated Future Payouts Under Non-Equity Incentive Plan Awards” relates to cash bonuses for the fiscal year ended December 31, 2017 payable to our named executive officers based on the achievement of quarterly and annual revenue goals and quarterly and annual “operating income” (which for these purposes is defined as operating income (loss) from operations, excluding depreciation and amortization and stock based compensation) goals for 2017 pursuant to our Executive Incentive Plan.

- (2) Represents the grant date fair value computed in accordance with ASC 718. For stock awards, the grant date fair value was calculated based on the closing price of our common stock, as reported on the NASDAQ Global Market on the date of grant. For a discussion of the assumptions we made in valuing the stock and option awards, see “Note 2(S) — Summary of Significant Accounting Policies — Stock-based compensation” and “Note 11 — Stock-Based Compensation” in the notes to our consolidated financial statements contained in our Annual Report on Form 10-K for the fiscal year ended December 31, 2017.
- (3) Represents restricted shares issued under our 2007 Equity Compensation Plan (the “2007 Plan”). Twenty five percent (25%) of the restricted shares vest on each of the first, second, third and fourth annual anniversary date of the date of grant provided that the awardee is an employee of our company on such anniversary.
- (4) Represents restricted shares issued under the 2015 Plan and in connection with the election of each of Mr. Mavrommatis and Mr. Ehrman to reduce their annual base salaries for 2017 in exchange for restricted shares of the Company’s common stock. One hundred percent (100%) of the restricted shares vest on the first anniversary date of the date of grant provided that the awardee is an employee of our company on such date.
- (5) Represents options to purchase shares of our common stock issued under the 2015 Plan. Twenty five percent (25%) of the options vest on each of the first, second, third and fourth annual anniversary date of the date of grant provided that the awardee is an employee of our company on such anniversary.

Stock Option Exercises and Vesting of Restricted Stock Awards

The following table provides certain information with respect to options that were exercised and shares of restricted stock that vested for each of our Named Executive Officers during the fiscal year ended December 31, 2017.

Name	Option Awards		Stock Awards	
	Number of Share Acquired on Exercise (#)	Value Realized in Exercise (\$)	Number of Shares Acquired on Vesting (#)	Value Realized in Vesting (\$) ⁽¹⁾
Chris Wolfe.....	—	—	25,000	\$ 172,125
Ned Mavrommatis	—	—	23,750	\$ 149,775
Michael L. Ehrman	—	—	23,750	\$ 149,775

- (1) Represents the aggregate dollar value of the shares on the vesting date.

Outstanding Equity Awards at Fiscal Year End

The following table provides certain information concerning outstanding equity awards held by each of our Named Executive Officers at December 31, 2017.

Outstanding Equity Awards at Fiscal Year-End

Name	Option Awards				Stock Awards			
	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable	Option Exercise Price (\$)	Option Expiration Date	Number of Shares or Units of Stock That Have Not Vested (#) ⁽¹⁾	Market Value of Shares or Units of Stock That Have Not Vested (\$) ⁽²⁾	Equity Incentive Plan Awards: Number of Shares, Units or Other Rights That Have Not Vested (#)	Equity Incentive Plan Awards: Market Value of Unearned Shares, Units or Other Rights That Have Not Vested (\$)
Chris Wolfe	25,000	75,000	5.21	8/4/2026 ⁽³⁾	75,000	520,500	—	—
	25,000	75,000	4.70	12/7/2026 ⁽³⁾	—	—	—	—
Ned Mavrommatis	16,000	—	7.41	2/27/2018 ⁽⁴⁾	60,374	418,996	—	—
	17,061	—	4.55	3/30/2021 ⁽⁵⁾	—	—	—	—
	40,541	—	5.93	3/29/2022 ⁽⁵⁾	—	—	—	—
	40,842	—	5.71	4/4/2023 ⁽³⁾	—	—	—	—
	7,500	22,500	4.37	3/24/2026 ⁽³⁾	—	—	—	—
	—	50,000	6.00	2/17/2027 ⁽³⁾	—	—	—	—
Michael L. Ehrman	16,000	—	7.41	2/27/2018 ⁽⁴⁾	56,207	390,077	—	—
	30,488	—	3.54	6/29/2019 ⁽⁵⁾	—	—	—	—
	44,643	—	2.84	2/5/2020 ⁽⁵⁾	—	—	—	—
	14,217	—	4.55	3/30/2021 ⁽⁵⁾	—	—	—	—
	33,784	—	5.93	3/29/2022 ⁽⁵⁾	—	—	—	—
	34,035	—	5.71	4/4/2023 ⁽³⁾	—	—	—	—
	7,500	22,500	4.37	3/24/2026 ⁽³⁾	—	—	—	—
	—	37,500	6.00	2/17/2027 ⁽³⁾	—	—	—	—

- (1) Represents shares of our restricted common stock issued under the 2007 Plan and the 2015 Plan. With respect to Mr. Mavrommatis and Mr. Ehrman, includes restricted shares issued in connection with the election of each of Mr. Mavrommatis and Mr. Ehrman to reduce their annual base salaries for 2017 in exchange for restricted shares of the Company's common stock
- (2) Calculated based on \$6.94 per share, the closing price per share of our common stock, as reported on the NASDAQ Global Market, on December 29, 2017.
- (3) These option awards vest over a four-year period, such that twenty-five percent (25%) of the award vests each year on the anniversary of the grant date, provided that the holder is employed by the Company on such date.
- (4) These option awards vest over a five-year period, such that twenty percent (20%) of the award vests each year on the anniversary of the grant date, provided that the holder is employed by the Company on such date.
- (5) One hundred percent (100%) of these option awards vest on the third anniversary of the grant date, provided that the holder is employed by the Company on such date.

Potential Payments Upon Termination or Change in Control

Potential Payments Upon Termination or Change in Control under Severance Arrangements

As described above under the caption "Severance Arrangements," the Company has entered into severance agreements with certain of its Named Executive Officers. These severance agreements provide for severance payments or other compensation upon the termination of the Named Executive Officer's employment or a change in control with respect to the Company.

Potential Payments Upon Termination or Change in Control under Equity Compensation Plans

Our 1999 Stock Option Plan provides that all outstanding stock options, including stock options held by our executive officers, will become immediately exercisable, and the restrictions with respect to outstanding restricted shares will lapse, upon the occurrence of a “change in control event.” For this purpose, a “change in control event” will be deemed to occur if any of the following events occur: (i) the consummation of any merger of our Company with any other company unless the combined voting power of our voting securities outstanding immediately prior thereto continue to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity) more than 70% of the combined voting power of the voting securities of our Company or such surviving entity outstanding immediately after such merger or consolidation; (ii) the consummation of any sale or other disposition of all or substantially all of our assets; (iii) approval by our stockholders of a plan of liquidation of our Company; (iv) any action pursuant to which any person or group (as defined in Sections 3(a)(9) and 13(d) of the Exchange Act) will become the beneficial owner of 20% or more of our outstanding voting securities; or (v) the individuals who were members of our Board on May 14, 1999 (the date on which our 1999 Stock Option Plan was initially adopted by the Board), including any individuals who became or become directors after that date and whose election or nomination for election was approved by at least two-thirds of the directors of our Board, cease to constitute a majority of the members of our Board.

The 2007 Plan provides that, in the event of a consolidation or merger in which, after completion of any such transaction, our prior stockholders own less than 50% of the voting shares of the continuing or surviving entity, or in the event of the sale or transfer of substantially all of our assets, all outstanding options will become exercisable and all restrictions and/or forfeitures with respect to restricted stock awards and restricted stock units will lapse.

The 2015 Plan provides that the Compensation Committee may, at the time of the grant of an award, provide for the effect of a “change in control” on any award, including (i) accelerating or extending the time periods for exercising, vesting in, or realizing gain from any award, (ii) eliminating or modifying the performance or other conditions of an award, (iii) providing for the cash settlement of an award for an equivalent cash value, as determined by the Compensation Committee, or (iv) such other modification or adjustment to an award as the Compensation Committee deems appropriate to maintain and protect the rights and interests of participants upon or following a change in control. The Compensation Committee may, in its discretion and without the need for the consent of any recipient of an award, also take one or more of the following actions contingent upon the occurrence of a change in control: (a) cause any or all outstanding options and stock appreciation rights to become immediately exercisable, in whole or in part; (b) cause any other awards to become non-forfeitable, in whole or in part; (c) cancel any option or stock appreciation right in exchange for a substitute option; (d) cancel any award of restricted stock, stock units, performance shares or performance units in exchange for a similar award of the capital stock of any successor corporation; (e) redeem any restricted stock for cash and/or other substitute consideration with a value equal to the fair market value of an unrestricted share of our common stock on the date of the change in control; (f) cancel any option or stock appreciation right in exchange for cash and/or other substitute consideration based on the value of our common stock on the date of the change in control, and cancel any option or stock appreciation right without any payment if its exercise price exceeds the value of our common stock on the date of the change in control; (g) cancel any stock unit or performance units held by a participant affected by the change in control in exchange for cash and/or other substitute consideration with a value equal to the fair market value per share of common stock on the date of the change in control, or (h) make such other modifications, adjustments or amendments to outstanding awards as the Compensation Committee deems necessary or appropriate.

For purposes of the 2015 Plan, a “change in control” means the occurrence of any of the following events: (i) any person or group (as such terms are used in Section 13(d) and 14(d) of the Exchange Act, but excluding the Company, its affiliates and any person holding securities under employee benefit plan or trust of the Company) is or becomes the beneficial owner of securities of the Company representing 50% or more of either the combined voting power of the Company’s then outstanding securities or the then outstanding shares of our common stock; (ii) any consolidation or merger of the Company where stockholders of the Company, immediately prior to such consolidation or merger, would not, immediately after such consolidation or merger, beneficially own shares representing in the aggregate 50% or more of the combined voting power of the securities of the corporation issuing cash or securities in the consolidation or merger; or (iii) any sale, lease, exchange or other transfer of all or substantially all of the Company’s assets, other than a sale or disposition by the Company of all or substantially all of the Company’s assets to an entity, at least 50% of the combined voting power of the voting securities of which are owned by persons in substantially the same proportion as their ownership of the Company immediately prior to such sale; (iv) the approval by stockholders of the Company of any plan or proposal for the liquidation or dissolution of the Company; or (v) the members of the Board at the beginning of any consecutive 24-calendar-month period (the “Incumbent Directors”) cease for any reason other than due to death to constitute at least a majority of the members of the Board; provided that any member of the Board whose election, or nomination for election by the Company’s stockholders, was approved or ratified by a vote of at least a majority of the members of the Board then still in office who were members of the Board at the beginning of such 24-calendar-month period, shall be deemed to be an Incumbent Director.

Estimated Payments Upon Termination or Change in Control

The following table shows potential payments to the Company's Named Executive Officers under existing severance agreements, plans or arrangements in connection with a termination of employment or change in control with respect to the Company. The following table assumes a December 31, 2017 termination or change in control date, and uses the closing price of the Company's common stock on the NASDAQ Global Market on December 29, 2017 (\$6.94). The disclosed amounts are estimates only and do not necessarily reflect the actual amounts that would be paid to the Named Executive Officer. These actual amounts would only be known at the time the Named Executive Officers become eligible for payment and would only be payable upon the termination of employment or change in control.

Name	Benefit	Non Change-in-Control Termination (Without Cause or for Good Reason) (\$)	Change-in-Control Termination (Without Cause or for Good Reason) (\$)	Change-in-Control Only (\$)
Chris Wolfe	Severance Pay	\$ 217,500	\$ 217,500	—
	Exercise of Vested Stock Options Upon Termination	—	\$ 297,750 ⁽²⁾	\$ 297,750 ⁽²⁾
	Realization of Restricted Stock Awards Upon Termination	—	\$ 520,500 ⁽⁴⁾	\$ 520,500 ⁽⁴⁾
	Realization of Performance Share Awards Upon Termination	—	—	—
	Benefit Continuation	—	—	—
Ned Mavrommatis	Severance Pay	\$ 283,250	\$ 283,250	—
	Exercise of Vested Stock Options Upon Termination	\$ 24,248 ⁽¹⁾	\$ 104,825 ⁽²⁾	\$ 104,825 ⁽²⁾
	Realization of Restricted Stock Awards Upon Termination	\$ 119,997 ⁽³⁾	\$ 418,996 ⁽⁴⁾	\$ 418,996 ⁽⁴⁾
	Realization of Performance Share Awards Upon Termination	—	—	—
	Benefit Continuation	\$ 35,174	\$ 35,174	—
Michael L. Ehrman	Severance Pay	\$ 283,250	\$ 283,250	—
	Exercise of Vested Stock Options Upon Termination	\$ 21,800 ⁽¹⁾	\$ 93,075 ⁽²⁾	\$ 93,075 ⁽²⁾
	Realization of Restricted Stock Awards Upon Termination	\$ 113,972 ⁽³⁾	\$ 390,077 ⁽⁴⁾	\$ 390,077 ⁽⁴⁾
	Realization of Performance Share Awards Upon Termination	—	—	—
	Benefit Continuation	\$ 35,174	\$ 35,174	—

- (1) Pursuant to the option award agreements entered into between the Company and each Named Executive Officer, options that have vested as of the date of termination of employment generally are exercisable for a period of three months following the date of termination (or 365 days, in the case of termination of employment resulting from death or disability). Moreover, the terms of the severance agreements entered into between the Company and each of Ned Mavrommatis and Michael L. Ehrman generally provide for accelerated vesting of a portion of the unvested options held by the individual in the event of termination of his employment for either of the following reasons (each, a "Trigger Event"): (i) the termination of the executive's employment by the Company without "cause" (as defined in the severance agreements), or (ii) the executive's resignation for "good reason" within six months following a "change in control event" (as each such term is defined in the severance agreements). Thus, the amounts reported in the table assume the exercise of any such stock options held by the Named Executive Officers at December 31, 2017 that were in-the-money as of such date.
- (2) The 2007 Plan provides that all outstanding options will become exercisable upon a change in control (as defined in the 2007 Plan). The 2015 Plan provides that upon or in anticipation of any change in control (as defined in the 2015 Plan), the Compensation Committee has the discretion to accelerate the vesting of any outstanding options. Thus, the amounts reported in the table assume the exercise of any outstanding stock options held by the Named Executive Officers at December 31, 2017 that were in-the-money as of such date and that, with respect to option awards issued under the 2015 Plan, the Compensation Committee decided to accelerate the vesting of such outstanding options upon a change in control.
- (3) The terms of the severance agreements entered into between the Company and each of Ned Mavrommatis and Michael L. Ehrman generally provide for accelerated vesting of a portion of the unvested restricted shares held by the individual upon the occurrence of a Trigger Event.
- (4) The 2007 Plan provides that all outstanding restricted stock awards will become fully vested upon a change in control (as defined in the 2007 Plan). The 2015 Plan provides that upon or in anticipation of any change in control (as defined in the 2015 Plan), the Compensation Committee has the discretion to accelerate the vesting of any outstanding restricted stock awards. The amounts reported in the table assume that, with respect to restricted stock awards issued under the 2015 Plan, the Compensation Committee decided to accelerate the vesting of such outstanding restricted stock upon a change in control.

Compensation Committee Interlocks and Insider Participation

The members of the Compensation Committee are Kenneth Brakebill, Michael Casey and Ron Konezny. No member of the Compensation Committee is or has been an executive officer or employee of our Company or except as set forth above under the heading “Certain Relationships and Related Transactions,” had any relationships requiring disclosure by us under the SEC’s rules requiring disclosure of certain relationships and related-party transactions. None of our executive officers served as a director or a member of a compensation committee (or other committee serving an equivalent function) of any other entity, the executive officers of which served as a director or member of the Compensation Committee during the fiscal year ended December 31, 2017.

Risk Considerations

We do not believe that our compensation practices and policies for our employees, including our executive officers, create risks or are likely to create risks that are reasonably likely to have a material adverse effect on us or our results of operations or financial condition.

**SECURITY OWNERSHIP OF
CERTAIN BENEFICIAL OWNERS AND MANAGEMENT**

The following table sets forth information regarding ownership of shares of our common stock as of April 26, 2018, by:

- each stockholder known by us to own beneficially more than 5% of our outstanding common stock;
- each of our executive officers named in the “Summary Compensation Table” in this Proxy Statement (these executive officers are sometimes referred to herein as the “Named Executive Officers”);
- each of our current directors and nominees for election as directors at the Annual Meeting; and
- all of our current directors and executive officers as a group.

To our knowledge, except as set forth in the footnotes to the table and subject to applicable community property laws, each person or entity named in the table has sole voting and disposition power with respect to the shares set forth opposite such person’s or entity’s name. The number of shares beneficially owned by each entity, person, director or executive officer is determined in accordance with the rules of the SEC, and the information is not necessarily indicative of beneficial ownership for any other purpose. Under such rules, beneficial ownership includes any shares over which the individual has the sole or shared voting power or investment power and any shares that the individual has the right to acquire within 60 days of April 26, 2018, through the exercise of stock options, warrants or other convertible securities or any other right. Shares of our common stock that a person has the right to acquire within 60 days of April 26, 2018 are deemed outstanding for purposes of computing the percentage ownership of the person holding such rights but are not deemed outstanding for purposes of computing the percentage ownership of any other person (except with respect to the percentage ownership of all directors and executive officers as a group). As used in this Proxy Statement, “voting power” is the power to vote or direct the voting of shares and “investment power” includes the power to dispose or direct the disposition of shares.

The number and percentage of shares beneficially owned is computed on the basis of 17,634,904 shares of our common stock outstanding as of April 26, 2018. The information in the following table regarding the beneficial owners of more than 5% of our common stock is based upon information supplied by our principal stockholders or set forth in Schedules 13D and 13G filed with the SEC. The determination that there were no other persons, entities or groups known to the Company to beneficially own more than 5% of the Company’s outstanding common stock was based on a review of all statements filed with the SEC with respect to the Company pursuant to Section 13(d) or 13(g) of the Exchange Act.

The address for those persons for which an address is not otherwise provided is c/o I.D. Systems, Inc., 123 Tice Boulevard, Woodcliff Lake, New Jersey 07677.

Name and Address of Beneficial Owner	Number of Shares of Common Stock Beneficially Owned	Percentage of Shares of Common Stock Outstanding (1)
5% Stockholders:		
Neil Subin 3300 South Dixie Highway, Suite 1-365 West Palm Beach, FL 33405	2,220,438 ⁽²⁾	12.59%
Emancipation Management LLC 825 Third Avenue New York, NY 10022	1,722,293 ⁽³⁾	9.77%
Cannell Capital LLC 245 Meriwether Circle Alta, WY 83414	1,698,684 ⁽⁴⁾	9.63%
Avis Budget Group, Inc. 6 Sylvan Way Parsippany, New Jersey 07054	1,000,000 ⁽⁵⁾	5.67%
Executive Officers:		
Chris Wolfe	220,455 ⁽⁶⁾	1.25%
Ned Mavrommatis	338,389 ⁽⁷⁾	1.91%
Michael L. Ehrman	524,709 ⁽⁸⁾	2.95%
Directors:		
Kenneth Brakebill	106,942 ⁽⁹⁾	*
Michael Brodsky	206,924 ⁽¹⁰⁾	1.17%
Michael Casey	53,772 ⁽¹¹⁾	*
Ron Konezny	106,129 ⁽¹²⁾	*
All directors and executive officers as a group (seven individuals)	1,557,320 ⁽¹³⁾	8.60%

* Represents less than 1% of the outstanding shares of our common stock.

- (1) Ownership percentages are based on 17,634,904 shares of common stock of the Company outstanding as of April 26, 2018.
- (2) Based on information contained in a Schedule 13G filed with the SEC on January 23, 2018, Neil Subin beneficially owns an aggregate of 2,220,438 shares of the Company's common stock, with sole voting and dispositive power over 2,212,538 shares and shared voting and dispositive power over 7,900 shares. Mr. Subin succeeded to the position of President and Manager of MILFAM LLC, which serves as manager, general partner or investment advisor of a number of entities formerly managed or advised by the late Lloyd I. Miller, III. Mr. Subin also serves as trustee of a number of Miller family trusts.
- (3) Based on information contained in Amendment No. 6 to Schedule 13D filed with the SEC on January 22, 2018 and a Form 4 filed on February 16, 2018, Emancipation Management LLC, a New York limited liability company ("Emancipation Management"), and Charles Frumberg, a U.S. citizen who serves as the managing member of Emancipation Management, beneficially own an aggregate of 1,722,393 shares of the Company's common stock, with shared voting and dispositive power over these shares. Emancipation Capital Master, Ltd., a Cayman Islands exempted company, beneficially owns an aggregate of 754,010 shares, with shared voting and dispositive power over these shares. Emancipation Capital SPV IV LLC, a Delaware limited liability company, and Emancipation Capital LLC, a New York limited liability company, beneficially own an aggregate of 1,033,383 shares of the Company's common stock, with shared voting and dispositive power over these shares.
- (4) Based on information contained in Amendment No. 2 to Schedule 13G filed with the SEC on February 14, 2017, Cannell Capital LLC, a Wyoming limited liability company ("Cannell Capital"), and J. Carlo Cannell, a U.S. citizen who serves as the managing member of Cannell Capital, beneficially own an aggregate of 1,698,684 shares of the Company's common stock, with shared voting and dispositive power over these shares.
- (5) Based on information contained in Amendment No. 1 to Schedule 13G filed with the SEC on March 7, 2017, Avis Budget Group, Inc., a Delaware corporation ("Avis"), beneficially owns 1,000,000 shares of the Company's common stock, with sole voting and dispositive power over these shares.
- (6) This number includes (i) 50,000 shares of our common stock issuable upon exercise of options which are currently exercisable or which will become exercisable within 60 days of April 26, 2018; (ii) 37,500 restricted shares of common stock, 33 1/3% of which shares vest on each of August 4, 2018, August 4, 2019 and August 4, 2020, provided that Mr. Wolfe is employed by the Company on each such date; (iii) 37,500 restricted shares of common stock, 33 1/3% of which shares vest on each of December 7, 2018, December 7, 2019 and December 7, 2020, provided that Mr. Wolfe is employed by the Company on each such date; and (iv) 70,850 restricted shares of common stock, 25% of which shares vest on each of February 24, 2019, February 24, 2020, February 24, 2021 and February 24, 2022.
- (7) This number includes (i) 125,944 shares of our common stock issuable upon exercise of options which are currently exercisable or which will become exercisable within 60 days of April 26, 2018; (ii) 12,500 restricted shares of common stock, 100% of which shares vest on September 8, 2018, provided that Mr. Mavrommatis is employed by the Company on such date; (iii) 15,000 restricted shares of common stock, 50% of which shares vest on each of June 11, 2018 and June 11, 2019, provided that Mr. Mavrommatis is employed by the Company on each such date; (iv) 7,500 restricted shares of common stock, 50% of which shares vest on each of March 24, 2019 and March 24, 2020, provided that Mr. Mavrommatis is employed by the Company on each such date; (v) 12,500 restricted shares of common stock, 33 1/3% of which shares vest on each of February 17, 2019, February 17, 2020 and February 17, 2021, provided that Mr. Mavrommatis is employed by the Company on each such date; and (vi) 53,981 restricted shares of common stock, 25% of which shares vest on each of February 24, 2019, February 24, 2020, February 24, 2021 and February 24, 2022, provided that Mr. Mavrommatis is employed by the Company on each such date.
- (8) This number includes (i) 181,542 shares of our common stock issuable upon exercise of options which are currently exercisable or which will become exercisable within 60 days of April 26, 2018; (ii) 12,500 restricted shares of common stock, 100% of which shares vest on September 8, 2018, provided that Mr. Ehrman is employed by the Company on such date; (iii) 15,000 restricted shares of common stock, 50% of which shares vest on each of June 11, 2018 and June 11, 2019, provided that Mr. Ehrman is employed by the Company on each such date; (iv) 7,500 restricted shares of common stock, 50% of which shares vest on each of March 24, 2019 and March 24, 2020, provided that Mr. Ehrman is employed by the Company on each such date; (v) 9,375 restricted shares of common stock, 33 1/3% of which shares vest on each of February 17, 2019, February 17, 2020 and February 17, 2021, provided that Mr. Ehrman is employed by the Company on each such date; (vi) 22,942 restricted shares of common stock, 25% of which shares vest on each of February 24, 2019, February 24, 2020, February 24, 2021 and February 24, 2022, provided that Mr. Ehrman is employed by the Company on each such date and (vii) 250 shares of our common stock held by Mr. Ehrman's spouse.

- (9) This number includes (i) 19,406 restricted shares of our common stock, all of which vest on June 15, 2018 provided that Mr. Brakebill is a director of the Company on such date; and (ii) 33,750 shares of our common stock issuable upon exercise of options which are currently exercisable or which will become exercisable within 60 days of April 26, 2018.
- (10) This number includes (i) 23,317 restricted shares of our common stock, all of which vest on June 15, 2018, provided that Mr. Brodsky is a director of the Company on such date; (ii) 76,000 shares of Common Stock held by Vajra Fund I, L.P., of which Mr. Brodsky is the general partner; and (iii) 46,250 shares of our common stock issuable upon exercise of options which are currently exercisable or which will become exercisable within 60 days of April 26, 2018.
- (11) This number includes (i) 20,609 restricted shares of our common stock, all of which vest on June 15, 2018, provided that Mr. Casey is a director of the Company on such date; and (ii) 11,250 shares of our common stock issuable upon exercise of options which are currently exercisable or which will become exercisable within 60 days of April 26, 2018
- (12) This number includes (i) 19,706 restricted shares of our common stock, all of which vest on June 15, 2018, provided that Mr. Konezny is a director of the Company on such date; and (ii) 33,750 shares of our common stock issuable upon exercise of options which are currently exercisable or which will become exercisable within 60 days of April 26, 2018.
- (13) This number includes an aggregate of 482,486 shares of our common stock issuable upon exercise of options which are currently exercisable or which will become exercisable within 60 days of April 26, 2018.

SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Exchange Act requires our executive officers, directors and persons who own more than 10% of a registered class of our equity securities to file with the SEC statements on Form 3, Form 4 and Form 5 of ownership and changes in ownership. Officers, directors and greater than 10% stockholders are required by regulation to furnish us with copies of all Section 16(a) reports that they file.

Based solely upon a review of Forms 3, 4 and 5 and any amendments to those forms that have been furnished to us, we believe that all parties subject to the reporting requirements of Section 16(a) filed all such required reports during and with respect to the fiscal year ended December 31, 2017.

PROPOSAL NO. 2

RATIFICATION OF APPOINTMENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Audit Committee has appointed the firm of EisnerAmper LLP as the independent registered public accounting firm to audit our financial statements for the current fiscal year, subject to the ratification of such appointment by our stockholders. Representatives of EisnerAmper LLP are expected to be present at the Annual Meeting and will have an opportunity to make a statement, if they so desire, and will be available to respond to appropriate questions.

Fees and Services of Independent Registered Certified Public Accounting Firm

Audit Fees

The aggregate fees billed by EisnerAmper LLP, our independent registered public accounting firm, for professional services rendered for (i) the audit of our annual financial statements for the fiscal year ended December 31, 2017, (ii) for the review of the financial statements included in our Quarterly Reports on Form 10-Q during the fiscal year ended December 31, 2017, (iii) for the review of the financial statements included in our Current Report on Form 8-K during the fiscal year ended December 31, 2017, and (iv) for the filing of a registration statement on Form S-3 and issuance of comfort letters and consents in connection with a public offering during the fiscal year ended December 31, 2017 were \$314,000. The aggregate fees billed by EisnerAmper LLP, our independent registered public accounting firm, for professional services rendered for (i) the audit of our annual financial statements for the fiscal year ended December 31, 2016, and (ii) for the review of the financial statements included in our Quarterly Reports on Form 10-Q during the fiscal year ended December 31, 2016 were \$170,000.

Audit-Related Fees

Other than the fees described under the caption “Audit Fees” above, there were no fees billed by EisnerAmper LLP for assurance and related services reasonably related to the performance of the audit or review of our financial statements during the fiscal years ended December 31, 2017 and 2016.

Tax Fees

There were no fees billed by EisnerAmper LLP for professional services rendered for tax compliance, tax advice or tax planning during fiscal years ended December 31, 2017 and 2016.

All Other Fees

The aggregate fees billed by EisnerAmper LLP for products or professional services rendered during the fiscal years ended December 31, 2017 and 2016, other than services described under the captions “Audit Fees,” “Audit-Related Fees” and “Tax Fees” above, were \$0.

Audit Committee’s Pre-Approval Policies and Procedures

The Audit Committee pre-approves all services, including both audit and non-audit services, provided by our independent accountants. For audit services, each year the independent registered public accounting firm provides the Audit Committee with an engagement letter outlining the scope of the audit services proposed to be performed during the year, which must be formally accepted by the Audit Committee before the audit commences. The independent registered public accounting firm also submits an audit services fee proposal, which also must be approved by the Audit Committee before the audit commences. None of the fees for services described above under the captions “Audit-Related Fees” or “All Other Fees” approved by the Audit Committee were approved pursuant to the exception provided by paragraph (c)(7)(i)(C) of Rule 2-01 of Regulation S-X.

THE BOARD OF DIRECTORS RECOMMENDS THAT YOU VOTE “FOR” THE RATIFICATION OF THE APPOINTMENT OF EISNERAMPER LLP AS THE COMPANY’S INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM FOR THE FISCAL YEAR ENDING DECEMBER 31, 2018.

PROPOSAL NO. 3

APPROVAL AND ADOPTION OF THE I.D. SYSTEMS, INC. 2018 INCENTIVE PLAN

The Board has adopted and is seeking stockholder approval of the I.D. Systems, Inc. 2018 Incentive Plan (the “2018 Plan”), including the authority to issue 1,500,000 shares of common stock (subject to adjustment for stock splits, stock dividends, and similar events) under the 2018 Incentive Plan. The Board is proposing a new plan rather than simply amending its existing 2015 Plan because recent changes in tax laws make certain of the provisions in its 2015 Plan (including those related to Section 162(m) of the Code) unnecessary with respect to prospective awards. The Board adopted the 2018 Incentive Plan on April 25, 2018, subject to stockholder approval of the 2018 Plan at the Annual Meeting. Awards will not be made under the 2018 Plan until stockholder approval is obtained for the 2018 Plan.

The Board believes that an adequate reserve of shares available for issuance is necessary to enable the Company to attract, motivate, and retain key employees, directors, advisors to and consultants of the Company, its affiliates and/or its subsidiaries through the use of competitive incentives that are tied to stockholder value. For this purpose, subject to the approval of stockholders, the Board adopted the 2018 Plan based in part on a belief that the number of shares currently available under the Company’s existing equity incentive plans does not allow for sufficient authority and flexibility to adequately provide for future incentives. If our stockholders do not approve the 2018 Plan, there are insufficient shares available under the Company’s existing equity incentive plans to make grants to new and continuing employees and non-employee directors. In that event, the Compensation Committee would be required to revise its compensation philosophy and create other non-equity related compensation programs to attract, retain and compensate executives, non-employee directors and other key employees.

The 2018 Plan will become effective on the date it is approved by the Company’s stockholders (the “Effective Date”). Upon stockholder approval, this 2018 Plan will be the only long-term incentive plan under which equity compensation may then be awarded to our employees, consultants, and members of the Board. Awards currently outstanding under the 1999 Stock Option Plan, the 2007 Plan, the 2009 Plan and the 2015 Plan will remain outstanding under such plans in accordance with their terms.

New Plan Benefits

It is not possible to determine specific amounts that may be awarded in the future under the 2018 Plan because grants of awards under the 2018 Plan are at the discretion of the Compensation Committee.

Summary of the 2018 Plan

The following is a summary of the material terms of the 2018 Plan. This summary is not complete and is qualified in its entirety by reference to the full text of the Form of 2018 Incentive Plan attached to this Proxy Statement as **Annex A**, which assumes that this Proposal 3 is approved.

Purpose

The 2018 Plan allows the Company to provide employees, consultants and all members of the Board who are selected to receive awards under the 2018 Plan the opportunity to acquire an equity interest in the Company. The Board believes that equity incentives are a significant factor in attracting and motivating eligible persons whose present and potential contributions are important to the Company.

Key Provisions

The following is a summary of the key provisions of the 2018 Plan:

Plan Termination Date:	Ten years from the Effective Date
Eligible Participants:	Employees, directors, consultants and advisors (except that only employees are eligible for Incentive Stock Options)

Shares Authorized:	The sum of: (i) 1,500,000 shares, plus (ii) the number of shares of common stock of the Company which remain available for grants of options or other awards under the 2009 Plan and the 2015 Plan as of the Effective Date, plus (iii) the number of shares that, after the Effective Date, would again become available for issuance pursuant to the reserved share replenishment provisions of the 2009 Plan and the 2015 Plan as a result of stock options issued thereunder expiring or becoming unexercisable for any reason before being exercised in full, or, as a result of restricted stock being forfeited to the Company or repurchased by the Company pursuant to the terms of the agreements governing such shares.
Award Types:	<ol style="list-style-type: none"> (1) Incentive Stock Options (2) Non-qualified Stock Options (3) Restricted Stock (4) Stock Appreciation Rights (5) Performance Bonus Awards (6) Deferred Stock (7) Restricted Stock Units (8) Dividend Equivalents (9) Performance Stock Units (10) Performance Share Awards (11) Other Stock-Based Awards
Vesting:	Determined by the Compensation Committee. Subject to the acceleration of vesting in certain circumstances as permitted under the terms of the 2018 Plan, each award under the 2018 Plan will have a minimum vesting period of one year, except that the Compensation Committee may determine in its discretion that up to 5% of the shares of common stock which may be issued under the 2018 Plan may be granted free of such minimum vesting provisions.
Not Permitted:	Repricing of stock options and amendments that under the Internal Revenue Code (the "Code") or NASDAQ rules require stockholder approval
Incentive Stock Option Limit:	No more than 1,000,000 shares may be issued pursuant to incentive stock options
Limitation on Number of Shares Granted to Independent Directors:	The sum of the grant date fair value of equity-based awards and the amount of any cash-based awards granted to a non-employee director during any calendar year, under the 2018 Plan, may not exceed \$500,000

Awards under the 2018 Plan

Stock Options. The 2018 Plan permits the Compensation Committee to issue incentive stock options and non-qualified stock options to participants, which directly link their financial success to that of the Company's stockholders. The Compensation Committee shall determine the number of shares subject to options and all other terms and conditions of the options, including vesting requirements. In no event, however, may the exercise price of a stock option be less than 100% of the fair market value of the Company's common stock on the date of the stock option's grant, nor may any option have a term of more than ten years. Except for adjustments based on changes in the corporate structure or as otherwise provided in the 2018 Plan, the terms of an option may not be amended to reduce the exercise price nor may options be canceled or exchanged for cash, other awards or options with an exercise price that is less than the exercise price of the original options.

Additionally, in the case of an incentive stock option granted to any individual who, at the date of grant, owns stock possessing more than ten percent (10%) of the total combined voting power all classes of stock of the Company, such incentive stock option shall be granted at a price that is not less than one hundred and ten percent (110%) of fair market value on the date of grant and such incentive stock option shall be exercisable for no more than five (5) years from the date of grant.

As of April 26, 2018, the fair market value of a share of our common stock was \$6.66.

Stock Appreciation Rights. The 2018 Plan permits the Compensation Committee to issue stock appreciation rights (“SARs”), either free-standing or in tandem with stock options. The Compensation Committee shall determine the number of SARs to be granted and other terms and conditions of the SARs. In no event, however, may the exercise of a SAR be less than 100% of the fair market value of the Company’s common stock on the date of grant, and the terms shall not exceed ten years. SARs may be settled in cash, stock, or a combination of both.

Restricted Stock and Restricted Stock Units. The 2018 Plan permits the Compensation Committee to grant restricted stock awards. Each share of restricted stock shall be subject to such terms, conditions, restrictions, and/or limitations, if any, as the Compensation Committee deems appropriate, including, but not by way of limitation, restrictions on transferability and continued employment. Holders of shares of restricted stock may vote the shares and receive dividends on such shares. Notwithstanding the foregoing, with respect to a share of restricted stock, dividends shall only be paid out to the extent that the share of restricted stock vests. The vesting period for restricted stock shall be determined by the Compensation Committee, which may accelerate the vesting of any such award. The Compensation Committee may also grant restricted stock units, which have substantially the same terms as restricted stock, except that units have no voting rights, and unless otherwise determined by the Compensation Committee, will not receive dividends or dividend equivalents (which in an event shall only be paid out to the extent that the restricted stock units vest). The Compensation Committee may also grant unrestricted stock under this provision.

Performance Shares and Performance Stock Units. The 2018 Plan permits the Compensation Committee to issue “performance shares” and “performance stock units.” These are contingent incentive awards that are converted into stock and/or cash and paid out to the participant only if specific performance goals are achieved over performance periods, as set by the Compensation Committee. If the performance goals are not achieved, the awards are canceled or reduced. Performance shares are each equivalent in value to a share of common stock (payable in cash and/or stock), while performance stock units are equal to a specific amount of cash.

Stock Payments and Other Stock-Based Awards. The 2018 Plan also permits the Compensation Committee to grant awards of deferred stock, dividend equivalents, other stock-based awards, and performance bonus awards as provided in the 2018 Plan.

Eligible for Participation. Persons eligible to participate in the 2018 Plan include employees, directors, consultants and advisors, as determined by the Compensation Committee. Approximately 120 employees and four nonemployee directors currently are eligible to participate in the 2018 Plan.

Available Shares. The 2018 Plan authorizes the issuance of an aggregate number of shares of common stock equal to the sum of: (i) 1,500,000 shares, plus (ii) the number of shares of common stock of the Company which remain available for grants of options or other awards under the 2009 Plan and the 2015 Plan as of the Effective Date, plus (iii) the number of shares that, after the Effective Date, would again become available for issuance pursuant to the reserved share replenishment provisions of the 2009 Plan and the 2015 Plan as a result of, stock options issued thereunder expiring or becoming unexercisable for any reason before being exercised in full, or, as a result of restricted stock being forfeited to the Company or repurchased by the Company pursuant to the terms of the agreements governing such shares. In the event of a stock split, stock dividend, or other change in the corporate structure of the Company, as described in the 2018 Plan, affecting the shares that may be issued under the 2018 Plan, an adjustment shall be made in the number and class of shares which may be delivered under the 2018 Plan (including but not limited to individual grant limits). Upon termination of the 2018 Plan, no further awards may be issued under the 2018 Plan.

Minimum Vesting. Subject to the acceleration of vesting in certain circumstances as permitted under the terms of the 2018 Plan, each award under the 2018 Plan will have a minimum vesting period of one year, except that the Compensation Committee may determine in its discretion that up to 5% of the shares of common stock which may be issued under the 2018 Plan may be granted free of such minimum vesting provisions.

Other Information. The 2018 Plan may be amended in whole or in part by the Board or the Compensation Committee with the approval of the Board and in certain circumstances with stockholder approval. Unless the Compensation Committee provides otherwise in advance of the grant, in the event of a Change in Control (as defined in the 2018 Plan), if the employee is terminated other than for “cause” within one year of a Change in Control or leaves for “Good Reason,” options and restricted stock (including restricted stock units) shall vest. In addition, unless otherwise determined by the Compensation Committee, the payout of performance stock units and performance shares shall be determined exclusively by the attainment of the performance goals established by the Compensation Committee, which may not be modified after the Change in Control, and the Company will not have the right to reduce the awards for any other reason. “Good Reason” means in connection with a termination of employment by a participant within one year following a Change in Control, (a) a material adverse alteration in the participant’s position or in the nature or status of the participant’s responsibilities from those in effect immediately prior to the Change in Control, or (b) any material reduction in the participant’s base salary rate or target annual bonus, in each case as in effect immediately prior to the Change in Control, or (c) the relocation of the participant’s principal place of employment to a location that is more than 50 miles from the location where the participant was principally employed at the time of the Change in Control or materially increases the time of the participant’s commute as compared to the participant’s commute at the time of the Change in Control (except for required travel on the Company’s business to an extent substantially consistent with the participant’s customary business travel obligations in the ordinary course of business prior to the Change in Control).

In addition, the 2018 Plan provides that if the Company is required to prepare an accounting restatement due to material noncompliance with the financial reporting requirements of the securities laws, in certain cases the Compensation Committee may require the repayment of amounts paid under the 2018 Incentive Plan in excess of what the employee would have received under the accounting restatement.

U.S. Federal Income Tax Consequences

The following summary is intended only as a general guide to the U.S. federal income tax consequences under current law of equity-based awards that may be granted under the 2018 Plan. It does not attempt to describe all possible federal or other tax consequences of participation in the 2018 Plan or tax consequences based on particular circumstances. The exact federal income tax treatment of transactions under the 2018 Plan will vary depending upon the specific facts and circumstances involved and participants are advised to consult their personal tax advisors with regard to all consequences arising from the grant or exercise of awards and the disposition of any acquired shares.

Incentive Stock Options. Incentive stock options under the 2018 Plan are intended to be eligible for the favorable tax treatment accorded “incentive stock options” under the Code. There generally are no federal income tax consequences to the participant or the Company by reason of the grant or exercise of an incentive stock option. However, the exercise of an incentive stock option may increase the participant’s alternative minimum tax liability, if any.

If a participant holds stock acquired through exercise of an incentive stock option for at least two (2) years from the date on which the option is granted and at least one (1) year from the date on which the shares are transferred to the participant upon exercise of the option, any gain or loss on a disposition of such stock will be treated for tax purposes as long-term capital gain or loss.

Generally, if the participant disposes of the stock before the expiration of either of these holding periods (a “disqualifying disposition”), then at the time of disposition the participant will realize taxable ordinary income equal to the lesser of (a) the excess of the stock’s fair market value on the date of exercise over the exercise price, or (b) the participant’s actual gain, if any, on the purchase and sale. The participant’s additional gain (or any loss) upon the disqualifying disposition will be a capital gain (or loss), which will be long-term or short-term depending on whether the stock was held for more than one (1) year.

To the extent the participant recognizes ordinary income by reason of a disqualifying disposition, the Company will generally be entitled to a corresponding business expense deduction in the tax year in which the disqualifying disposition occurs.

Non-qualified Stock Options, Restricted Stock Awards, Restricted Stock Units, and Deferred Stock. Non-qualified stock options, restricted stock awards, restricted stock units and deferred stock granted under the 2018 Plan generally have the following federal income tax consequences:

There are no tax consequences to the participant or the Company by reason of the grant of a non-qualified stock option. Upon exercise of the option, the participant ordinarily will recognize taxable ordinary income equal to the excess, if any, of the stock’s fair market value on the exercise date over the exercise price. If the stock received pursuant to the exercise is subject to further vesting requirements, the taxable event will be delayed until the vesting restrictions lapse unless the participant elects under Section 83(b) of the Code to be taxed on receipt of the stock.

There are no tax consequences to the participant or the Company by reason of the grant of restricted stock, restricted stock units or deferred stock awards. The participant ordinarily will recognize taxable ordinary income equal to the excess, if any, of the stock's fair market value over the purchase price, if any, when such award vests. Under certain circumstances, the participant may be permitted to elect under Section 83(b) of the Code to be taxed on the grant date.

With respect to employees, the Company is generally required to withhold from regular wages or supplemental wage payments an amount based on the ordinary income recognized. The Company will generally be entitled to a business expense deduction equal to the taxable ordinary income realized by the participant.

Upon disposition of the stock, the participant will generally recognize a capital gain or loss equal to the difference between the selling price and the sum of the amount paid for such stock (if any) plus any amount recognized as ordinary income upon acquisition (or vesting) of the stock. Such gain or loss will be long-term or short-term depending on whether the stock was held for more than one (1) year.

Stock Appreciation Rights. No taxable income is generally recognized upon the receipt of a SAR, but upon exercise of the SAR, the fair market value of the shares (or cash in lieu of shares) received generally will be taxable as ordinary income to the recipient in the year of such exercise. The Company generally will be entitled to a compensation deduction for the same amount which the recipient recognizes as ordinary income.

Performance Awards. A participant who has been granted a performance award generally will not recognize taxable income at the time of grant, and the Company will not be entitled to a deduction at that time. When an award is paid, whether in cash or common shares, the participant generally will recognize ordinary income, and the Company will be entitled to a corresponding deduction.

Stock Payments and Other Stock-Based Awards. A participant who receives a stock payment in lieu of a cash payment that would otherwise have been made will generally be taxed as if the cash payment has been received, and the Company generally will be entitled to a deduction for the same amount.

Section 409A of the Code. Most of the awards under the 2018 Incentive Plan are exempt from Section 409A of the Code. To the extent that any award hereunder could be subject to Section 409A of the Code, it will be structured to comply with Section 409A of the Code.

Section 162(m) of the Code. The Tax Reform and Jobs Act of 2017 (the "Tax Act") generally eliminated the ability to deduct compensation qualifying for the "performance-based compensation" exception under Section 162(m) of the Code for tax years commencing after December 31, 2017. Section 162(m) of the Code imposes a \$1 million limit on the amount that a public company may deduct for compensation paid to anyone who has ever been the Company's chief executive officer, chief financial officer or one of the three highest compensated officers in any fiscal year beginning after December 31, 2016 (i.e., a "covered employee"). For 2017 and prior taxable years, an exception to this deduction limit applied to "performance-based compensation," such as stock options and other equity awards that satisfied certain criteria. Under the Tax Act, the performance-based pay exception to Section 162(m) was eliminated, but a transition rule may allow the exception to continue to apply to certain performance-based compensation payable under written binding contracts that were in effect on November 2, 2017. The Board of Directors and the committee intend to consider the potential impact of Section 162(m) on grants made under the 2018 Incentive Plan, but reserve the right to approve grants of options and other awards for an executive officer that exceeds the deduction limit of Section 162(m). The adoption of the 2018 Incentive Plan is not intended to affect the grandfathered status of awards previously granted under the Company's existing equity incentive plans that were intended to qualify as "performance-based compensation" under Section 162(m).

THE BOARD OF DIRECTORS RECOMMENDS THAT YOU VOTE "FOR" THE APPROVAL AND ADOPTION OF THE I.D. SYSTEMS, INC. 2018 INCENTIVE PLAN.

PROPOSAL NO. 4

ADVISORY VOTE ON THE COMPANY'S EXECUTIVE COMPENSATION

In accordance with recently adopted Section 14A of the Exchange Act, which was added under the Dodd-Frank Wall Street Reform and Consumer Protection Act, we are asking stockholders to approve an advisory resolution on the Company's executive compensation as reported in this Proxy Statement. Our executive compensation programs are designed to support the Company's long-term success. As described above in the "Compensation Discussion and Analysis" section of this Proxy Statement, the Compensation Committee has structured our executive compensation program to achieve the following key objectives:

- to provide a total rewards package to our executives that are competitive with our peer companies;
- to attract and retain key talent;
- to link pay to performance by providing incentives that promote short and long-term financial growth and stability to continuously enhance stockholder value.

We believe that our performance-based executive compensation programs provide incentives that are aligned with the best interests of our stockholders and have facilitated the Company's performance.

We urge stockholders to read the "Compensation Discussion and Analysis" above, which describes in more detail how our executive compensation policies and procedures operate and are designed to achieve our compensation objectives, as well as the Summary Compensation Table and related compensation tables and narrative contained herein, which provide detailed information on the compensation of our Named Executive Officers. The Board believes that the policies and procedures articulated in the "Compensation Discussion and Analysis" are effective in achieving our goals and that the compensation of our Named Executive Officers reported in this Proxy Statement has supported and contributed to the Company's success.

Accordingly, we are asking stockholders to approve the following advisory resolution at the Annual Meeting:

RESOLVED, that the stockholders of I.D. Systems, Inc. (the "Company") approve, on an advisory basis, the compensation of the Company's named executive officers set forth in the Compensation Discussion and Analysis, the Summary Compensation Table and the related compensation tables and narrative in the Proxy Statement relating to the Company's 2018 Annual Meeting of Stockholders.

This advisory resolution, commonly referred to as a "say-on-pay" resolution, is non-binding on the Board. Although non-binding, the Board and the Compensation Committee will carefully review and consider the voting results when evaluating our executive compensation program.

THE BOARD OF DIRECTORS RECOMMENDS THAT YOU VOTE "FOR" THIS PROPOSAL NO. 4 AND APPROVE, ON AN ADVISORY BASIS, THE COMPANY'S EXECUTIVE COMPENSATION.

STOCKHOLDERS' PROPOSALS FOR NEXT ANNUAL MEETING

Stockholder proposals to be presented at our annual meeting of stockholders to be held in 2019, for inclusion in our proxy statement and form of proxy relating to that meeting, must be received by us at our principal executive offices, 123 Tice Boulevard, Woodcliff Lake, New Jersey 07677, addressed to the Corporate Secretary, on or before January 7, 2019. If, however, our 2019 Annual Meeting of Stockholders is changed by more than thirty (30) days from the date of the Annual Meeting, the deadline is a reasonable time before we begin to print and mail our proxy materials for the 2019 Annual Meeting of Stockholders. Such stockholder proposals must comply with our bylaws and the requirements of Regulation 14A of the Exchange Act.

Rule 14a-4 of the Exchange Act governs our use of our discretionary proxy voting authority with respect to a stockholder proposal that is not addressed in the proxy statement. With respect to our annual meeting of stockholders to be held in 2019, if we are not provided notice of a stockholder proposal prior to March 23, 2019, we will be permitted to use its discretionary voting authority when the proposal is raised at the meeting, without any discussion of the matter in the proxy statement.

OTHER MATTERS

As of the date of this Proxy Statement, the Board of Directors is not aware of any matters, other than those stated above, that may be brought before the Annual Meeting. The persons named in the enclosed form of proxy or their substitutes will vote with respect to any such matters in accordance with their best judgment.

By order of the Board of Directors,

/s/ Ned Mavrommatis

Ned Mavrommatis
Corporate Secretary

Dated: April 30, 2018

A COPY OF THE COMPANY'S ANNUAL REPORT ON FORM 10-K FOR THE FISCAL YEAR ENDED DECEMBER 31, 2017 (EXCLUDING EXHIBITS) ACCOMPANIES THIS PROXY STATEMENT. THE ANNUAL REPORT IS NOT TO BE REGARDED AS PROXY SOLICITING MATERIAL OR AS A COMMUNICATION BY MEANS OF WHICH ANY SOLICITATION IS TO BE MADE.

I.D. SYSTEMS, INC.

2018 Incentive Plan

Article 1

Establishment and Purpose

1.1 Establishment of the Plan. I.D. Systems Inc., a Delaware corporation (the “Company”), hereby establishes an incentive compensation plan (the “Plan”), as set forth in this document.

1.2 Purpose of the Plan. The purpose of the Plan is to promote the success and enhance the value of the Company by linking the personal interests of Participants to those of the Company’s stockholders, and by providing Participants with an incentive for outstanding performance.

1.3 Effective Date of the Plan. The Plan is effective as of the date the Plan is approved by the Company’s stockholders (the “Effective Date”). The Plan will be deemed to be approved by the stockholders if it receives the affirmative vote of the holders of a majority of the shares of stock of the Company present or represented and entitled to vote at a meeting duly held in accordance with the applicable provisions of the Company’s Bylaws. The I.D. Systems, Inc. 2015 Equity Compensation Plan and the 2009 Non-Employee Director Equity Compensation Plan (the “Prior Plans”) shall be frozen on the date on which this Plan is approved by the Company’s stockholders and no new awards shall be issued under the Prior Plans. With respect to outstanding awards under the Prior Plans, the Prior Plans shall remain in place and any awards granted under the Prior Plans shall continue to be subject to the terms of the Prior Plans and applicable Award Agreements (as defined below) (including any such terms that are intended to survive the termination of the Prior Plans or the settlement of such Award (as defined below)) and shall remain in effect pursuant to their terms.

1.4 Duration of the Plan. Unless sooner terminated as provided herein, the Plan shall terminate ten (10) years from the Effective Date. After the Plan is terminated, no Awards may be granted but Awards previously granted shall remain outstanding in accordance with their applicable terms and conditions and the Plan’s terms and conditions.

Article 2

Definitions

Whenever used in the Plan, the following terms shall have the meanings set forth below and, when the meaning is intended, the initial letter of the word is capitalized:

2.1 “Affiliate” means, with respect to any Person, any other Person that directly or indirectly through one or more intermediaries controls, is controlled by or is under common control with, the Person in question, including any subsidiary. As used herein, the term “control” means the possession, direct or indirect, of the power to direct or cause the direction of the management and policies of a Person, whether through ownership of voting securities, by contract or otherwise. As used herein, the term “subsidiary” means any corporation, partnership, venture or other entity in which the Company holds, directly or indirectly, a fifty percent (50%) or greater ownership interest.

2.2 “Applicable Law” means any applicable law, including without limitation: (a) provisions of the Code, the Securities Act, the Exchange Act and any rules or regulations thereunder; (b) corporate, securities, tax or other laws, statutes, rules, requirements or regulations, whether federal, state, local or foreign; and (c) rules of any securities exchange or automated quotation system on which the Shares are listed, quoted or traded.

2.3 “Award” means, individually or collectively, a grant or award under this Plan of Options, Stock Appreciation Rights, Restricted Stock (including unrestricted Stock), Restricted Stock Units, Performance Stock Units, Performance Shares, Deferred Stock Awards, Other Stock-Based Awards, Dividend Equivalent Awards and Performance Bonus Awards, in each case subject to the terms of the Plan.

2.4 “Award Agreement” means an agreement, certificate, resolution or other type or form of writing or other evidence approved by the Committee which sets forth the terms and conditions of an Award. An Award Agreement may be in any electronic medium, may be limited to a notation on the books and records of the Company and, with the approval of the Committee, need not be signed by a representative of the Company or a Participant. In the event of any inconsistency between the Plan and an Award Agreement, the terms of the Plan shall govern.

2.5 “Beneficial Owner” or “Beneficial Ownership” has the meaning ascribed to such term in Rule 13d-3 under the Exchange Act.

2.6 “Board” or “Board of Directors” means the Company’s Board of Directors.

2.7 “Cause” means (i) conviction of, or the entry of a plea of guilty or no contest to, a felony or any other crime that causes the Company or its Affiliates public disgrace or disrepute, or materially and adversely affects the Company’s or its Affiliates’ operations or financial performance or the relationship the Company has with its customers, (ii) gross negligence or willful misconduct with respect to the Company or any of its Affiliates, including, without limitation fraud, embezzlement, theft or proven dishonesty in the course of his or her employment; (iii) refusal to perform any lawful, material obligation or fulfill any duty (other than any duty or obligation of the type described in clause (v) below) to the Company or its Affiliates (other than due to a Disability), which refusal, if curable, is not cured within 10 days after delivery of written notice thereof; (iv) material breach of any agreement with or duty owed to the Company or any of its Affiliates, which breach, if curable, is not cured within 10 days after the delivery of written notice thereof; or (v) any breach of any obligation or duty to the Company or any of its Affiliates (whether arising by statute, common law or agreement) relating to confidentiality, noncompetition, nonsolicitation or proprietary rights. Notwithstanding the foregoing, if a Participant and the Company (or any of its Affiliates) have entered into an employment agreement, consulting agreement or other similar agreement that specifically defines “cause,” then with respect to such Participant, “Cause” shall have the meaning defined in that employment agreement, consulting agreement or other agreement.

2.8 “Change in Control” shall be deemed to have occurred if:

(a) any Person, other than a trustee or other fiduciary holding securities under an employee benefit plan of the Company or a corporation owned directly or indirectly by the stockholders of the Company in substantially the same proportions as their ownership of stock of the Company, becomes the Beneficial Owner, directly or indirectly, of securities of the Company representing fifty percent (50%) or more of the total voting power represented by the Company’s then outstanding voting securities;

(b) during any period of two (2) consecutive years, individuals who at the beginning of such period constitute the Board of Directors of the Company and any new Director whose election by the Board of Directors or nomination for election by the Company’s stockholders was approved by a vote of a majority of the Directors then still in office who either were Directors at the beginning of the period or whose election or nomination for election was previously so approved, cease for any reason to constitute a majority thereof;

(c) the consummation of a merger or consolidation of the Company with any other corporation, other than a merger or consolidation which would result in the voting securities of the Company outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity) at least fifty percent (50%) of the total voting power represented by the voting securities of the Company or such surviving entity outstanding immediately after such merger or consolidation; or

(d) the stockholders of the Company approve a plan of complete liquidation of the Company or an agreement for the sale or disposition by the Company of all or substantially all the Company’s assets.

Notwithstanding the foregoing, if a Change in Control constitutes a payment event with respect to any Award (or any portion of an Award) that provides for the deferral of compensation that is subject to Section 409A of the Code, to the extent required to avoid the imposition of additional taxes under Section 409A of the Code, the transaction or event described in subsection (a), (b), (c) or (d) with respect to such Award (or portion thereof) shall only constitute a Change in Control for purposes of the payment timing of such Award if such transaction also constitutes a “change in control event,” as defined in Treasury Regulation Section 1.409A-3(i)(5).

The Committee shall have full and final authority, which shall be exercised in its sole discretion, to determine conclusively whether a Change in Control has occurred pursuant to the above definition, the date of the occurrence of such Change in Control and any incidental matters relating thereto; provided that any exercise of authority in conjunction with a determination of whether a Change in Control is a “change in control event” as defined in Treasury Regulation Section 1.409A-3(i)(5) shall be consistent with such regulation.

2.9 “Code” means the Internal Revenue Code of 1986, as amended from time to time, and the Treasury Regulations issued thereunder.

2.10 “Committee” has the meaning set forth in Section 3.1.

2.11 “Company” has the meaning set forth in Section 1.1.

2.12 “Consultant” means any consultant or advisor who renders bona fide services to the Company or an Affiliate, other than as an Employee or Director, *provided that* such services are not in connection with the offer or sale of securities in a capital-raising transaction and do not, directly or indirectly, promote or maintain a market for the Company’s or its Affiliates’ securities.

2.13 “Deferred Stock” means a right to receive a specified number of shares of Stock during specified time periods pursuant to Article 9.

2.14 “Director” means a member of the Board.

2.15 “Disability” means, unless otherwise determined by the Committee in the applicable Award Agreement, absence of an Employee from work under the relevant Company or Subsidiary long term disability plan; provided, however, that to entitle a Participant to an extended exercise period for an Incentive Stock Option, the Participant must be described in Section 22(e)(3) of the Code. Notwithstanding the foregoing, for Awards subject to Section 409A of the Code, Disability shall mean that a Participant is disabled under Section 409A(a)(2)(C)(i) or (ii) of the Code.

2.16 “Dividend Equivalent” means a right granted to a Participant pursuant to Article 9 to receive the equivalent value (in cash or Stock) of dividends paid on Stock.

2.17 “Effective Date” has the meaning set forth in Section 1.3.

2.18 “Eligible Person” means any person who is an employee, officer, director, consultant, advisor or other individual service provider of the Company or any Affiliate, or any person who is determined by the Committee to be a prospective employee, officer, director, consultant, advisor or other individual service provider of the Company or any Affiliate.

2.19 “Employee” means any person employed by the Company, its Affiliates and/or Subsidiaries; *provided, that*, for purposes of determining eligibility to receive Incentive Stock Options, an Employee shall mean an employee of the Company or a parent or subsidiary corporation within the meaning of Section 424 of the Code. Mere service as a Director or payment of a director’s fee by the Company or an Affiliate shall not be sufficient to constitute “employment” by the Company or an Affiliate.

2.20 “Exchange Act” means the Securities Exchange Act of 1934, as amended from time to time, or any successor Act thereto.

2.21 “Exercise Price” means the price at which a Share may be purchased by a Participant pursuant to an Option, as determined by the Committee.

2.22 “Fair Market Value” or “FMV” means, as of any date, the value of Stock determined as follows:

(a) If the Stock is listed on one or more established stock exchanges or national market systems, including, without limitation, the NASDAQ Global Select Market, The NASDAQ Global Market or The NASDAQ Capital Market of The NASDAQ Stock Market LLC, its Fair Market Value shall be the closing sales price for such Stock (or the closing bid, if no sales were reported) as quoted on the principal exchange or system on which the Stock is listed (as determined by the Committee) on the date of determination (or, if no closing sales price or closing bid was reported on that date, as applicable, on the last immediately preceding trading date such closing sales price or closing bid was reported), as reported in *The Wall Street Journal* or such other source as the Committee deems reliable;

(b) If the Stock is regularly quoted on an automated quotation system (including the OTC Bulletin Board) or by a recognized securities dealer, its Fair Market Value shall be the closing sales price for such Stock as quoted on such system or by such securities dealer on the date of determination, but if selling prices are not reported, the Fair Market Value of a share of Stock shall be the mean between the high bid and low asked prices for the Stock on the date of determination (or, if no such prices were reported on that date, on the last date such prices were reported), as reported in *The Wall Street Journal* or such other source as the Committee deems reliable; or

(c) In the absence of an established market for the Stock of the type described in (a) and (b), above, the Fair Market Value thereof shall be determined by the Committee in good faith using any reasonable method of valuation, which method may be set forth with greater specificity in the Award Agreement, (and, to the extent necessary or advisable, in a manner consistent with Section 409A of the Code and Section 422 of the Code for Incentive Stock Options), which determination shall be conclusive and binding on all interested parties. Such reasonable method may be determined by reference to (i) the placing price of the latest private placement of the Shares and the development of the Company’s business operations and the general economic and market conditions since such latest private placement; (ii) other third party transactions involving the Shares and the development of the Company’s business operation and the general economic and market conditions since such sale; (iii) an independent valuation of the Shares (by a qualified valuation expert) or (iv) such other methodologies or information as the Committee determines to be indicative of Fair Market Value.

2.23 “Good Reason” means, unless the applicable Award Agreement states otherwise, (i) if an Employee or Consultant is a party to an employment or service agreement with the Company or its Affiliates and such agreement provides for a definition of “good reason,” the definition contained therein, or (ii) if no such agreement exists or if such agreement does not define “good reason,” in connection with a Termination of Employment by a Participant within one (1) year following a Change in Control, (1) a material adverse alteration in the Participant’s position or in the nature or status of the Participant’s responsibilities from those in effect immediately prior to the Change in Control, or (2) any material reduction in the Participant’s base salary rate or target annual bonus, in each case as in effect immediately prior to the Change in Control, or (3) the relocation of the Participant’s principal place of employment to a location that is more than fifty (50) miles from the location where the Participant was principally employed at the time of the Change in Control or materially increases the time of the Participant’s commute as compared to the Participant’s commute at the time of the Change in Control (except for required travel on the Company’s business to an extent substantially consistent with the Participant’s customary business travel obligations in the ordinary course of business prior to the Change in Control).

In order to invoke a Termination of Employment for Good Reason, a Participant must provide written notice to the Company or the Employer with respect to which the Participant is employed or providing services of the existence of one or more of the conditions constituting Good Reason within ninety (90) days following the Participant’s knowledge of the initial existence of such condition or conditions, specifying in reasonable detail the conditions constituting Good Reason, and the Company shall have thirty (30) days following receipt of such written notice (the “Cure Period”) during which it may remedy the condition. In the event that the Company or the Employer fails to remedy the condition constituting Good Reason during the applicable Cure Period, the Participant’s “separation from service” (within the meaning of Section 409A of the Code) must occur, if at all, within one (1) year following such Cure Period in order for such termination as a result of such condition to constitute a Termination of Employment for Good Reason.

2.24 “Incentive Stock Option” means an Option that is intended to qualify as an “incentive stock option” within the meaning of Section 422 of the Code and that meets the requirements set out in the Plan.

2.25 “Insider” means an individual who is, on the relevant date, an officer, director, or ten percent (10%) beneficial owner of the Company, as those terms are defined under Section 16 of the Exchange Act, who is required to file reports pursuant to Rule 16a-3 under the Exchange Act.

2.26 “Non-Employee Director” means a member of the Board who is not an Employee of the Company.

2.27 “Non-Qualified Stock Option” means an Option that, by its terms, does not qualify or is not intended to qualify as an Incentive Stock Option.

2.28 “Option” means the right to purchase Stock granted to a Participant in accordance with Article 6. Options granted under the Plan may be Non-Qualified Stock Options, Incentive Stock Options or a combination thereof.

2.29 “Other Stock-Based Award” means an equity-based or equity-related Award not otherwise described by the terms of the Plan, granted pursuant to Article 9.

2.30 “Participant” means an Eligible Person to whom an Award is granted under the Plan.

2.31 “Performance Goal” means any goals established by the Committee pursuant to an Award.

2.32 “Performance Period” means one or more periods of time, which may be of varying and overlapping durations, as the Committee may select, over which the attainment of one or more Performance Goals will be measured for the purpose of determining a Participant’s right to, and the payment of, Performance Stock Units and Performance Shares.

2.33 “Performance Stock Unit” and “Performance Share” each mean an Award granted to an Employee pursuant to Article 9 herein.

2.34 “Permitted Transferee” shall mean, with respect to a Participant, any “family member” of the Participant, as defined in the General Instructions to Form S-8 Registration Statement under the Securities Act (or any successor form thereto), or to any other transferee specifically approved by the Committee after taking in to account Applicable Law, but excluding any third-party financial institutions.

2.35 “Person” has the meaning ascribed to such term in Section 3(a)(9) of the Exchange Act and used in Sections 13(d) and 14(d) thereof, including a “group” as defined in Section 13(d) thereof.

2.36 “Plan” means this I.D. Systems, Inc. 2018 Incentive Plan, as it may be amended from time to time.

2.37 “Prior Plans” has the meaning set forth in Section 1.3.

2.38 “Restricted Stock” means Stock awarded to a Participant pursuant to Article 8 as to which the Restriction Period has not lapsed.

2.39 “Restricted Stock Unit” means an Award granted pursuant to Section 8.9 as to which the Restriction Period has not lapsed.

2.40 “Restriction Period” means the period when Restricted Stock or Restricted Stock Units are subject to a “substantial risk of forfeiture” within the meaning of Section 83 of the Code (based on the passage of time, the achievement of performance goals, or upon the occurrence of other events as determined by the Committee, in its discretion), as provided in Article 8.

2.41 “Securities Act” means the Securities Act of 1933, as amended.

2.42 “Share” means a share of Stock of the Company.

2.43 “Stock” means the common stock of the Company, par value \$0.01 per share.

2.44 “Stock Appreciation Right” or “SAR” means a right granted pursuant to Article 9 to receive an amount payable in cash or Shares equal to the excess of (i) the Fair Market Value of a specified number of Shares on the date the SAR is exercised over (ii) the Fair Market Value of such Shares on the date the SAR was granted as set forth in the applicable Award Agreement.

2.45 “Subsidiary” means any corporation, partnership, venture, unincorporated association or other entity in which the Company holds, directly or indirectly, a fifty percent (50%) or greater ownership interest, provided, however, that with respect to an Incentive Stock Option, a Subsidiary must be a corporation. The Committee may, at its sole discretion, designate, on such terms and conditions as the Committee shall determine, any other corporation, partnership, limited liability company, venture, or other entity a Subsidiary for purposes of this Plan.

2.46 “Ten Percent Owner” means a person who owns, or is deemed within the meaning of Section 422(b)(6) of the Code to own, stock possessing more than 10% of the total combined voting power of all classes of stock of the Company (or any parent or subsidiary corporations of the Company, as defined in Sections 424(e) and (f), respectively, of the Code). Whether a person is a Ten Percent Owner shall be determined with respect to an Option based on the facts existing immediately prior to the grant date of the Option.

2.47 “Termination of Employment” or a similar reference means the event where the Employee is no longer an Employee of the Company or of any Subsidiary, including but not limited to where the employing company ceases to be a Subsidiary. With respect to any Participant who is not an Employee, “Termination of Employment” shall mean cessation of the performance of services. With respect to any Award that provides “non-qualified deferred compensation” within the meaning of Section 409A of the Code, “Termination of Employment” shall mean a “separation from service” as defined under Section 409A of the Code. Military or sick leave or other bona fide leave shall not be deemed a termination of employment, provided that it does not exceed the longer of three (3) months or the period during which the absent Participant’s reemployment rights, if any, are guaranteed by statute or by contract.

2.48 “Treasury Regulation” or “Treas. Reg.” means any regulation promulgated under the Code, as such regulation may be amended from time to time.

Article 3

Administration

3.1 Committee. Except as otherwise provided herein, the Plan shall be administered by the Compensation Committee of the Board (the "Committee"). Unless otherwise determined by the Board, the Committee shall consist solely of two or more members of the Board each of whom is (a) a "non-employee director" within the meaning of Rule 16b-3 of the Exchange Act, and (b) an "independent director" under the rules of the Nasdaq Stock Market (or any similar rule or listing requirement that may be applicable to the Company from time to time); provided, that any action taken by the Committee shall be valid and effective, whether or not members of the Committee at the time of such action are later determined not to have satisfied the requirements for membership set forth in this Section 3.1 or otherwise provided in any charter of the Committee. Notwithstanding the foregoing: (a) the full Board, acting by a majority of its members in office, shall conduct the general administration of the Plan with respect to all Awards granted to Non-Employee Directors and for purposes of such Awards the term "Committee" as used in this Plan shall be deemed to refer to the Board and (b) the Committee may delegate its authority hereunder to the extent permitted by Section 3.4. In its sole discretion, the Board may at any time and from time to time exercise any and all rights and duties of the Committee under the Plan except with respect to matters which under Rule 16b-3 under the Exchange Act, or any regulations or rules issued thereunder, are required to be determined in the sole discretion of the Committee. Except as may otherwise be provided in any charter of the Committee, appointment of Committee members shall be effective upon acceptance of appointment; Committee members may resign at any time by delivering written notice to the Board; and vacancies in the Committee may only be filled by the Board.

3.2 Authority of the Committee. Subject to the general purposes, terms and conditions of this Plan and Applicable Law, and to the direction of the Board, the Committee shall have complete control over the administration of the Plan and shall have sole authority to (a) exercise all of the powers granted to it under the Plan, (b) construe, interpret and implement the Plan, grant terms and grant notices, and all Award Agreements, (c) prescribe, amend and rescind rules and regulations relating to the Plan, including rules governing its own operations, (d) make all determinations necessary or advisable in administering the Plan, (e) correct any defect, supply any omission and reconcile any inconsistency in the Plan, (f) amend the Plan to reflect changes in applicable law (whether or not the rights of the holder of any Award are adversely affected, unless otherwise provided by the Committee), (g) grant Awards and determine who shall receive Awards, when such Awards shall be granted and the terms and conditions of such Awards, including, but not limited to, conditioning the exercise, vesting, payout or other term of condition of an Award on the achievement of Performance Goals, (h) unless otherwise provided by the Committee, amend any outstanding Award in any respect, not materially adverse to the Participant, including, without limitation, to (1) accelerate the time or times at which the Award becomes vested, unrestricted or may be exercised (and, in connection with such acceleration, the Committee may provide that any Shares acquired pursuant to such Award shall be restricted Shares, which are subject to vesting, transfer, forfeiture or repayment provisions similar to those in the Participant's underlying Award), (2) accelerate the time or times at which Shares are delivered under the Award (and, without limitation on the Committee's rights, in connection with such acceleration, the Committee may provide that any shares of Stock delivered pursuant to such Award shall be Restricted Shares, which are subject to vesting, transfer, forfeiture or repayment provisions similar to those in the Participant's underlying Award), or (3) waive or amend any goals, restrictions or conditions applicable to such Award, or impose new goals, restrictions and (i) determine at any time whether, to what extent and under what circumstances and method or methods (1) Awards may be (A) settled in cash, Shares, other securities, other Awards or other property (in which event, the Committee may specify what other effects such settlement will have on the Participant's Award), (B) exercised or (C) canceled, forfeited or suspended, (2) Shares, other securities, cash, other Awards or other property and other amounts payable with respect to an Award may be deferred either automatically or at the election of the Participant or of the Committee, or (3) Awards may be settled by the Company or any of its Subsidiaries or any of its or their designees. No Award may be made under the Plan after the tenth (10th) anniversary of the Effective Date.

3.3 Committee Decisions Final. The act or determination of a majority of the Committee shall be the act or determination of the Committee and any decision reduced to writing and signed by all of the members of the Committee shall be fully effective as if it had been made by a majority at a meeting duly held. The Committee may employ attorneys, consultants, accountants, agents, and other persons, any of whom may be an Employee, and the Committee, the Company, and its officers and Directors shall be entitled to rely upon the advice, opinions, or valuations of any such persons. All actions taken and all interpretations and determinations made by the Committee pursuant to the provisions of the Plan and all related orders or resolutions shall be final and binding upon the Participants, the Company, and all other interested persons, including but not limited to the Company, its stockholders, Employees, Participants, and their estates and beneficiaries.

3.4 Delegation of Authority. The Board or Committee may from time to time delegate to a committee of one or more members of the Board or one or more officers of the Company the authority to grant or amend Awards or to take other administrative actions pursuant to this Article 3; provided, however, that in no event shall an officer of the Company be delegated the authority to grant Awards to, or amend Awards held by, the following individuals: (a) individuals who are subject to Section 16 of the Exchange Act, or (b) officers of the Company (or Directors) to whom authority to grant or amend Awards has been delegated hereunder; provided, further, that any delegation of administrative authority shall only be permitted to the extent it is permissible under the Company's Certificate of Incorporation, Bylaws and Applicable Law. Any delegation hereunder shall be subject to the restrictions and limits that the Board or Committee specifies at the time of such delegation or that are otherwise included in the applicable Organizational Documents, and the Board or Committee, as applicable, may at any time rescind the authority so delegated or appoint a new delegatee. At all times, the delegatee appointed under this Section 3.4 shall serve in such capacity at the pleasure of the Board or the Committee, as applicable, and the Board or the Committee may abolish any committee at any time and re-vest in itself any previously delegated authority.

3.5 Indemnification. To the extent allowable pursuant to applicable law, each member of the Committee or of the Board shall be indemnified and held harmless by the Company from any loss, cost, liability, or expense that may be imposed upon or reasonably incurred by such member in connection with or resulting from any claim, action, suit, or proceeding to which he or she may be a party or in which he or she may be involved by reason of any action or failure to act pursuant to the Plan and against and from any and all amounts paid by him or her in satisfaction of judgment in such action, suit, or proceeding against him or her; provided he or she gives the Company an opportunity, at its own expense, to handle and defend the same before he or she undertakes to handle and defend it on his or her own behalf. The foregoing right of indemnification shall not be exclusive of any other rights of indemnification to which such persons may be entitled pursuant to the Company's Certificate of Incorporation or Bylaws, as a matter of law, or otherwise, or any power that the Company may have to indemnify them or hold them harmless.

Article 4

Shares Subject to the Plan

4.1 Number of Shares. Subject to adjustment as provided in Sections 4.2 and 4.3, the aggregate number of Shares of Stock which may be issued or transferred pursuant to Awards under the Plan shall be the sum of: (i) 1,500,000 shares, plus (ii) the number of shares of common stock of the Company which remain available for grants of options or other awards under the Prior Plans as of the Effective Date, plus (iii) the number of Shares that, after the Effective Date, would again become available for issuance pursuant to the reserved share replenishment provisions of the Prior Plans as a result of, stock options issued thereunder expiring or becoming unexercisable for any reason before being exercised in full, or, as a result of restricted stock being forfeited to the Company or repurchased by the Company pursuant to the terms of the agreements governing such shares. The share replenishment provision of the immediately preceding clause (iii) shall be effective regardless of whether the Prior Plans have terminated or remain in effect. Notwithstanding the foregoing, in order that the applicable regulations under the Code relating to Incentive Stock Options be satisfied, the maximum number of shares of Stock that may be delivered upon exercise of Incentive Stock Options shall be 1,000,000, as adjusted under Sections 4.2 and 4.3. Shares of Stock issued pursuant to the Plan may be either authorized but unissued Shares or Shares held by the Company in its treasury.

4.2 Share Accounting. Without limiting the discretion of the Committee under this section, the following rules will apply for purposes of the determination of the number of Shares available for grant under the Plan or compliance with the foregoing limits:

(a) If an outstanding Award for any reason expires or is terminated or canceled without having been exercised or settled in full, or if Shares acquired pursuant to an Award subject to forfeiture are forfeited under the terms of the Plan or the relevant Award, the Shares allocable to the terminated portion of such Award or such forfeited Shares shall again be available for issuance under the Plan.

(b) Shares shall not be deemed to have been issued pursuant to the Plan with respect to any portion of an Award that is settled in cash, other than an Option.

(c) If the exercise price of an Option is paid by tender to the Company, or attestation to the ownership, of Shares owned by the Participant, or an Option is settled without the payment of the exercise price, or the payment of taxes with respect to any Award is settled by a net exercise, the number of shares available for issuance under the Plan shall be reduced by the gross number of shares for which the Option is exercised or other Awards that have vested.

4.3 Adjustments in Authorized Plan Shares and Outstanding Awards. In the event of any merger, reorganization, consolidation, recapitalization, separation, split-up, liquidation, Share combination, Stock split, Stock dividend, an extraordinary cash distribution on Stock, a corporate separation or other reorganization or liquidation or other change in the corporate or capital structure of the Company affecting the Shares, an adjustment shall be made in a manner consistent with Sections 422 and 424(h)(3) of the Code for Incentive Stock Options and in a manner consistent with Section 409A of the Code for Non-Qualified Stock Options and in the number and class of and/or price of Shares subject to outstanding Awards granted under the Plan, and/or the number of outstanding Options, Shares of Restricted Stock, and Performance Shares (and Restricted Stock Units, Performance Stock Units and other Awards whose value is based on a number of Shares) constituting outstanding Awards, as may be determined to be appropriate and equitable by the Committee, in its sole discretion, to prevent dilution or enlargement of rights. The Committee may make adjustments in the terms and conditions of, and the criteria included in Awards in recognition of unusual or nonrecurring events (including, without limitation, the events described in this Section) affecting the Company or the financial statements of the Company or of changes in applicable laws, regulations, or accounting principles, whenever the Committee determines that such adjustments are appropriate in order to prevent dilution or enlargement of the benefits or potential benefits intended to be made available under the Plan. Adjustments under this Section 4.3 shall be consistent with Section 409A of the Code and adjustments pursuant to determination of the Committee shall be conclusive and binding on all Participants under the Plan.

4.4 Limitation on Number of Shares Granted to Non-Employee Directors. Notwithstanding any provision in the Plan to the contrary, the sum of the grant date Fair Market Value of equity-based Awards and the amount of any cash-based Awards granted to a Non-Employee Director during any calendar year shall not exceed five hundred thousand dollars (\$500,000).

Article 5

Eligibility and Participation

5.1 Eligibility and Participation. Subject to the provisions of the Plan, the Committee may, from time to time, select from all Eligible Persons, those to whom Awards shall be granted and shall determine, in its sole discretion, the nature of, any and all terms permissible by law, and the amount of each Award. In making this determination, the Committee may consider any factors it deems relevant, including without limitation, the office or position held by a Participant or the Participant's relationship to the Company, the Participant's degree of responsibility for and contribution to the growth and success of the Company or any Subsidiary or Affiliate, the Participant's length of service, promotions and potential. No individual shall have the right to be selected to receive an Award under this Plan, or, having been so selected, to be selected to receive a future Award. In addition, there is no obligation for uniformity of treatment of Participants or holders or beneficiaries of Awards. The terms and conditions of Awards and the Committee's determinations and interpretations with respect thereto need not be the same with respect to each Participant and may be made selectively among Participants, whether or not such Participants are similarly situated.

5.2 Foreign Participants. In order to assure the viability of Awards granted to Participants employed in foreign countries, the Committee may provide for such special terms as it may consider necessary or appropriate to accommodate differences in local law, tax policy, or custom. Moreover, the Committee may approve such supplements to, or amendments, restatements, or alternative versions of, the Plan as it may consider necessary or appropriate for such purposes without thereby affecting the terms of the Plan as in effect for any other purpose; provided, however, that no such supplements, amendments, restatements, or alternative versions shall increase the share limitations contained in Section 4.1 of the Plan.

Article 6

Options

6.1 Grant of Options. Subject to the terms and provisions of the Plan, Options may be granted to Participants in such number, and upon such terms and conditions, and at any time and from time to time as shall be determined by the Committee, in its sole discretion, subject to the limitations set forth in Article 4 and the following terms and conditions:

(a) Award Agreement. Each Option grant shall be evidenced by an Award Agreement that shall specify the terms and conditions of the Option, including the Exercise Price, the maximum duration of the Option, the number of Shares to which the Option pertains, the conditions upon which an Option shall become vested and exercisable, and such other provisions as the Committee shall determine which are not inconsistent with the terms of the Plan. The Award Agreement also shall specify whether the Option is intended to be an Incentive Stock Option or a Non-Qualified Stock Option.

(b) Exercise Period. Unless a shorter period is otherwise provided by the Committee at the time of grant, each Option will expire on the tenth (10th) anniversary date of its grant or on the fifth (5th) anniversary of its grant date if the Participant is a Ten Percent Owner.

(c) Exercise Price. Unless a greater Exercise Price is determined by the Committee, the Exercise Price for each Option awarded under this Plan shall be equal to one hundred percent (100%) of the Fair Market Value of a Share on the date the Option is granted.

(d) Vesting of Options. Subject to Section 13.1, a grant of Options shall vest at such times and under such terms and conditions as determined by the Committee including, without limitation, suspension of a Participant's vesting during all or a portion of a Participant's leave of absence.

6.2 Limitations on Incentive Stock Options. In addition to the general requirements of Article 6, the terms of any ISO granted pursuant to the Plan must comply with the provisions of this Section 6.2.

(a) ISO Eligibility. ISOs may be granted only to Employees of the Company or of any parent or subsidiary corporation (as permitted under Sections 422 and 424 of the Code). No ISO Award may be made pursuant to this Plan after the tenth (10th) anniversary of the Effective Date.

(b) ISO Individual Dollar Limitation. The aggregate Fair Market Value (determined as of the date the Option is granted) of all Shares with respect to which Incentive Stock Options are first exercisable by a Participant in any calendar year may not exceed one hundred thousand dollars (\$100,000.00) or such other limitation as imposed by Section 422(d) of the Code. To the extent that Incentive Stock Options are first exercisable by a Participant in excess of such limitation, the excess shall be considered Non-Qualified Stock Options.

(c) ISO Expiration. An ISO will expire and may not be exercised to any extent by anyone after the first to occur of the following events:

(i) Ten (10) years from the date of grant, unless an earlier time is set in the Award Agreement;

(ii) Three (3) months after the date of the Participant's Termination of Employment other than on account of Disability or death. Whether a Participant continues to be an employee shall be determined in accordance with Treas. Reg. Section 1.421-1(h)(2); and

(iii) One (1) year after the date of the Participant's Termination of Employment on account of Disability or death. Upon the Participant's Disability or death, any ISOs exercisable at the Participant's Disability or death may be exercised by the Participant's legal representative or representatives, by the person or persons entitled to do so pursuant to the Participant's last will and testament, or, if the Participant fails to make testamentary disposition of such ISO or dies intestate, by the person or persons entitled to receive the ISO pursuant to the applicable laws of descent and distribution.

Any ISO that remains exercisable pursuant to a Participant's agreement with the Company following Termination of Employment and is unexercised more than one (1) year following Termination of Employment by reason of death or Disability or more than three (3) months following Termination of Employment for any reason other than death or Disability will thereafter be deemed to be a Non-Qualified Stock Option.

(d) Ten Percent Owners. In the case of an ISO granted to a Ten Percent Owner, such ISO shall be granted at an exercise price that is not less than one hundred and ten percent (110%) of Fair Market Value on the date of grant and, unless a shorter period is otherwise provided by the Committee at the time of grant, each ISO will expire on the fifth (5th) anniversary of its grant date.

(e) Notification of Disposition. If a Participant disposes of Shares acquired upon exercise of an ISO within two (2) years from the date the Option is granted or within one (1) year after the issuance of such Shares to the Participant, the Participant shall notify the Company of such disposition and provide information regarding the date of disposition, sale price, number of Shares disposed of, and any other information relating thereto that the Company may reasonably request.

(f) Right to Exercise. During a Participant's lifetime, an Incentive Stock Option may be exercised only by the Participant.

(g) Failure to Meet ISO Requirements. If an Option is intended to be an Incentive Stock Option, and if, for any reason, such Option (or any portion thereof) shall not qualify as an Incentive Stock Option, then, to the extent of such nonqualification, such Option (or portion thereof) shall be regarded as a Non-Qualified Stock Option appropriately granted under the Plan; *provided that* such Option (or portion thereof) otherwise complies with the Plan's requirements relating to Non-Qualified Stock Options.

6.3 Exercise of Options.

(a) Options granted under the Plan shall be exercisable at such times and be subject to such restrictions and conditions as the Committee shall in each instance approve, which need not be the same for each grant or for each Participant. Exercises of Options may be effected only on days and during the hours NASDAQ is open for regular trading. The Company may change or limit the times or days Options may be exercised. If an Option expires on a day or at a time when exercises are not permitted, then the Options may be exercised no later than the immediately preceding date and time that the Options were exercisable.

(b) An Option shall be exercised by providing notice to the designated agent selected by the Company (if no such agent has been designated, then to the Company), in the manner and form determined by the Company, which notice shall be irrevocable, setting forth the exact number of Shares with respect to which the Option is being exercised and including with such notice payment of the Exercise Price, as applicable. When an Option has been transferred, the Company or its designated agent may require appropriate documentation that the person or persons exercising the Option, if other than the Participant, has the right to exercise the Option. No Option may be exercised with respect to a fraction of a Share.

6.4 Termination of Employment. Unless otherwise provided by the Committee in the applicable Award Agreement, the following limitations on the exercise of Options shall apply upon Termination of Employment:

(a) Termination by Death or Disability. In the event of the Participant's Termination of Employment by reason of death or Disability, all outstanding Options granted to such Participant which are vested and exercisable as of the effective date of Termination of Employment by reason of death or Disability may be exercised, if at all, no more than one (1) year from such date of Termination of Employment, unless the Options, by their terms, expire earlier. All unvested Options granted to such Participant shall immediately become forfeited as of the date of Termination of Employment.

(b) Involuntary Termination Without Cause. If a Participant's Termination of Employment is by involuntary termination without Cause, all Options held by such Participant that are vested and exercisable at the time of the Participant's Termination of Employment may be exercised by the Participant at any time within a period of three (3) months from the date of such Termination of Employment, but in no event beyond the expiration of the stated term of such Options. All Options held by the Participant which are not vested on or before the effective date of Termination of Employment shall immediately be forfeited to the Company (and the Shares subject to such forfeited Options shall once again become available for issuance under the Plan).

(c) Voluntary Termination. If a Participant's Termination of Employment is voluntary (other than a voluntary termination described in Section 6.4(d)), all Options held by such Participant that are vested and exercisable at the time of the Participant's Termination of Employment may be exercised by the Participant at any time within a period of three (3) months from the date of such Termination of Employment, but in no event beyond the expiration of the stated terms of such Options. All Options held by the Participant which are not vested on or before the effective date of Termination of Employment shall immediately be forfeited to the Company (and the Shares subject to such forfeited Options shall once again become available for issuance under the Plan).

(d) Termination for Cause. If the Participant's Termination of Employment (i) is by the Company for Cause or (ii) is a voluntary Termination (as provided in Subsection (c) above) after the occurrence of an event that would be grounds for Termination of Employment for Cause, all outstanding Options held by the Participant shall immediately be forfeited to the Company and no additional exercise period shall be allowed, regardless of the vested status of the Options (and the Shares subject to such forfeited Options shall once again become available for issuance under the Plan).

(e) Other Terms and Conditions. Notwithstanding the foregoing, the Committee may, in its sole discretion, establish different, or waive, terms and conditions pertaining to the effect of Termination of Employment on Options, whether or not the Options are outstanding, but no such modification shall shorten the terms of Options issued prior to such modification or otherwise be materially adverse to the Participant.

6.5 Payment. The Committee shall determine the methods by which payments by any Participant with respect to any Awards granted under the Plan may be paid and the form of payment. Unless otherwise determined by the Committee, the Exercise Price shall be paid in full at the time of exercise. No Shares shall be issued or transferred until full payment has been received or the next business day thereafter, as determined by the Company. The Committee may, from time to time, determine or modify the method or methods of exercising Options or the manner in which the Exercise Price is to be paid. Unless otherwise provided by the Committee in full or in part, to the extent permitted by Applicable Law, payment may be made by any of the following:

(a) cash or certified or bank check;

(b) delivery of Shares owned by the Participant duly endorsed for transfer to the Company, with a Fair Market Value of such Shares delivered on the date of delivery equal to the Exercise Price (or portion thereof) due for the number of Shares being acquired;

(c) if the Company has designated a stockbroker to act as the Company's agent to process Option exercises, an Option may be exercised by issuing an exercise notice together with instructions to such stockbroker irrevocably instructing the stockbroker: (i) to immediately sell (which shall include an exercise notice that becomes effective upon execution of a sale order) a sufficient portion of the Shares to be received from the Option exercise to pay the Exercise Price of the Options being exercised and the required tax withholding, and (ii) to deliver on the settlement date the portion of the proceeds of the sale equal to the Exercise Price and tax withholding to the Company. In the event the stockbroker sells any Shares on behalf of a Participant, the stockbroker shall be acting solely as the agent of the Participant, and the Company disclaims any responsibility for the actions of the stockbroker in making any such sales. However, if the Participant is an Insider, then the instruction to the stock broker to sell in the preceding sentence is intended to comply with the requirements of Rule 10b5-1(c)(1)(i)(B) of the Exchange Act to the extent permitted by law. No Shares shall be issued until the settlement date and until the proceeds (equal to the Exercise Price and tax withholding) are paid to the Company;

(d) at any time, the Committee may, in addition to or in lieu of the foregoing, provide that an Option may be "stock settled," which shall mean upon exercise of an Option, the Company may fully satisfy its obligation under the Option by delivering that number of shares of Stock found by taking the difference between (i) the Fair Market Value of the Stock on the exercise date, multiplied by the number of Options being exercised and (ii) the total Exercise Price of the Options being exercised, and dividing such difference by the Fair Market Value of the Stock on the exercise date; or

(e) any combination of the foregoing methods.

Notwithstanding any other provision of the Plan to the contrary, no Participant who is a Director or an "executive officer" of the Company shall be permitted to pay the Exercise Price of an Option in any method which would violate Section 13(h) of the Exchange Act.

Article 7

Stock Appreciation Rights

7.1 Grant of SARs. Any Participant selected by the Committee may be granted one or more SARs. SARs may be granted alone or in tandem with Options. Each SAR shall be evidenced by an Award Agreement that shall specify the exercise price, the term of the SAR, and such other provisions as the Committee shall determine. With respect to SARs granted in tandem with Options, the exercise of either such Options or such SARs shall result in the simultaneous cancellation of the same number of tandem SARs or Options, as the case may be.

7.2 Exercise Price. The exercise price per Share covered by a SAR granted pursuant to the Plan shall be equal to or greater than Fair Market Value on the date the SAR was granted.

7.3 Term. The term of each SAR shall be determined by the Committee in its sole discretion, but in no event shall the term exceed ten (10) years from the date of grant.

7.4 Payment. SARs may be settled in the form of cash, shares of Stock or a combination of cash and shares of Stock, as determined by the Committee.

7.5 Other Provisions. Except as the Committee may deem inappropriate or inapplicable in the circumstances, SARs shall be subject to terms and conditions substantially similar to those applicable to Non-Qualified Options as set forth in Article 6.

Article 8

Restricted Stock Awards

8.1 Grant of Restricted Stock. Subject to the terms and provisions of the Plan, the Committee, at any time and from time to time, may grant shares of Restricted Stock to eligible Employees in such amounts and upon such terms and conditions as the Committee shall determine. In addition to any other terms and conditions imposed by the Committee, vesting of Restricted Stock may be conditioned upon the achievement of Performance Goals.

8.2 Restricted Stock Agreement. The Committee may require, as a condition to receiving a Restricted Stock Award, that the Participant enter into a Restricted Stock Award Agreement, setting forth the terms and conditions of the Award. In lieu of a Restricted Stock Award Agreement, the Committee may provide the terms and conditions of an Award in a notice to the Participant of the Award, on the Stock certificate representing the Restricted Stock, in the resolution approving the Award, or in such other manner as it deems appropriate. If certificates representing the Restricted Stock are registered in the name of the Participant, any certificates so issued shall be printed with an appropriate legend referring to the terms, conditions, and restrictions applicable to such Award as determined or authorized in the sole discretion of the Committee. Shares recorded in book-entry form shall be recorded with a notation referring to the terms, conditions, and restrictions applicable to such Award as determined or authorized in the sole discretion of the Committee. The Committee may require that the stock certificates or book-entry registrations evidencing shares of Restricted Stock be held in custody by a designated escrow agent (which may but need not be the Company) until the restrictions thereon shall have lapsed, and that the Participant deliver a stock power, endorsed in blank, relating to the Stock covered by such Award.

8.3 Restrictions. Subject to Section 13.1, the Restricted Stock shall be subject to such vesting terms, including the achievement of Performance Goals, as may be determined by the Committee. Unless otherwise provided by the Committee, to the extent Restricted Stock is subject to any condition to vesting, if such condition or conditions are not satisfied by the time the period for achieving such condition has expired, such Restricted Stock shall be forfeited. The Committee may impose such other conditions and/or restrictions on any shares of Restricted Stock granted pursuant to the Plan as it may deem advisable including but not limited to a requirement that Participants pay a stipulated purchase price for each share of Restricted Stock and/or restrictions under Applicable Law. The Committee may also grant Restricted Stock without any terms or conditions in the form of vested Stock Awards.

8.4 Removal of Restrictions. Except as otherwise provided in this Article 8 or otherwise provided in the grant thereof, Shares of Restricted Stock covered by each Restricted Stock grant made under the Plan shall become freely transferable by the Participant after completion of all conditions to vesting, if any. However, the Committee, in its sole discretion, shall have the right to immediately vest the shares and waive all or part of the restrictions and conditions with regard to all or part of the shares held by any Participant at any time.

8.5 Voting Rights, Dividends and Other Distributions. Participants holding shares of Restricted Stock granted hereunder may exercise full voting rights and, subject to the provisions of this Section 8.5, may receive all dividends and distributions paid with respect to such Shares. If any such dividends or distributions are paid in Shares, the Shares shall automatically be subject to the same restrictions and conditions as the Restricted Stock with respect to which they were paid. In addition, with respect to a share of Restricted Stock, dividends shall only be paid out to the extent that the Share of Restricted Stock vests. Any cash dividends and stock dividends with respect to the Restricted Stock shall be withheld by the Company for the Participant's account, and interest may be credited on the amount of the cash dividends withheld at a rate and subject to such terms as determined by the Committee. The cash dividends or stock dividends so withheld by the Committee and attributable to any particular share of Restricted Stock (and earnings thereon, if applicable) shall be distributed to the Participant in cash or, at the discretion of the Committee, in shares of Stock having a Fair Market Value equal to the amount of such dividends, if applicable, upon the release of restrictions on such share and, if such share is forfeited, the Participant shall have no right to such dividends.

8.6 Termination of Employment Due to Death or Disability. In the event of the Participant's Termination of Employment by reason of death or Disability, unless otherwise determined by the Committee, all restrictions imposed on outstanding Shares of Restricted Stock held by the Participant shall immediately lapse and the Restricted Stock shall immediately become fully vested as of the date of Termination of Employment.

8.7 Termination of Employment for Other Reasons. Unless otherwise provided by the Committee, in the event of the Participant's Termination of Employment for any reason other than those specifically set forth in Section 8.6 herein, subject to Section 10.2, all shares of Restricted Stock held by the Participant which are not vested as of the effective date of Termination of Employment shall immediately be forfeited and returned to the Company.

8.8 Section 83(b) Election. The Committee may provide in an Award Agreement that the Award of Restricted Stock is conditioned upon the Participant making or refraining from making an election with respect to the Award under Section 83(b) of the Code. If a Participant makes an election pursuant to Section 83(b) of the Code concerning a Restricted Stock Award, the Participant shall be required to file a copy of such election with the Company within thirty (30) days following the date of grant.

8.9 Restricted Stock Units. In lieu of or in addition to Restricted Stock, the Committee may grant Restricted Stock Units under such terms and conditions as shall be determined by the Committee in accordance with Section 3.2. Restricted Stock Units shall be subject to the same terms and conditions under this Plan as Restricted Stock except as otherwise provided in this Plan or as otherwise provided by the Committee. Except as otherwise provided by the Committee, the award shall be settled and paid out promptly upon vesting (to the extent permitted by Section 409A of the Code), and the Participant holding such Restricted Stock Units shall receive, as determined by the Committee, Shares (or cash equal to the Fair Market Value of the number of Shares as of the date the Award becomes payable) equal to the number of such Restricted Stock Units. Restricted Stock Units shall not be transferable, shall have no voting rights, and, unless otherwise determined by the Committee, shall not receive dividends or Dividend Equivalents (which in any event shall only be paid out to the extent that the Restricted Stock Units vest). Upon a Participant's Termination of Employment due to death or Disability, the Committee will determine whether there should be any acceleration of vesting.

Article 9

Other Types of Awards

9.1 Performance Share Awards. Any Participant selected by the Committee may be granted one or more Performance Share awards which shall be denominated in a number of shares of Stock and which may be linked to any one or more of the Performance Goals or other specific performance criteria determined appropriate by the Committee, in each case on a specified date or dates or over any period or periods determined by the Committee. In making such determinations, the Committee shall consider (among such other factors as it deems relevant in light of the specific type of award) the contributions, responsibilities and other compensation of the particular Participant.

9.2 Performance Stock Units. Any Participant selected by the Committee may be granted one or more Performance Stock Unit awards which shall be denominated in units of value including dollar value of shares of Stock and which may be linked to any one or more of the Performance Goals or other specific performance criteria determined appropriate by the Committee, in each case on a specified date or dates or over any period or periods determined by the Committee. In making such determinations, the Committee shall consider (among such other factors as it deems relevant in light of the specific type of award) the contributions, responsibilities and other compensation of the particular Participant.

9.3 Dividend Equivalents. Any Participant selected by the Committee may be granted Dividend Equivalents based on the dividends declared on the Shares that are subject to any Award, to be credited as of dividend payment dates, during the period between the date the Award is granted and the date the Award is exercised, vests or expires, as determined by the Committee. Such Dividend Equivalents shall be converted to cash or additional shares of Stock by such formula and at such time and subject to such limitations as may be determined by the Committee, in a matter consistent with the rules of Section 409A of the Code; provided that, to the extent Shares subject to an Award are subject to vesting conditions, any Dividend Equivalents relating to such Shares shall be subject to the same vesting conditions.

9.4 Deferred Stock. Any Participant selected by the Committee may be granted an award of Deferred Stock in the manner determined from time to time by the Committee. The number of shares of Deferred Stock shall be determined by the Committee and may be linked to the Performance Criteria or other specific performance criteria determined to be appropriate by the Committee, in each case on a specified date or dates or over any period or periods determined by the Committee. Stock underlying a Deferred Stock Award will not be issued until the Deferred Stock Award has vested, pursuant to a vesting schedule or performance criteria set by the Committee. Unless otherwise provided by the Committee, a Participant awarded Deferred Stock shall have no rights as a Company stockholder with respect to such Deferred Stock until such time as the Deferred Stock Award has vested and the Stock underlying the Deferred Stock Award has been issued.

9.5 Other Stock-Based Awards. Any Participant selected by the Committee may be granted one or more Awards that provide Participants with shares of Stock or the right to purchase shares of Stock or that have a value derived from the value of, or an exercise or conversion privilege at a price related to, or that are otherwise payable in shares of Stock and which may be linked to any one or more of the Performance Goals or other specific performance criteria determined appropriate by the Committee, in each case on a specified date or dates or over any period or periods determined by the Committee. In making such determinations, the Committee shall consider (among such other factors as it deems relevant in light of the specific type of Award) the contributions, responsibilities and other compensation of the particular Participant.

9.6 Performance Bonus Awards. Any Participant selected by the Committee may be granted one or more Awards in the form of a cash bonus (a “Performance Bonus Award”) payable upon the attainment of Performance Goals that are established by the Committee, in each case on a specified date or dates or over any period or periods determined by the Committee.

9.7 Term. Except as otherwise provided herein, the term of any Award of Performance Shares, Performance Stock Units, Dividend Equivalents, Deferred Stock, Other Stock-Based Award and Performance Bonus Award shall be set by the Committee in its discretion.

9.8 Exercise or Purchase Price. The Committee may establish the exercise or purchase price, if any, of any Award of Performance Shares, Performance Stock Units, Deferred Stock, Other Stock-Based Award and Performance Bonus Award; provided, however, that such price shall not be less than the Fair Market Value of a share of Stock on the date of grant, unless otherwise permitted by Applicable Law.

9.9 Exercise Upon Termination of Employment or Service. An Award of Performance Shares, Performance Stock Units, Deferred Stock, Other Stock-Based Award and Performance Bonus Award shall only be exercisable or payable while the Participant is an Employee, Consultant or Non-Employee Director, as applicable; provided, however, that the Committee in its sole and absolute discretion may provide that an Award of Performance Shares, Performance Stock Units, Deferred Stock, Stock Appreciation Rights, Other Stock-Based Award and Performance Bonus Award may be exercised or paid subsequent to a Termination of Employment without Cause. In the event of the Termination of Employment of a Participant by the Company for Cause, all Awards under this Article 9 shall be forfeited by the Participant to the Company.

9.10 Form of Payment. Payments with respect to any Awards granted under this Article 9 shall be made in cash, in Stock or a combination of both, as determined by the Committee.

9.11 Award Agreement. All Awards under this Article 9 shall be subject to such additional terms and conditions as determined by the Committee and shall be evidenced by a written Award Agreement.

Article 10

Change in Control

10.1 Vesting Upon Change in Control. For the avoidance of doubt, the Committee may not accelerate the vesting and exercisability (as applicable) of any outstanding Awards, in whole or in part, solely upon the occurrence of a Change in Control except as provided in this Section 10.1. In the event of a Change in Control after the date of the adoption of the Plan, then:

(a) to the extent an outstanding Award subject solely to time-based vesting is not assumed or replaced by a comparable Award referencing shares of the capital stock of the successor corporation or its “parent corporation” (as defined in Section 424(e) of the Code) or “subsidiary corporation” (as defined in Section 424(f) of the Code) which is publicly traded on a national stock exchange or quotation system, as determined by the Committee in its sole discretion, with appropriate adjustments as to the number and kinds of shares and the exercise prices, if applicable, then any outstanding Award subject solely to time-based vesting then held by Participants that is unexercisable, unvested or still subject to restrictions or forfeiture shall, in each case as specified by the Committee in the applicable Award Agreement or otherwise, be deemed exercisable or otherwise vested, as the case may be, as of immediately prior to such Change in Control;

(b) all Awards that vest subject to the achievement of any performance goal, target performance level, or similar performance-related requirement shall, in each case as specified by the Committee in the applicable Award Agreement or otherwise, either (A) be canceled and terminated without any payment or consideration therefor; or (B) automatically vest based on: (1) actual achievement of any applicable Performance Goals through the date of the Change in Control, as determined by the Committee in its sole discretion; or (2) achievement of target performance levels (or the greater of actual achievement of any applicable Performance Goals through the date of the Change in Control, as determined by the Committee in its sole discretion, and target performance levels); *provided that* in the case of vesting based on target performance levels, such Awards shall also be prorated based on the portion of the Performance Period elapsed prior to the Change in Control; and, in the case of this clause (B), shall be paid at the earliest time permitted under the terms of the applicable agreement, plan or arrangement that will not trigger a tax or penalty under Section 409A of the Code, as determined by the Committee; and

(c) Each outstanding Award that is assumed in connection with a Change in Control, or is otherwise to continue in effect subsequent to the Change in Control, will be appropriately adjusted, immediately after the Change in Control, as to the number and class of securities and other relevant terms in accordance with Section 4.3.

10.2 Termination of Employment Upon Change in Control. Notwithstanding any other provision of the Plan to the contrary, and except as may otherwise be provided in any applicable Award Agreement or other written agreement entered into between the Company or Affiliate and a Participant, upon (i) a Participant's involuntary Termination of Employment without Cause on or within one (1) year following a Change in Control, or (ii) a Participant's Termination of Employment for Good Reason (including the Termination of Employment of the Participant if he or she is employed by an Affiliate at the time the Company sells or otherwise divests itself of such Affiliate), all outstanding Awards shall immediately become fully vested and exercisable; *provided that* Restricted Stock Units shall be settled in accordance with the terms of the grant without regard to the Change in Control unless the Change in Control constitutes a "change in control event" within the meaning of Section 409A of the Code and such Termination of Employment occurs within one (1) year following such Change in Control, in which case the Restricted Stock Units shall be settled and paid out with such Termination of Employment.

10.3 Cancellation and Termination of Awards. The Committee may, in connection with any merger, consolidation, share exchange or other transaction entered into by the Company in good faith, determine that any outstanding Awards granted under the Plan, whether or not vested, will be canceled and terminated and that in connection with such cancellation and termination the holder of such Award may receive for each Share subject to such Award a cash payment (or the delivery of shares of stock, other securities or a combination of cash, stock and securities equivalent to such cash payment) equal to the difference, if any, between the amount determined by the Committee to be the Fair Market Value of the Stock and the purchase price per Share (if any) under the Award multiplied by the number of Shares subject to such Award; provided that if such product is zero or less or to the extent that the Award is not then exercisable, the Award will be canceled and terminated without payment therefor.

Article 11

Amendment, Modification, and Termination

11.1 Amendment, Modification, and Termination of Plan. At any time and from time to time, the Board may amend, modify, alter, suspend, discontinue or terminate the Plan, in whole or in part, without stockholder approval; provided, however, that (a) to the extent necessary and desirable to comply with any Applicable Law, regulation, or stock exchange rule, the Company shall obtain stockholder approval of any Plan amendment in such a manner and to such a degree as required, and (b) stockholder approval is required for any amendment to the Plan that (i) increases the number of shares available under the Plan (other than any adjustment as provided by Section 4.3) or the number of shares available for issuance as ISOs, or (ii) permits the Committee to grant Options with an Exercise Price that is below Fair Market Value on the date of grant, or (iii) permits the Committee to extend the exercise period for an Option beyond ten (10) years from the date of grant, or (iv) results in a material increase in benefits or a change in eligibility requirements, or (v) change the granting corporation or (vi) the type of stock.

11.2 Amendment of Awards. Subject to Section 4.3, at any time and from time to time, the Committee may amend the terms of any one or more outstanding Awards, provided that the Award as amended is consistent with the terms of the Plan or if necessary or advisable for the purpose of conforming the Plan or an Award Agreement to any present or future law relating to plans of this or similar nature (including, without limitation, Section 409A and, to the extent applicable, Section 162(m) of the Code), and to the administrative regulations and rulings promulgated thereunder. Notwithstanding any provision in this Plan to the contrary, absent approval of the stockholders of the Company, no Option may be amended to reduce the per share Exercise Price of the shares subject to such Option below the per share exercise price as of the date the Option is granted and, except as permitted by Section 4.3, no Option may be granted in exchange for, or in connection with, the cancellation or surrender of an Option having a higher per share Exercise Price.

11.3 Awards Previously Granted. No termination, amendment, or modification of the Plan or any Award shall adversely affect in any material way any Award previously granted under the Plan, without the written consent of the Participant holding such Award; provided, however, that any such modification made for the purpose of complying with Section 409A of the Code may be made by the Company without the consent of any Participant.

11.4 Repricing and Backdating Prohibited. Notwithstanding anything in this Plan to the contrary, except as provided under Section 4.3 and Section 11.2, neither the Committee nor any other person may (i) amend the terms of outstanding Options or SARs to reduce the exercise or grant price of such outstanding Options or SARs; (ii) cancel outstanding Options or SARs in exchange for Options or SARs with an exercise or grant price that is less than the exercise price of the original Options or SARs; or (iii) cancel outstanding Options or SARs with an exercise or grant price above the current Share price in exchange for cash or other securities. In addition, the Committee may not make a grant of an Option or SAR with a grant date that is effective prior to the date the Committee takes action to approve such Award.

Article 12

Withholding

12.1 Tax Withholding. Unless otherwise provided by the Committee, the Company shall deduct or withhold any amount needed to satisfy any foreign, federal, state, or local tax (including but not limited to the Participant's employment tax obligations) required by law to be withheld with respect to any taxable event arising or as a result of this Plan ("Withholding Taxes").

12.2 Share Withholding. Unless otherwise provided by the Committee, upon the exercise of Options, the lapse of restrictions on Restricted Stock, the vesting of Restricted Stock Units the distribution of Performance Shares in the form of Stock, or any other taxable event hereunder involving the transfer of Stock to a Participant, the Company shall withhold Stock equal in value, using the Fair Market Value on the date determined by the Company to be used to value the Stock for tax purposes, to the Withholding Taxes applicable to such transaction.

Any fractional Share of Stock payable to a Participant shall be withheld as additional Federal withholding, or, at the option of the Company, paid in cash to the Participant.

Unless otherwise determined by the Committee, when the method of payment for the Exercise Price is from the sale by a stockbroker pursuant to Section 6.5(c), herein, of the Stock acquired through the Option exercise, then the tax withholding shall be satisfied out of the proceeds. For administrative purposes in determining the amount of taxes due, the sale price of such Stock shall be deemed to be the Fair Market Value of the Stock.

If permitted by the Committee, prior to the end of any Performance Period a Participant may elect to have a greater amount of Stock withheld from the distribution of Performance Shares to pay withholding taxes; provided, however, the Committee may prohibit or limit any individual election or all such elections at any time.

Alternatively, or in combination with the foregoing, the Committee may require Withholding Taxes to be paid in cash by the Participant or by the sale of a portion of the Stock being distributed in connection with an Award, or by a combination thereof.

The withholding of taxes is intended to comply with the requirements of Rule 10b5-1(c)(1)(i)(B) of the Exchange Act to the extent permitted by law.

Article 13

General Provisions Applicable to Awards

13.1 Minimum Vesting. Subject to Section 10.1, each Award shall have a minimum vesting period of one (1) year; provided that the Committee may determine in its sole discretion that up to five percent (5%) of the Shares available for issuance under the Plan may be granted free of such minimum vesting requirements.

13.2 Form of Payment. Subject to the provisions of this Plan, the Award Agreement and any Applicable Law, payments or transfers to be made by the Company or any Affiliate on the grant, exercise, or settlement of any Award may be made in such form as determined by the Committee including, without limitation, cash, Stock, other Awards, other property, or any combination thereof, and may be made in a single payment or transfer, in installments, or any combination thereof, in each case determined by rules adopted by the Committee.

13.3 Treatment of Dividends and Dividend Equivalents on Unvested Awards. Notwithstanding any other provision of the Plan to the contrary, with respect to any Award that provides for or includes a right to dividends or Dividend Equivalents, if dividends are declared during the period that an equity Award is outstanding, such dividends (or Dividend Equivalents) shall either (i) not be paid or credited with respect to such Award or (ii) be accumulated but remain subject to vesting requirement(s) to the same extent as the applicable Award and shall only be paid at the time or times such vesting requirement(s) are satisfied.

13.4 Limits on Transfer.

(a) Except as otherwise provided in Section 13.4(b),

(i) no Award may be sold, transferred, pledged, assigned, or otherwise alienated or hypothecated, other than by will or the laws of descent and distribution or pursuant to a domestic relations order, unless and until such Award has been exercised, or the Shares underlying such Award have been issued, and all restrictions applicable to such Shares have lapsed;

(ii) no Award or interest or right therein shall be liable for or otherwise subject to the debts, contracts or engagements of the Participant or the Participant's successors in interest or shall be subject to disposition by transfer, alienation, anticipation, pledge, hypothecation, encumbrance, assignment or any other means whether such disposition be voluntary or involuntary or by operation of law by judgment, levy, attachment, garnishment or any other legal or equitable proceedings (including bankruptcy) unless and until such Award has been exercised, or the Shares underlying such Award have been issued, and all restrictions applicable to such Shares have lapsed, and any attempted disposition of an Award prior to satisfaction of these conditions shall be null and void and of no effect, except to the extent that such disposition is permitted by Section 13.4(a)(i); and

(iii) during a Participant's lifetime, only the Participant or the Participant's guardian or legal representative may exercise an Award (or any portion thereof) granted to him or her under the Plan, unless it has been disposed of pursuant to a domestic relations order. After a Participant's death, any exercisable portion of an Award may, prior to the time when such portion becomes unexercisable under the Plan or the applicable Award Agreement, be exercised by such Participant's personal representative or by any person empowered to do so under the deceased Participant's will or under the then applicable laws of descent and distribution.

(b) Notwithstanding Section 13.4(a), the Committee, in its sole discretion, may determine to permit a Participant or a Permitted Transferee of such Participant to transfer an Award other than an Incentive Stock Option (unless such Incentive Stock Option is intended to become a Nonqualified Stock Option) to any one or more Permitted Transferees of such Participant without consideration, subject to the following terms and conditions: (i) an Award transferred to a Permitted Transferee shall not be assignable or transferable by the Permitted Transferee other than (A) to another Permitted Transferee of the applicable Participant or (B) by will or the laws of descent and distribution or, subject to the consent of the Committee, pursuant to a domestic relations order; (ii) an Award transferred to a Permitted Transferee shall continue to be subject to all the terms and conditions of the Award as applicable to the original Participant (other than the ability to further transfer the Award to any person other than another Permitted Transferee of the applicable Participant); and (iii) the Participant (or transferring Permitted Transferee) and the receiving Permitted Transferee shall execute any and all documents requested by the Committee, including, without limitation documents to (A) confirm the status of the transferee as a Permitted Transferee, (B) satisfy any requirements for an exemption for the transfer under Applicable Law and (C) evidence the transfer. In addition, and further notwithstanding Section 13.4(a), hereof, the Committee, in its sole discretion, may determine to permit a Participant to transfer Incentive Stock Options to a trust that constitutes a Permitted Transferee if, under Section 671 of the Code and other Applicable Law, the Participant is considered the sole beneficial owner of the Incentive Stock Option while it is held in the trust.

13.5 Beneficiaries. Notwithstanding Section 13.4, if provided in the applicable Award Agreement, a Participant may, in the manner determined by the Committee, designate a beneficiary to exercise the rights of the Participant and to receive any distribution with respect to any Award upon the Participant's death. A beneficiary, legal guardian, legal representative, or other person claiming any rights pursuant to the Plan is subject to all terms and conditions of the Plan and any Award Agreement applicable to the Participant, except to the extent the Plan and Award Agreement otherwise provide, and to any additional restrictions deemed necessary or appropriate by the Committee. If the Participant is married and resides in a community property state, a designation of a person other than the Participant's spouse as his or her beneficiary with respect to more than fifty percent (50%) of the Participant's interest in the Award shall not be effective without the prior written consent of the Participant's spouse. If no beneficiary has been designated or survives the Participant, payment shall be made to the person entitled thereto pursuant to the Participant's will or the laws of descent and distribution. Subject to the foregoing, a beneficiary designation may be changed or revoked by a Participant at any time provided the change or revocation is filed with the Committee.

13.6 Forfeiture Events/Representations. The Committee may specify in an Award Agreement at the time of the Award that the Participant's rights, payments and benefits with respect to an Award shall be subject to reduction, cancellation, forfeiture or recoupment upon the occurrence of certain specified events, in addition to any otherwise applicable vesting or performance conditions of an Award. Such events shall include, but shall not be limited to, termination of Service for Cause, violation of material Company policies, breach of noncompetition, confidentiality or other restrictive covenants that may apply to the Participant, or other conduct by the Participant that is detrimental to the business or reputation of the Company. The Committee may also specify in an Award Agreement that the Participant's rights, payments and benefits with respect to an Award shall be conditioned upon the Participant making a representation regarding compliance with noncompetition, confidentiality or other restrictive covenants that may apply to the Participant and providing that the Participant's rights, payments and benefits with respect to an Award shall be subject to reduction, cancellation, forfeiture or recoupment on account of a breach of such representation. In addition and without limitation of the foregoing, any amounts paid hereunder shall be subject to recoupment in accordance with The Dodd–Frank Wall Street Reform and Consumer Protection Act and any implementing regulations thereunder, any “clawback” policy adopted by the Company or as is otherwise required by applicable law or stock exchange listing condition.

13.7 No Fractional Shares. No fractional Shares shall be issued or delivered pursuant to the Plan or any Award. The Committee shall determine whether cash, Awards, or other property shall be issued or paid in lieu of fractional Shares or whether such fractional Shares or any rights thereto shall be forfeited or otherwise eliminated.

13.8 Reservation of Stock. The Company shall at all times during the term of the Plan and any outstanding Awards granted hereunder reserve or otherwise keep available such number of Shares of Stock as will be sufficient to satisfy the requirements of the Plan (if then in effect) and the Awards and shall pay all fees and expenses necessarily incurred by the Company in connection therewith.

13.9 Reimbursement of Company for Unearned or Ill-gotten Gains. Unless otherwise specifically provided in an Award Agreement, and to the extent permitted by Applicable Law, if the Company is required to prepare an accounting restatement due to the material noncompliance of the Company with any financial reporting requirement under the securities laws, the Committee may, without obtaining the approval or consent of the Company's shareholders or of any Participant, require that any Participant who personally engaged in one of more acts of fraud or misconduct that have caused or partially caused the need for such restatement or any current or former chief executive officer, chief financial officer, or executive officer, regardless of their conduct, to reimburse the Company in a manner consistent with Section 409A of the Code, if the Award constitutes “Non-Qualified Deferred Compensation,” for all or any portion of any Awards granted or settled under this Plan (with each such case being a “Reimbursement”), or the Committee may require the termination or rescission of, or the recapture associated with, any Award, in excess of the amount the Participant would have received under the accounting restatement.

13.10 Delay in Payment. To the extent required in order to avoid the imposition of any interest and/or additional tax under Section 409A(a)(1)(B) of the Code, any amount that is considered deferred compensation under the Plan or Award Agreement and that is required to be postponed pursuant to Section 409A of the Code, following the a Participant's Termination of Employment shall be delayed for six (6) months if a Participant is deemed to be a “specified employee” as defined in Section 409A(a)(2)(i)(B) of the Code; provided that, if the Participant dies during the postponement period prior to the payment of the postponed amount, the amounts withheld on account of Section 409A of the Code shall be paid to the executor or administrator of the decedent's estate within 60 days following the date of his death. A “Specified Employee” means any Participant who is a “key employee” (as defined in Section 416(i) of the Code without regard to paragraph (5) thereof), as determined by the Company in accordance with its uniform policy with respect to all arrangements subject to Section 409A of the Code, based upon the twelve (12) month period ending on each December 31st (the “Identification Period”). All Participants who are determined to be key employees under Section 416(i) of the Code (without regard to paragraph (5) thereof) during the identification period shall be treated as Specified Employees for purposes of the Plan during the twelve (12) month period that begins on the first day of the 4th month following the close of such identification period.

Article 14

Successors

All obligations of the Company under the Plan, with respect to Awards granted hereunder, shall be binding on any successor to the Company, whether the existence of such successor is the result of a direct or indirect purchase, merger, consolidation, or otherwise, of all or substantially all of the business and/or assets of the Company.

Article 15

Miscellaneous Provisions

15.1 Substitute Awards in Corporate Transactions. Nothing contained in the Plan shall be construed to limit the right of the Committee to grant Awards under the Plan in connection with the acquisition, whether by purchase, merger, consolidation or other corporate transaction, of the business or assets of any corporation or other entity. Without limiting the foregoing, the Committee may grant Awards under the Plan to an employee or director of another corporation who becomes an Eligible Person by reason of any such corporate transaction in substitution for awards previously granted by such corporation or entity to such person. The terms and conditions of the substitute Awards may vary from the terms and conditions that would otherwise be required by the Plan solely to the extent the Committee deems necessary for such purpose. Any shares of Stock subject to these substitute Awards shall not be counted against any of the maximum share limitations set forth in the Plan.

15.2 409A Compliance. It is intended that all Awards issued under the Plan be in a form and administered in a manner that will comply with the requirements of Section 409A of the Code, or the requirements of an exception to Section 409A of the Code, and the Award Agreement and this Plan will be construed and administered in a manner that is consistent with and gives effect to such intent. The Committee is authorized to adopt rules or regulations deemed necessary or appropriate to qualify for an exception from or to comply with the requirements of Section 409A of the Code. With respect to an Award that constitutes a deferral of compensation subject to Section 409A of the Code: (i) if any amount is payable under such Award upon a termination of service, a termination of service will be treated as having occurred only at such time the Participant has experienced a “separation from service” as such term is defined for purposes of Section 409A of the Code; (ii) if any amount is payable under such Award upon a disability, a disability will be treated as having occurred only at such time the Participant has experienced a “disability” as such term is defined for purposes of Section 409A of the Code; (iii) if any amount is payable under such Award on account of the occurrence of a Change in Control, a Change in Control will be treated as having occurred only at such time a “change in the ownership or effective control of the corporation or in the ownership of a substantial portion of the assets of the corporation” has occurred as such terms are defined for purposes of Section 409A of the Code, (iv) if any amount becomes payable under such Award on account of a Participant’s separation from service at such time as the Participant is a “specified employee” within the meaning of Section 409A of the Code, then no payment shall be made, except as permitted under Section 409A of the Code, prior to the first business day after the earlier of (y) the date that is six months after the date of the Participant’s separation from service or (z) the Participant’s death, (v) any right to receive any installment payments under this Plan shall be treated as a right to receive a series of separate payments and, accordingly, each installment payment hereunder shall at all times be considered a separate and distinct payment, and (vi) no amendment to or payment under such Award will be made except and only to the extent permitted under Section 409A of the Code.

Notwithstanding the foregoing, the tax treatment of the benefits provided under the Plan or any Award Agreement is not warranted or guaranteed, and in no event shall the Company be liable for all or any portion of any taxes, penalties, interest or other expenses that may be incurred by the Participant on account of non-compliance with Section 409A of the Code.

15.3 Section 16(b) of the Exchange Act. All elections and transactions under the Plan by persons subject to Section 16 of the Exchange Act involving shares of Stock are intended to comply with any applicable exemptive condition under Rule 16b-3. The Committee may, in its sole discretion, establish and adopt written administrative guidelines, designed to facilitate compliance with Section 16(b) of the Exchange Act, as it may deem necessary or proper for the administration and operation of the Plan and the transaction of business thereunder.

15.4 Unfunded Status of the Plan. The Plan is intended to constitute an “unfunded” plan for incentive compensation, and the Plan is not intended to constitute a plan subject to the provisions of ERISA. With respect to any payments not yet made to a Participant by the Company, nothing contained herein shall give any such Participant any rights that are greater than those of a general creditor of the Company. In its sole discretion, the Committee may authorize the creation of trusts or other arrangements to meet the obligations created under the Plan to deliver Stock or payments with respect to Options, Stock Appreciation Rights and other Awards hereunder, provided, however, that the existence of such trusts or other arrangements is consistent with the unfunded status of the Plan.

15.5 Nonexclusivity of the Plan. Neither the adoption of the Plan by the Board nor the submission of the Plan to the stockholders of the Company shall be construed as creating any limitations on the power of the Board to adopt such other incentive arrangements as it may deem desirable, including without limitation, the granting of stock options and restricted stock other than under the Plan, and such arrangements may be either applicable generally or only in specific cases.

15.6 Investment Representations. The Company shall be under no obligation to issue any shares covered by any Award unless the shares to be issued pursuant to Awards granted under the Plan have been effectively registered under the Securities Act of 1933, as amended, or the Participant shall have made such written representations to the Company (upon which the Company believes it may reasonably rely) as the Company may deem necessary or appropriate for purposes of confirming that the issuance of such shares will be exempt from the registration requirements of that Act and any applicable state securities laws and otherwise in compliance with all applicable laws, rules and regulations, including but not limited to that the Participant is acquiring the shares for his or her own account for the purpose of investment and not with a view to, or for sale in connection with, the distribution of any such shares.

15.7 Registration. If the Company shall deem it necessary or desirable to register under the Securities Act of 1933, as amended or other applicable statutes any Shares of Stock issued or to be issued pursuant to Awards granted under the Plan, or to qualify any such Shares of Stock for exemption from the Securities Act of 1933, as amended or other applicable statutes, then the Company shall take such action at its own expense. The Company may require from each recipient of an Award, or each holder of Shares of Stock acquired pursuant to the Plan, such information in writing for use in any registration statement, prospectus, preliminary prospectus or offering circular as is reasonably necessary for that purpose and may require reasonable indemnity to the Company and its officers and directors from that holder against all losses, claims, damage and liabilities arising from use of the information so furnished and caused by any untrue statement of any material fact therein or caused by the omission to state a material fact required to be stated therein or necessary to make the statements therein not misleading in the light of the circumstances under which they were made. In addition, the Company may require of any such person that he or she agree that, without the prior written consent of the Company or the managing underwriter in any public offering of Shares of Stock, he or she will not sell, make any short sale of, loan, grant any option for the purchase of, pledge or otherwise encumber, or otherwise dispose of, any shares of Stock during the 180 day period commencing on the effective date of the registration statement relating to the underwritten public offering of securities. Without limiting the generality of the foregoing provisions of this Section 15.7, if in connection with any underwritten public offering of securities of the Company the managing underwriter of such offering requires that the Company's directors and officers enter into a lock-up agreement containing provisions that are more restrictive than the provisions set forth in the preceding sentence, then (a) each holder of shares of Stock acquired pursuant to the Plan (regardless of whether such person has complied or complies with the provisions of clause (b) below) shall be bound by, and shall be deemed to have agreed to, the same lock-up terms as those to which the Company's directors and officers are required to adhere; and (b) at the request of the Company or such managing underwriter, each such person shall execute and deliver a lock-up agreement in form and substance equivalent to that which is required to be executed by the Company's directors and officers.

15.8 Placement of Legends; Stop Orders; etc. Each share of Stock to be issued pursuant to Awards granted under the Plan may bear a reference to the investment representation made in accordance with Section 15.4 in addition to any other applicable restriction under the Plan, the terms of the Award and to the fact that no registration statement has been filed with the Securities and Exchange Commission in respect to such shares of Stock. All shares of Stock or other securities delivered under the Plan shall be subject to such stock transfer orders and other restrictions as the Committee may deem advisable under the rules, regulations, and other requirements of any stock exchange upon which the Stock is then listed, and any applicable federal or state securities law, and the Committee may cause a legend or legends to be put on any certificates or recorded in connection with book-entry accounts representing the shares to make appropriate reference to such restrictions.

15.9 Uncertificated Shares. To the extent that the Plan provides for issuance of certificates to reflect the transfer of Shares, the transfer of such Shares may be effected on a noncertificated basis, to the extent not prohibited by Applicable Law.

15.10 Limitation of Rights in Stock. A Participant shall not be deemed for any purpose to be a stockholder of the Company with respect to any of the Shares of Stock subject to an Award, unless and until Shares shall have been issued therefor and delivered to the Participant or his agent. Any Stock to be issued pursuant to Awards granted under the Plan shall be subject to all restrictions upon the transfer thereof which may be now or hereafter imposed by the Certificate of Incorporation and the Bylaws of the Company.

15.11 Employment Not Guaranteed. Nothing in the Plan shall interfere with or limit in any way the right of the Company (or any Affiliate) to terminate any Participant's Employment at any time, nor confer upon any Participant any right to continue in the employ of the Company (or any Affiliate), subject to the terms of any separate employment or consulting agreement or provision of law or corporate articles or by-laws to the contrary, at any time to terminate such employment or consulting agreement or to increase or decrease, or otherwise adjust, the other terms and conditions of the recipient's employment or other association with the Company and its Affiliates.

15.12 Other Compensation Arrangements. Nothing contained in this Plan shall prevent the Board from adopting other or additional compensation arrangements, subject to shareholder approval if such approval is required; and such arrangements may be either generally applicable or applicable only in specific cases.

15.13 Gender and Number. Except where otherwise indicated by the context, any masculine term used herein also shall include the feminine; the plural shall include the singular and the singular shall include the plural.

15.14 Severability. In the event any provision of the Plan shall be held illegal or invalid for any reason, the illegality or invalidity shall not affect the remaining parts of the Plan, and the Plan shall be construed and enforced as if the illegal or invalid provision had not been included.

15.15 Requirements of Law. The granting of Awards and the issuance of Shares under the Plan shall be subject to Applicable Law and to such approvals by any governmental agencies or national securities exchanges as may be required.

15.16 Errors. At any time the Company may correct any error made under the Plan without prejudice to the Company. Such corrections may include, among other things, changing or revoking an issuance of an Award.

15.17 Elections and Notices. Notwithstanding anything to the contrary contained in this Plan, all elections and notices of every kind shall be made on forms prepared by the Company or the General Counsel, Secretary or Assistant Secretary, or their respective delegates or shall be made in such other manner as permitted or required by the Company or the General Counsel, Secretary or Assistant Secretary, or their respective delegates, including but not limited to elections or notices through electronic means, over the Internet or otherwise. An election shall be deemed made when received by the Company (or its designated agent, but only in cases where the designated agent has been appointed for the purpose of receiving such election), which may waive any defects in form. The Company may limit the time an election may be made in advance of any deadline.

Where any notice or filing required or permitted to be given to the Company under the Plan, it shall be delivered to the principal office of the Company, directed to the attention of the General Counsel of the Company or his or her successor. Such notice shall be deemed given on the date of delivery.

Notice to the Participant shall be deemed given when mailed (or sent by telecopy) to the Participant's work or home address as shown on the records of the Company or, at the option of the Company, to the Participant's e-mail address as shown on the records of the Company.

It is the Participant's responsibility to ensure that the Participant's addresses are kept up to date on the records of the Company. In the case of notices affecting multiple Participants, the notices may be given by general distribution at the Participants' work locations.

15.18 Governing Law. To the extent not preempted by Federal law, the Plan, and all awards and agreements hereunder, and any and all disputes in connection therewith, shall be governed by and construed in accordance with the substantive laws of the State of Delaware, without regard to conflict or choice of law principles which might otherwise refer the construction, interpretation or enforceability of this Plan to the substantive law of another jurisdiction.

15.19 Venue. The Company and the Participant to whom an Award under this Plan is granted, for themselves and their successors and assigns, irrevocably submit to the exclusive and sole jurisdiction and venue of the state or federal courts of Delaware with respect to any and all disputes arising out of or relating to this Plan, the subject matter of this Plan or any awards under this Plan, including but not limited to any disputes arising out of or relating to the interpretation and enforceability of any awards or the terms and conditions of this Plan. To achieve certainty regarding the appropriate forum in which to prosecute and defend actions arising out of or relating to this Plan, and to ensure consistency in application and interpretation of the Governing Law to the Plan, the parties agree that (a) sole and exclusive appropriate venue for any such action shall be an appropriate federal or state court in Delaware, and no other, (b) all claims with respect to any such action shall be heard and determined exclusively in such Delaware court, and no other, (c) such Delaware court shall have sole and exclusive jurisdiction over the person of such parties and over the subject matter of any dispute relating hereto and (d) that the parties waive any and all objections and defenses to bringing any such action before such Delaware court, including but not limited to those relating to lack of personal jurisdiction, improper venue or forum non conveniens.

15.20 No Obligation to Notify. The Company shall have no duty or obligation to any holder of an Option to advise such holder as to the time or manner of exercising such Option. Furthermore, the Company shall have no duty or obligation to warn or otherwise advise such holder of a pending transaction or expiration of an Option or a possible period in which the Option may not be exercised. The Company has no duty or obligation to minimize the tax consequences of an Option to the holder of such Option.

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

FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 2017.

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

For the transition period from _____ to _____.

Commission file number: **1-15087**

I.D. SYSTEMS, INC.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

22-3270799
(IRS 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)

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

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

The NASDAQ Global Market
(Name of exchange on which registered)

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

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, 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 (Do not check if a smaller reporting company)

Smaller reporting company

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

The aggregate market value of the registrant's common stock, par value \$0.01 per share ("Common Stock"), held by non-affiliates, computed by reference to the price at which the Common Stock was last sold as of June 30, 2017, the last business day of the registrant's most recently completed second fiscal quarter, was approximately \$56.6 million.

The number of shares of the registrant's Common Stock outstanding as of March 27, 2018, was 17,634,904 shares.

DOCUMENTS INCORPORATED BY REFERENCE

Document

Part of Form 10-K

Portions of the Proxy Statement For the Registrant's 2018 Annual Meeting of Stockholders

Part III

I.D. SYSTEMS, INC.

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PART I.

Cautionary Note Regarding Forward-Looking Statements

In addition to historical information, this Annual Report on Form 10-K of I.D. Systems, Inc. contains “forward-looking statements” (within the meaning of Section 27A of the Securities Act of 1933, as amended (the “Securities Act”), and Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”)), which may include information concerning our beliefs, plans, objectives, goals, expectations, strategies, anticipations, assumptions, estimates, intentions, future events, future revenues or performance, capital expenditures and other information that is not historical information. Forward-looking statements involve known and unknown risks, uncertainties and other factors, which may be beyond our control, and which may cause our actual results, performance or achievements to be materially different from future results, performance or achievements expressed or implied by such forward-looking statements. Many of these statements appear, in particular, under the headings “Business,” “Selected Financial Data” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in this Annual Report on Form 10-K. When used in this report, the words “seek,” “estimate,” “expect,” “anticipate,” “project,” “plan,” “contemplate,” “plan,” “continue,” “intend,” “believe” and variations of such words or similar expressions are intended to identify forward-looking statements. All forward-looking statements are based upon our current expectations and various assumptions. We believe there is a reasonable basis for our expectations and beliefs, but there can be no assurance that we will realize our expectations or that our beliefs will prove to be correct.

There are a number of risks and uncertainties that could cause our actual results to differ materially from the forward-looking statements contained in this report. Important factors that could cause our actual results to differ materially from those expressed as forward-looking statements herein include, but are not limited, to:

- future economic and business conditions;
- the loss of any of our key customers or reduction in the purchase of our products by any such customers;
- the failure of the markets for our products to continue to develop;
- our inability to adequately protect our intellectual property;
- the possibility that we may not be able to integrate successfully the business, operations and employees of acquired businesses;
- the effects of competition from a wide variety of local, regional, national and other providers of wireless solutions;
- changes in laws and regulations or changes in generally accepted accounting policies, rules and practices;
- changes in technology or products, which may be more difficult or costly, or less effective, than anticipated; and
- those risks and uncertainties set forth under the heading “Risk Factors” in Item 1A of this report.

There may be other factors of which we are currently unaware or which we currently deem immaterial that may cause our actual results to differ materially from the forward-looking statements. All forward-looking statements attributable to us or persons acting on our behalf apply only as of the date they are made and are expressly qualified in their entirety by the cautionary statements included in this report. Except as may be required by law, we undertake no obligation to publicly update or revise any forward-looking statement to reflect events or circumstances occurring after the date they were made or to reflect the occurrence of unanticipated events, or otherwise.

Note Regarding Trademarks

I.D. Systems has, or has applied for, trademark protection for I.D. SYSTEMS® and Design, the I.D. SYSTEMS Logo®, VEHICLE ASSET COMMUNICATOR®, AVRAMP® and Design, POWERFLEET®, POWERFLEET VISION®, POWERFLEET IQ®, VERIWISE IQ®, and ASSET INTELLIGENCE®.

Item 1. Business

Overview

I.D. Systems, Inc. was incorporated in the State of Delaware in 1993. I.D. Systems, Inc. (together with its subsidiaries, “I.D. Systems,” the “Company,” “we,” “our” or “us”) develops, markets and sells 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 and software to address the needs of organizations to control, track, monitor and analyze their assets. Our solutions enable customers to achieve tangible economic benefits by making timely, informed decisions that increase the safety, security, revenue, productivity and efficiency of their operations.

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

We have focused our business activities on three primary business solutions: (i) Industrial Truck Asset Management, (ii) Transportation Asset Management, and (iii) Connected Vehicle Solutions. Our solution for industrial truck asset management allows our customers to reduce operating risks including unsafe activity, facility equipment and goods damage, operational 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 solutions for connected vehicles include unique Internet-of-Things (“IoT”) projects similar to projects we have delivered to Avis Budget Group. These engineering programs help our customers transform their operations. For Avis Budget Group, our rental fleet management platform 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 application called I.D. Systems Analytics (“Analytics”), which is designed to provide a single, integrated view of asset activity across multiple locations, that provides enterprise-wide benchmarks and peer-industry comparisons for key performance indicators (“KPIs”) relating to the performance of managed assets. Analytics enables values for the KPIs to be calculated and used to identify cost benefit measurements which translate the KPI values into monetized metrics. 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, division and site-level management within the enterprise. We also utilize channel partners such as independent dealers and Original Equipment Manufacturers (OEMs) who may opt for us to white label our product. Typically, our initial system deployment serves as a basis for potential expansion across the customer’s organization. We work closely with customers to help maximize the utilization and benefits of our system and demonstrate the value of enterprise-wide deployments. Post-implementation, we consult with our customers to further extend and customize the benefits to the enterprise by delivering enhanced analytics capabilities.

We market and sell our solutions to a wide range of customers in the commercial and government sectors. Our customers operate in diverse markets, such as automotive manufacturing, heavy industry, retail and wholesale distribution, transportation, aviation, aerospace and defense, homeland security and vehicle rental. Based on revenues for 2017, our top customers were Wal-Mart Stores, Inc. and Avis Budget Group.

Our Solutions

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

Industrial Truck Asset Management Solutions

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

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

- miniature wireless programmable computers attached to assets; these wireless devices may communicate via Wi-Fi, via the company’s proprietary IRF protocol, or via cellular link;
- optional, IRF-based, fixed-position communication infrastructure consisting of network devices with two-way wireless communication capabilities and, optional IRF-based location-emitting beacons for enhanced indoor location calculation;
- application-specific middleware servers, which are typically hosted in our data center, but may also be hosted on the customers’ local area network (LAN) or enterprise wide area network (WAN); and
- proprietary end-user software, which is a user-friendly web application that provides visibility and control of the system database, and which is hosted at the same data center as the middleware. As stated above, our enterprise software is flexible enough to run thousands of customers, sites or assets in either a customer hosted or in the cloud configuration.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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 cellular and satellite communications and web-based 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 transportation asset management systems consist of five principal elements:

- cellular or satellite 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, motion, light, and tire inflation, 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:

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

To help improve asset and cargo security, our 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;
- emergency track functionality that can be enabled to track an asset at more frequent intervals if a theft condition is expected; and
- geo-fencing, which can alert our customer when an asset enters a prohibited geography or location.

Connected Vehicle Solutions

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

Our second major telematics development for Avis Budget Car Rental, LLC (“ABCR”), a subsidiary of Avis Budget Group, includes the development of a Unified Telematics Platform (“UTP”) and deployment of 50,000 units. This solution supports several modes of operation: traditional, manned lot operations, such as at airports; remote, unmanned lots, such as designated street-level rental ‘pods’ and parking spaces; and the emerging ‘rent anywhere’ model. The initial shipments and installation of 50,000 units is planned for early 2018.

Our first program in 2011 with ABCR resulted in the deployment of 30,000 units for automated check-in/check-out and capturing customer billing using accurate fuel and odometer readings over the five-year term of the agreement. These 30,000 devices were cost-effectively installed and reinstalled annually by the ABCR personnel throughout the contract term.

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

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

Analytics

PowerFleet IQ (for fleets of forklifts and other industrial trucks) and VeriWise IQ (for fleets of containers, trailers and other transportation assets) provides our customers with a holistic view of their asset activity across an enterprise supply chain.

These cloud-based software applications provide a single, integrated view of industrial asset activity across multiple locations, generating enterprise-wide benchmarks, peer-industry comparisons, and deeper insights into asset operations. 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 allow users to:

- Quantify best-practice enterprise benchmarks for industrial asset utilization and safety;
- Reveal variations and inefficiencies in asset activity across both sites and geographic regions;
- Identify opportunities to eliminate or reallocate assets, with full enterprise awareness, to reduce capital and operating costs;
- Help balance asset mix and inform acquisition decisions;
- Uncover activity trends over time to forecast asset requirements; 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.

Growth Strategy

Our objective is to become a leading global provider of wireless solutions for managing and securing enterprise assets. To achieve this goal, we intend to:

Increase sales in existing markets to existing customers and pursue opportunities with new customers by:

- focusing our business solutions by vertical markets to position ourselves as the innovative thought leader;
- maintaining a sales and marketing team that is focused on identifying, seizing and managing revenue opportunities, with the primary goal of expanding our customer base and achieving wider market penetration;
- Implementing improved marketing, sales and support strategies;
- utilizing our Analytics software offering to (i) shorten our initial sales cycles by helping prospective customers identify and quantify benefits expected from our solutions, (ii) accelerate transitions from initial implementation to roll-out programs by helping customers achieve and prove expected benefits, and (iii) build service revenue through long-term SaaS contracts;
- developing asset management-specific data analytics capabilities to differentiate our product offering, add value to our solutions for large enterprise customers, and produce incremental revenue at a high profit margin; and
- developing channel partners to provide new sales, marketing, distribution and support networks.

Expand into new applications and markets for our technology by:

- pursuing opportunities to integrate our system with computer hardware and software vendors, including original equipment manufacturers;
- establishing relationships with global distributors to market and sell our system internationally; and
- pursuing acquisitions of companies that we believe will enhance the functionality and broaden the applicability of our solutions.

Products and Services

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

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

	Year Ended December 31,		
	2015	2016	2017
Industrial truck asset management and connected vehicles	\$ 20,573,000	\$ 20,984,000	\$ 26,678,000
Transportation asset management.....	21,211,000	15,838,000	14,280,000
	<u>\$ 41,784,000</u>	<u>\$ 36,822,000</u>	<u>\$ 40,958,000</u>

Industrial Truck Asset Management and Connected Vehicles Products

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

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

Wireless Communication. Many of our system deployments leverage an existing Wi-Fi network for real-time wireless data communication and location tracking. For areas where Wi-Fi is not practical, the system requires at least one fixed-position communication device, referred to as a Wireless Asset Manager, to link the mobile assets being monitored with the customer's computer network or to a remotely hosted server. Our Wireless Asset Managers conduct two-way RF communications with the assets being monitored and can communicate on a local area network, on a wide area network, or via cellular communications. The use of Wireless Asset Managers enables flexible system configuration options and scalability. A single Wireless Asset Manager is sufficient to operate an entire asset management system. For expanded, real-time data communication and location tracking, Wireless Asset Managers can be added incrementally as needed. Each of the wireless communication offerings also allows system settings and on-asset functionality to be changed without physically interfacing with on-asset hardware, which can save significant time and money.

Each of our Wireless Asset Managers:

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

Server Software. Each of our system deployments requires at least one installation of our server software, which automatically manages data communications between the system's database and either the Wireless Asset Managers or on-asset hardware. Our server software:

- is a set of Windows services;
- automatically processes data between our devices and system databases;
- communicates with Wireless Asset Managers to send and retrieve system data;
- automates event scheduling, including database archiving and diagnostic notifications;
- interfaces with certain existing external systems, including maintenance, timecard and training systems;
- supports remote control/management of event processes;
- automatically performs diagnostics on system components; and
- automatically e-mails event alerts and customizable reports.

Client Software. Our client software provides an intuitive, easy-to-use, user interface. The software is deployed as a web application. The software interfaces only with the system database, and not directly with our communication infrastructure or on-asset hardware, which restricts access to, and limits corruption of, system information and minimizes network bandwidth usage. An unlimited number of clients can be used on a network at any given time.

Our client software:

- is able to show the location, status and inventory of vehicles - in real time and historically - in each area of a facility;
- allows real-time, two-way text communications, including broadcast text paging to all operators simultaneously;
- searches, sorts and analyzes assets by usage/motion time, idle time, location, status, group, maintenance condition and other parameters;
- displays and prints predefined and ad hoc reports; and
- allows remote access by management, customers and vendors through any Internet browser application.

Our vehicle management systems are available as either Company- or customer-hosted solutions to meet a wide range of customer needs and information technology requirements. Our Company-hosted solutions utilize I.D. Systems' commercial colocation center.

Transportation Asset Management Products

On-Asset Hardware. We offer several hardware configurations to address different remote asset types (e.g., dry van trailers, refrigerated trailers, domestic containers, chassis, and railcars), as well as customer-specific requirements. Our on-asset hardware options contain:

- an integrated computer programmed with a product-specific application, a cellular or satellite transceiver, and a GPS receiver;
- solar panels and circuitry to maintain the charge of the on-asset device's power pack;
- sealed lead acid, lithium battery or supercap power packs to power the hardware when un-tethered from a power source; and
- a wire harness to connect to an existing power source (e.g., on the tractor).

Client Website. The VeriWise Intelligence Portal (VIP) is a hosted website that provides Internet access to client asset information. Upon installation of the on-asset hardware, the customer is provided access to the VIP site where they can configure the hardware, establish user passwords, IDs, and access privileges. Our client website:

- displays a user-configurable dashboard highlighting the enterprise's critical asset information;
- has the ability to e-mail the dashboard to a distribution list at a time interval established by the client;
- provides asset status and history, including location, landmark, and sensor information;
- provides latitude/longitude location information for each asset based on reverse geocodes;
- displays asset location on a geographic map;
- generates user configurable reports that can be accessed via the website or e-mailed to a distribution list at a time interval established by the client;
- allows the client to "ping" an asset to receive an updated location report; and
- allows the client to set a unit(s) to "Emergency Track", which increases the reporting frequency for a specified time period.

Direct Data Feed. In addition to the asset information provided on the VIP website, we also offer a direct feed of the data to the customer via XML or web services. The feed complies with established industry conventions, such as TTIS (trailer tracking interface standard), to allow for easy integration into the client's legacy system or into third-party software packages.

Services

Hosting Services. We provide the use of our systems as a remotely hosted service, with the system server and application software residing in the Company's colocation center. This approach helps the Company reduce support costs and improve quality control. It separates the system from the restrictions of the customers' local IT networks, which helps reduce their system support efforts and makes it easier for them to receive the benefits of system enhancements and upgrades. Our hosting services are typically offered with extended maintenance and support services over a multi-year term of service, with automatic renewals following the end of the initial term.

Software as a Service ("SaaS"). We provide system monitoring, help desk technical support, escalation procedure development, routine diagnostic data analysis and software updates services as part of the ongoing contract term. These services ensure deployed systems remain in optimal performance condition throughout the contract term and provide access to newly developed features and functions on an annual basis.

Maintenance Services. We provide a warranty on the hardware components of our system. During the warranty period, we either replace or repair defective hardware. We also make extended maintenance contracts available to customers and offer ongoing maintenance and support on a time and materials basis.

Connected Vehicle Solutions

On-Asset Hardware. Our next-generation on-asset hardware is installed quickly, easily and covertly into a vehicle's diagnostic port and provides an autonomous means of asset control and monitoring. Our on-asset hardware:

- contains an integrated computer programmed with a product-specific application, a cellular transceiver, and a GPS receiver;
- performs monitoring functions, such as fuel level, odometer, speed and key status at all times, independent of network connectivity;
- controls vehicle access and door locks;
- is compatible with most new-model motor vehicles; and
- wirelessly and automatically uploads and downloads data to and from other system components.

Server Software. Our system deployment requires at least one installation of our server software, which automatically manages data communications between the system's databases and the on-asset hardware. Our server software:

- is a set of Windows services;
- automatically processes data between our devices and system databases;
- communicates with on-asset hardware to send and retrieve system data;
- interfaces with existing mobile applications, enabling end-customer vehicle control features;
- interfaces with external systems, including billing, geo-location, maintenance, and fleet management systems;
- automates event scheduling, including database archiving and diagnostic notifications;
- automatically performs diagnostics on system components; and
- automatically e-mails event alerts and customizable reports.

Our connected vehicle management systems are available as either Company- or customer-hosted solutions to meet our customers' needs and information technology requirements. Our Company-hosted solutions utilize I.D. Systems' commercial colocation center.

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

To help our customers derive the most benefit from our system, we supply a broad range of documentation and support including videos, interactive online tools, hardware user guides, software manuals, vehicle installation overviews, troubleshooting guides, and issue escalation procedures.

We provide our consulting services both as a stand-alone service to study the potential benefits of implementing a wireless fleet management system and as part of the system implementation itself.

In some instances, customers prepay us for extended maintenance, support and consulting services. In those instances, the payment amount is recorded as deferred revenue and revenue is recognized over the service period.

New product development

In 2017, we continued to invest in research and development and released the following notable products:

- We released our VisionPro platform for our Industrial Truck Asset Management products. This enabled true enterprise-class SaaS capabilities which we sell on a subscription basis. This product makes it easier for customers to implement, learn and get value from our PowerFleet system from anywhere in the world. This platform also lowers our costs to implement and support customers.
- We released our FleetView next generation SaaS platform for our TAM products. Like our VisionPro product, this product makes it easier for our customers to implement, learn and get value from our Veriwise system from anywhere in the world. This platform also lowers our costs to implement and support customers.
- We developed the Avis Budget group Unified Telematics Platform which is tightly integrated into the Avis Connected Car Management system. This is a complete solution which includes specialized hardware device, middleware for security and connectivity, cellular network utilization, server-side asset management and monitoring and full application programming interface support into Avis's rental management system.

Sales and Marketing

Our sales and marketing objective is to achieve broad market penetration, with an emphasis both on expanding business opportunities with existing customers and on securing new customers.

We market our systems directly to commercial and government organizations and through indirect sales channels, such as original equipment manufacturers and industrial equipment dealers. In addition, we are actively pursuing strategic relationships with key companies in our target markets - including complementary hardware and software vendors and service providers - to further penetrate these markets by embedding our products in the assets our systems monitor and integrating our solutions with other systems.

We sell our systems to executive, division and site-level management within the enterprise. 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.

Customers

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

During the year ended December 31, 2017, we generated revenues of \$41.0 million with Wal-Mart Stores, Inc. accounting for 16% of our revenues. During the year ended December 31, 2016, we generated revenues of \$36.8 million with Wal-Mart Stores, Inc. accounting for 18% of our revenues. During the year ended December 31, 2015, we generated revenues of \$41.8 million with Wal-Mart Stores, Inc. accounting for 23% of our revenues.

The Company enters into master agreements with its customers in the normal course of its business. These agreements define the terms of any sales of products and/or services by the Company to the applicable customer, including, but not limited to, terms regarding payment, support services, termination and assignment rights. These agreements generally obligate the Company only when products or services are actually sold to the customer thereunder.

We strive to establish long-term relationships with our customers in order to maximize opportunities for new application development and increased sales.

Competition

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

We attempt to distinguish ourselves from our competitors by focusing on three primary business solutions: (i) industrial truck asset management, (ii) transportation asset management, and (iii) connected vehicle solutions. This focus has enabled us to direct product development efforts specifically suited for our target markets. Our on-asset devices are designed to operate independently of other system components, allowing for continuous asset control and data gathering even when the asset is out of wireless communication range. We believe that our proprietary technology as well as our experience in designing and developing products for our target markets distinguishes us within these markets.

In each of our markets, we encounter different competitors due to the dynamics of each market. In the industrial truck asset management market, we are not aware of any competitors that can provide the precise capabilities of our systems due to our intellectual property and proprietary solutions; however, competitors do provide similar solutions that seek to address the same customer needs that our products address. Those companies include both emerging companies with limited operating histories, such as TotalTrax Inc., and SpeedShield Technologies and companies with longer operating histories, greater name recognition and/or significantly greater financial, technical and marketing resources than ours, such as Crown Equipment Corp.

In the transportation asset management market, we compete against several established competitors, including Omnitracs, LLC, SkyBitz, Inc., Orbcomm Inc. and Spireon, Inc. We attempt to differentiate our solutions in this market by offering a choice of communication mode (satellite or cellular), patented battery management technology, sensor options, and installation configurations (dry van trailers, domestic containers, flatbed trailers, covered hopper and tanker railcars, and chassis).

In the connected vehicles solutions market, our solutions for traditional airport-based rental fleet management compete primarily against existing handheld devices, which are used widely by vehicle rental companies. Currently, the principal handheld device providers we compete against include Motorola and Intermec which was acquired by Honeywell International Inc. Our solutions for remote, decentralized rental fleet management compete primarily with companies in the car sharing market such as Hertz, Enterprise, Zipcar and City Car Share. Large system integrators and several of the national cellular wireless providers have started to offer solutions, which package third party hardware, firmware and software, that compete with our solutions. In the markets for both types of rental fleet solutions, our competitive position is differentiated by our patented product offering - a fully automated, readily installed, and cost-effective car rental system.

Research and Development

Our research and development team has expertise in areas such as software and firmware development, database design and data analytics, wireless communications, mechanical and electrical engineering, and both product and project management. In addition, we utilize external contractors to supplement our team in the areas of software and firmware development, digital design, test development and product-level testing.

We spent approximately \$4.6 million, \$4.5 million, and \$4.0 million for research and development during the years ended December 31, 2015, 2016, and 2017, respectively.

Generally, our research and development efforts are focused on: simplifying the implementation, support and utilization of our systems; reducing the cost of our systems; increasing the reliability of our products; expanding the functionality of our systems to meet customer and market requirements; applying new advances in technology to enhance existing products; and building further competitive advantages through our intellectual property portfolio.

In 2017, we focused our research and development investments in several key areas:

- improving the reliability and performance of our next-generation vehicle management system platform, the VAC4, which simplifies installation and support requirements. These efforts are expected to stimulate more widespread use of our technology on a broader range of equipment. We improved our sensing capabilities to cover more of the market need, further reduced power consumption, and also improved the user interface to further simplify installation and repeatability without end-customer training. Remote reprogramming processes have been further improved to expedite and harden the in-field upgrade process without impacting asset operation, enabling our customers to benefit from many new and improved features while simplifying customer support;
- improving the reliability and performance of our product line of over-the-road asset management solutions, including products tailored towards dry van trailers, intermodal containers and chassis;
- initiating two new product development projects for the transportation asset management product line;
- the development of our next-generation rental car management system, including a new in-vehicle hardware and firmware platform, and an improved, more scalable software solution;
- the performance of our new end-user software for both industrial truck management and over-the-road asset management, designed to improve the customer experience and reduce support requirements;
- improving business intelligence and data analytics tools to quantify and simplify customer benefit achievement, within a single deployed facility, across an enterprise, and compared to peers within the same industry;
- the continued development of specific features and data interfaces for our solutions to meet the individual requirements of large customers.

Specifically, in 2017, we improved our next generation vehicle management system on-vehicle platform and improved our product line of over-the-road asset management solutions, as described below:

- we increased the performance and reliability of our fourth-generation on-vehicle device, the VAC4, which we expect to provide benefits to both the Company (primarily through lower costs, fewer product SKU's, easier installation, integration with our hosted service offering, and expanded functional capabilities) and end users (including a simpler, universal interface with multiple vehicle types, reduced installation time, reduced upgrade time, compatibility with all known driver ID cards, newer wireless networking protocols, a larger display for vehicle operators, and enhancements to the content and style of the information displayed); we also upgraded our core processor and firmware platform to simplify ongoing development, testing and upgrade, as well as improve development quality and timeliness;
- we increased the performance and reliability of three new transportation asset management products, the GSM-D400, an intermodal container tracking system, the GSM-D150, an intermodal chassis tracking device, and the GSM-D300, a dry van management system with an advanced cargo sensor, which enables customers to perform full-function asset monitoring with either satellite or cellular communications;

- we initiated two new product development projects for the transportation asset management product line that will enable the use of LTE cellular communication as well as the incorporation of wireless sensors; and
- we developed and delivered our next-generation motor-vehicle asset communicator, tailored to the needs of both on-lot and off-lot car rental - and for the connected car market in general, including LTE cellular communication, improved, hardened, secure firmware and a more secure, scalable software platform; and
- we improved the enterprise analysis capabilities of our Analytics platform for multi-site, multi-region customers.

Intellectual Property

Patents

We attempt to protect our technology and products through a variety of intellectual property protections, including the pursuit of patent protection in the United States and certain foreign jurisdictions. Because of the differences in patent laws and laws concerning proprietary rights, the extent of protection provided by U.S. patents or proprietary rights owned by us may differ from that of their foreign counterparts. Where strategically appropriate, we will attempt to pursue suspected violators of our patents and, whenever possible, monetize our intellectual property.

I.D. Systems has built a portfolio of patents and patent applications relating to various aspects of its technology and products. As of March 5, 2018, the I.D. Systems patent portfolio includes 25 U.S. patents, 2 pending U.S. patent applications, 1 pending foreign patent application, and 1 foreign patent. With the timely payment of all maintenance fees, the U.S. patents have expiration dates falling between 2019 and 2036. I.D. Systems also has foreign patents and pending applications relating to its wireless asset management system, connected car product, and new features added to our vehicle management system. No single patent or patent family is considered material to the I.D. Systems business.

I.D. Systems' subsidiary, Asset Intelligence LLC ("AI"), also utilizes patents to protect aspects of its intellectual property assets. The AI patent portfolio focuses on methods, systems, and devices for managing mobile assets and reducing power consumption in mobile assets. As of March 19, 2018, the AI patent portfolio includes 24 U.S. patents. With timely payments of all maintenance fees, the granted U.S. patents have expiration dates falling between 2021 and 2034. No single patent or family of patents is considered material to the AI business.

Trademarks

We have, or have applied for, trademark protection for I.D. SYSTEMS® and Design, the I.D. SYSTEMS Logo®, VEHICLE ASSET COMMUNICATOR®, AVRAMP® and Design, POWERFLEET®, POWERFLEET VISION®, POWERFLEET IQ®, VERIWISE IQ®, and ASSET INTELLIGENCE®.

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

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

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

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

Manufacturing

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

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

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

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

Government Regulations

The use of radio emissions is subject to regulation in the United States by various federal agencies, including the Federal Communications Commission, or FCC, and the Occupational Safety and Health Administration, or OSHA. Various state agencies also have promulgated regulations which concern the use of lasers and radio/electromagnetic emissions standards.

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

Our products intentionally transmit radio signals, including narrow band and spread spectrum signals, as part of their normal operation. We have obtained certification from the FCC for our products that require certification. Users of these products in the United States do not require any license from the FCC to use or operate our products. To market and sell our integrated wireless solutions in the European Union, we also utilize unlicensed radio spectra, and have obtained the required European Norm (EN) certifications.

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

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

Employees

As of March 15, 2018, we had 117 full-time employees, including 10 employees based in Germany and the United Kingdom. Of our 117 total employees, 30 were engaged in customer service, 21 in product development (which includes engineering), 4 in new product management, 12 in operations, 30 in sales and marketing, 4 in information technology and 16 in executive, administration and finance. We believe that our relationships with our employees are good.

Available Information

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

Item 1A. Risk Factors

In addition to the other information contained in this Annual Report on Form 10-K, the following risk factors should be considered carefully in evaluating the Company's business. Our business, financial condition or results of operations could be materially and adversely affected by any of these risks. Additional risks not presently known to the Company or that the Company currently deems immaterial may also adversely affect our business, financial condition or results of operations.

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

As of December 31, 2017, we had cash, cash equivalents and marketable securities of \$16.9 million and working capital of \$10.1 million. Our primary sources of cash are cash flows from operating activities and our holdings of cash, cash equivalents and investments. To date, we have not generated sufficient cash flow solely from operating activities to fund our operations.

We incurred net losses of approximately \$10.0 million, \$6.4 million and \$3.9 million for the years ended December 31, 2015, 2016 and 2017, respectively, and have incurred additional net losses since inception. At December 31, 2017, we had an accumulated deficit of approximately \$95.4 million. Our ability to increase our revenues from the sale of our products will depend on our ability to successfully implement our growth strategy and the continued expansion of our markets. If our revenues do not grow or if our operating expenses continue to increase, we may not be able to become profitable and the market price of our common stock could decline.

We may not be able to successfully execute our strategic initiatives or meet our long-term financial goals.

We have been engaged in strategic initiatives to refocus on our core business to maximize long-term stockholder value, to improve our cost structure and efficiency and to increase our selling efforts and developing new business. We cannot provide any assurance that we will be able to successfully execute these or other strategic initiatives or that we will be able to execute these initiatives on our expected timetable. We may not be successful in refocusing our core business and obtaining operational efficiencies or replacing revenues lost as a result of these strategic initiatives.

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

We may require additional capital in the future to develop and commercialize additional products and technologies or take advantage of other opportunities that may arise, including potential acquisitions. We may seek to raise the necessary funds through public or private equity offerings, debt financings, additional operating improvements, asset sales or strategic alliances and licensing arrangements. We have on file a shelf registration statement on Form S-3 that was declared effective by the SEC on May 18, 2017. The shelf registration statement allows us to raise up to an aggregate of \$60.0 million from the sale of common stock, preferred stock, warrants, debt securities and units or any combination of the foregoing. On July 17, 2017, we closed an underwritten public offering of approximately \$17.3 million in aggregate gross proceeds, which was conducted pursuant to a prospectus supplement to our shelf registration statement. To the extent we raise additional capital by issuing equity securities, including pursuant to our shelf registration statement, our existing stockholders may experience substantial dilution. In addition, we may be required to relinquish rights to our technologies or systems, or grant licenses on terms that are not favorable to us in order to raise additional funds through strategic alliance, joint venture and licensing arrangements. We cannot provide assurance that the additional sources of funds will be available, or if available, would have reasonable terms. If adequate funds are not available, we may be required to delay, reduce the scope of or eliminate one or more of our development programs, and our business, financial condition, results of operations and stock price could be materially and adversely affected.

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

During the year ended December 31, 2017, we generated revenues of \$41.0 million with Wal-Mart Stores, Inc. accounting for 16% of our revenues. During the year ended December 31, 2016, we generated revenues of \$36.8 million with Wal-Mart Stores, Inc. accounting for 18% of our revenues. During the year ended December 31, 2015, we generated revenues of \$41.8 million with Wal-Mart Stores, Inc. accounting for 23% of our revenues. The loss of these customers or any material reduction in the amount of our products that these customers purchase, or any material adverse change in the financial condition of such customers, could materially and adversely affect our financial condition and results of operations. If we are unable to replace such revenue from existing or new customers, the market price of our common stock could decline significantly.

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

Our success is highly dependent on the continued market acceptance of our wireless asset management system. The market for our wireless products and services is new and rapidly evolving. If the market for our products and services does not become sustainable, or becomes saturated with competing products or services, our revenues will decline and our financial condition and results of operations could be materially and adversely affected.

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

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

We may incur additional charges for excess and obsolete inventory, which could adversely affect our cost of sales and gross profit.

While we strive to effectively manage our inventory, due to rapidly changing technology, and uneven customer demand, product cycles tend to be short and the value of our inventory may be adversely affected by changes in technology that affect our ability to sell the products in our inventory. If we do not effectively forecast and manage our inventory, we may need to write off inventory as excess or obsolete, which in turn, can adversely affect our cost of sales and gross profit.

We have previously experienced, and may in the future experience, reductions in sales of older generation products as customers delay or defer purchases in anticipation of new product introductions. The reserves we have established for potential losses due to obsolete inventory may, however, prove to be inadequate and may give rise to additional charges for obsolete or excess inventory.

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

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.

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.

We rely significantly on channel partners to sell our products, and disruptions to, or our failure to develop and manage our channel partners would harm our business.

Recruiting and retaining qualified channel partners and training them in our technology and product offerings requires significant time and resources. In order to develop and expand our distribution channel, we must continue to scale and improve our processes and procedures that support our channel, including investment in systems and training. Those processes and procedures may become increasingly complex and difficult to manage as we grow our organization. We have no minimum purchase commitments from any of our channel partners, and our contracts with these channel partners do not prohibit them from offering products or services that compete with ours. Our competitors may provide incentives to existing and potential channel partners to favor their products or to prevent or reduce sales of our products. Our channel partners may choose not to offer our products exclusively or at all. Establishing relationships with channel partners who have a history of selling our competitors' products may also prove to be difficult. Our failure to establish and maintain successful relationships with channel partners would harm our business and operating results.

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

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

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

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

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

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

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

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

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

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

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

We have developed, and may in the future develop, improvements to our technology that are funded in part by the U.S. government. As a result, we do not have the right to prohibit the U.S. government from using certain technologies developed by us with such government funds or to prohibit third parties from using those technologies to provide products and services at the request of the U.S. government. Although such government rights do not affect our ownership of the technology developed using such funds, the U.S. government has the right to royalty-free use of technologies that we have developed under such contracts. We are free to commercially exploit those government-funded technologies and may assert our intellectual property rights to seek to block other non-government users thereof, but there is no assurance we can successfully do so.

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

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

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

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

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

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

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

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

- advances in technology;
- new product introductions;
- evolving industry standards;

- product improvements;
- rapidly changing customer needs;
- intellectual property invention and protection;
- marketing and distribution capabilities;
- ability to attract and retain highly skilled professionals;
- competition from highly capitalized companies;
- entrance of new competitors;
- ability of customers to invest in information technology; and
- price competition.

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

Although we are not aware of any current competitors that provide the precise capabilities of our systems, we are aware of competitors that offer similar approaches to address the customer needs that our products address. Those companies include both emerging companies with limited operating histories, such as TotalTrax, Inc., and SpeedShield Technologies and companies with longer operating histories, greater name recognition and/or significantly greater financial, technical and marketing resources than ours, such as Crown Equipment Corp.

In the transportation asset management market, we compete against several established competitors, including Omnitrac, LLC, SkyBitz, Inc., Orbcomm Inc. and Spireon, Inc. We attempt to differentiate our solutions in this market by offering a choice of communication mode (satellite or cellular), patented battery management technology, sensor options, and installation configurations (dry van trailers, domestic containers, flatbed trailers, covered hopper and tanker railcars, and chassis).

In the connected vehicles solutions market, our solutions for traditional airport-based rental fleet management compete primarily against existing handheld devices, which are used widely by vehicle rental companies. Currently, the principal handheld device providers we compete against include Motorola and Intermec which was acquired by Honeywell International Inc. Our solutions for remote, decentralized rental fleet management compete primarily with companies in the car sharing market such as Hertz, Enterprise, Zipcar and City Car Share. Large system integrators and several of the national cellular wireless providers have started to offer solutions, which package third party hardware, firmware and software, that compete with our solutions. In the markets for both types of rental fleet solutions, our competitive position is differentiated by our patented car rental system.

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

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

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

Because our products are complex, they may have undetected errors or failures when they are introduced, which could seriously harm our business, and our product liability insurance may not adequately protect us.

Technical products like ours often contain undetected errors or failures when first introduced. Despite our efforts to eliminate these flaws, there still may be errors or failures in our products, even after the commencement of commercial shipments. We provide a warranty reserve at the time of shipment, which may not be sufficient to cover actual repair costs. Because our products are used in business-critical applications, we could be subject to product liability claims if our systems fail to perform as intended. Even unsuccessful claims against us could result in costly litigation and the diversion of management's time and resources and could damage our reputation and impair the marketability of our systems. Although we maintain insurance, there are no assurances that:

- our insurance will provide adequate coverage against potential liabilities if our products cause harm or fail to perform as promised; or
- adequate product liability insurance will continue to be available to us in the future on commercially reasonable terms or at all.

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

We may be subject to breaches of our information technology systems, which could damage our reputation, vendor, and customer relationships, and our customers' access to our services.

Our business operations require that we use and store sensitive data, including intellectual property and proprietary business information in our secure data centers and on our networks. We face a number of threats to our data centers and networks in the form of unauthorized access, security breaches and other system disruptions. It is critical to our business strategy that our infrastructure remains secure and is perceived by customers and partners to be secure. We require user names and passwords in order to access our information technology systems. We also use encryption and authentication technologies to secure the transmission and storage of data. Despite our security measures, our information technology systems may be vulnerable to attacks by hackers or other disruptive problems. Any such security breach may compromise information used or stored on our networks and may result in significant data losses or theft of our, our customers', or our business partners' intellectual property or proprietary business information. A cybersecurity breach could negatively affect our reputation by adversely affecting the market's perception of the security or reliability of our products or services. In addition, a cyber-attack could result in other negative consequences, including remediation costs, disruption of internal operations, increased cybersecurity protection costs, lost revenues or litigation, which could have a material adverse effect on our business, results of operations and financial condition.

Our ability to utilize net operating loss carry-forwards may be limited.

The Company has U.S. net operating loss carry-forwards ("NOLs") that expire through 2037. Section 382 of the Internal Revenue Code imposes an annual limitation on a corporation's ability to utilize NOLs if it experiences an "ownership change." In general terms, an ownership change may result from transactions increasing the ownership of certain stockholders in the stock of a corporation by more than 50% over a three-year period. Ownership changes in our stock, some of which are outside of our control, could result in a limitation in our ability to use our NOLs to offset future taxable income, could cause U.S. Federal income taxes to be paid earlier than otherwise would be paid if such limitation were not in effect and could cause such NOLs to expire unused, reducing or eliminating the benefit of such NOLs.

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

We are dependent on the continued employment and performance of our executive officers. We currently do not have employment agreements with any of our executive officers. Like other companies in our industry, we face intense competition for qualified personnel. Many of our competitors have greater resources than we have to hire qualified personnel. Accordingly, if we are not successful in attracting or retaining qualified personnel in the future, our ability to manage our business could be materially and adversely affected.

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

To date, we have not generated significant revenues outside of North America. As part of our growth strategy, we are seeking ways to expand our operations outside of North America by establishing offices in the United Kingdom and Germany and developing relationships with global distributors to market and sell our systems internationally. For example, as of March 15, 2018, we had six employees in Germany and four in the United Kingdom who market and sell our systems in Europe. There are a number of risks inherent in doing business in international markets, including:

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

If we do not adequately anticipate and respond to the risks inherent in international operations, our operating results and the market price of our common stock could be materially and adversely affected. In addition, although we intend to expand our business outside of North America, there are risks associated with conducting an international operation, including the risks listed above, and such expansion may not be successful or have a positive effect on, and could materially and adversely affect, our financial condition and results of operations.

We provide no assurance that we will be able to successfully integrate any businesses, products, technologies or personnel that we have acquired or might acquire in the future.

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

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

We may not be able to identify suitable acquisition candidates, and if we do identify suitable candidates, we may not be able to make these acquisitions on acceptable terms, or at all.

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

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

In addition, if we make changes to our business strategy or if external conditions adversely affect our business operations, we may be required to record an impairment charge for goodwill or intangibles, which would lead to decreased assets and reduced net operating performance.

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

As of March 27, 2018, our executive officers and directors beneficially owned, in the aggregate, 6% of our outstanding common stock, not including 351,000 shares of common stock that our executive officers and directors may acquire upon the exercise of outstanding options or if they otherwise acquire additional shares of common stock in the future. As a result, our officers and directors may have the ability to influence the outcome of all corporate actions requiring stockholder approval, irrespective of how our other stockholders may vote, including the following actions:

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

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

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

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

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

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

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

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

We have 17,634,904 shares of common stock outstanding as of March 27, 2018, of which 16,560,320 shares are freely transferable without restriction, and 1,074,584 shares are held by our officers and directors and, as such, are subject to the applicable volume, manner of sale, holding period and other limitations of Rule 144 under the Securities Act. In addition, as of December 31, 2017, options to purchase 1,290,000 shares of our common stock were issued and outstanding, of which 667,000 were vested. The remaining options will vest ratably over a five-year period measured from the date of grant. The weighted-average exercise price of the vested stock options is \$5.11. We also may issue additional shares of stock in connection with our business, including in connection with acquisitions, and may grant additional stock options to our employees, officers, directors and consultants under our stock option plans or warrants to third parties. If a significant portion of these shares of common stock were sold in the public market, the market value of our common stock could be adversely affected.

The issuance of equity or debt securities under our shelf registration statement could have a negative impact on the price of our common stock.

We have on file a shelf registration statement on Form S-3 that was declared effective by the SEC on May 18, 2017. The shelf registration statement allows us to raise up to an aggregate of \$60.0 million from the sale of common stock, preferred stock, warrants, debt securities, and units, or any combination of the foregoing. If we issue all of the securities included in the shelf registration statement, there could be a substantial dilutive effect on our common stock and an adverse effect on the price of our common stock.

On July 17, 2017, we closed an underwritten public offering of approximately \$17.3 million in aggregate gross proceeds, which was conducted pursuant to a prospectus supplement to our shelf registration statement.

We provide financing to our customers for the purchase of our products, which may increase our credit risks in the event of a deterioration in a customer's financial condition or in global credit conditions.

We sell our products to a wide range of customers in the commercial and governmental sectors. We provide financing to customers for a portion of such sales which could be in the form of notes or leases receivable over two to five years. Although these customers are extended credit terms which are approved by us internally, our business could be materially and adversely affected in the event of a deterioration of the financial condition of one or more of our customers that results in such customers' inability to repay us. This risk may increase during a general economic downturn affecting a large number of our customers or a widespread deterioration in global credit conditions, and in the event our customers do not adequately manage their businesses or properly disclose their financial condition.

Interest rate fluctuations may adversely affect our income and results of operations.

As of December 31, 2017, we had cash, cash equivalents and investments of \$16.9 million. In a declining interest rate environment, reinvestment typically occurs at less favorable market rates, negatively impacting future investment income. Accordingly, interest rate fluctuations may adversely affect our income and results of operations.

Our cash and cash equivalents could be adversely affected by a downturn in the financial and credit markets.

We maintain our cash and cash equivalents with major financial institutions; however, our cash and cash equivalent balances with these institutions exceed the Federal Deposit Insurance Corporation insurance limits. While we monitor on a systematic basis the cash and cash equivalent balances in our operating accounts and adjust the balances as appropriate, these balances could be impacted if one or more of the financial institutions with which we deposit our cash and cash equivalents 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 deteriorate.

Goodwill impairment or intangible impairment charges may affect our results of operations in the future.

We test goodwill for impairment on an annual basis and more often if events occur or circumstances change that would likely reduce the fair value of a reporting unit to an amount below its carrying value. We also test for other possible acquisition intangible impairments if events occur or circumstances change that would indicate that the carrying amount of such intangible may not be recoverable. Any resulting impairment loss would be a non-cash charge and may have a material adverse impact on our results of operations in any future period in which we record a charge.

Long-lived assets with determinable useful lives are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Such charges could have a material adverse effect on our results of operations in the period in which they are recorded.

Declines in general economic conditions could result in decreased demand for our products and services, which would adversely affect our business, financial condition and results of operations.

Our results of operations are affected by the levels of business activities of our customers, which can be affected by economic conditions in the United States and globally. During periods of economic downturns, our customers may decrease their demand for wireless technology solutions, as well as the maintenance, support and consulting services we provide. This slowdown may have an adverse effect on the wireless solutions industry in general and on demand for our products and services, but the magnitude of that impact is uncertain. Our future growth is dependent, in part, upon the demand for our products and services. Prolonged weakness in the economy may cause business enterprises to delay or cancel wireless solutions projects, reduce their overall wireless solutions budgets and/or reduce or cancel orders for our services. This, in turn, may lead to longer sales cycles, delays in purchase decisions, and payment and collection issues, and may also result in price pressures, causing us to realize lower revenues and operating margins. Additionally, if our customers cancel or delay their wireless solutions initiatives, our business, financial condition and results of operations could be materially and adversely affected.

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

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

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

- permit our Board of Directors to issue, without further action by our stockholders, up to 5,000,000 shares of preferred stock, with any rights, preferences and privileges as they may designate, including the right to approve an acquisition or other change in control;
- provide that special meetings of stockholders may be called only by (i) our Board of Directors pursuant to a resolution adopted by a majority of the entire Board of Directors, either upon motion of a director or upon written request by the holders of at least 50% of the voting power of all the shares of our capital stock entitled to vote in the election of directors, voting as a single class, or (ii) our Chairman of the Board or our President; and
- require the affirmative vote of at least 75% of the voting power of all the shares of our capital stock entitled to vote in the election of directors, voting as a single class, to amend or repeal the provisions outlined above dealing with meetings of stockholders.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

Our executive and I.D. Systems administrative offices are located in Woodcliff Lake, New Jersey. In May 2010, we entered into a lease for this facility, consisting of approximately 21,400 square feet, which expires on February 28, 2021. The rent is approximately \$37,000 per month.

Our Asset Intelligence administrative offices are located in Plano, Texas. In April 2015, we entered into a lease for this facility, consisting of approximately 11,482 square feet, which expires February 28, 2021. The rent is approximately \$22,000 per month.

Our Keytroller administrative offices and storage space are located in Tampa, Florida. In July 2017, we entered into a lease for this facility, consisting of approximately 5,000 square feet, which expires July 31, 2019. The rent is approximately \$3,600 per month.

We believe that our existing facilities are adequate for our existing needs.

Item 3. Legal Proceedings

In the ordinary course of its business, the Company is at times subject to various legal proceedings. On June 12, 2017, ACF FinCo I LP (“ACF”) filed a lawsuit against us in the District Court for Dallas County, Texas. The complaint alleges that ACF is the successor-in-interest to McDonald Technologies International Inc. (“MTI”), one of our former suppliers, and alleges one cause of action for breach of a May 2015 Master Services Agreement pursuant to which we purchased certain products manufactured and services rendered by MTI. The complaint seeks approximately \$2.0 million in damages for amounts allegedly due by us under this agreement, plus interest and attorney’s fees. On July 7, 2017, we filed our answer denying any liability to ACF and asserting various defenses to ACF’s claims against us. The lawsuit is currently in active discovery. We believe that the lawsuit is without merit and intend to continue to vigorously defend ourselves in this matter.

Item 4. Mine Safety Disclosures

Not applicable.

PART II.

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

Market Information.

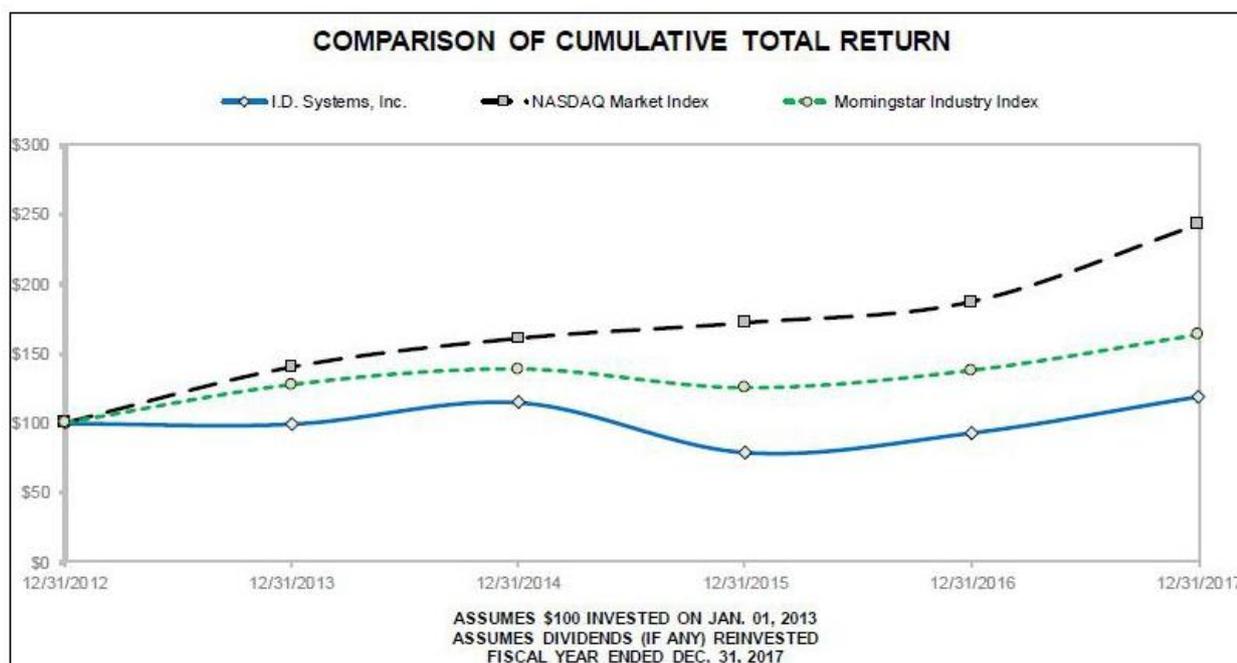
Our common stock is traded on the NASDAQ Global Market under the symbol “IDSY.” The following table sets forth the high and low sales price for our common stock on the NASDAQ Global Market for each fiscal quarter during the years ended December 31, 2016 and 2017.

Quarter Ended	High	Low
2017		
March 31, 2017.....	\$ 7.34	\$ 5.25
June 30, 2017.....	7.01	5.87
September 30, 2017.....	7.56	5.50
December 31, 2017.....	7.75	6.53
2016		
March 31, 2016.....	\$ 4.80	\$ 3.75
June 30, 2016.....	5.39	4.19
September 30, 2016.....	5.43	4.26
December 31, 2016.....	5.59	4.63

Performance Graph.

The following graph shows a five-year comparison of cumulative total shareholder return for (i) the Company, (ii) the NASDAQ Market Index, and (iii) the Morningstar Communication Equipment Index (the “Morningstar Index”).

The graph assumes that \$100 was invested in each of the Company’s common stock, the NASDAQ Market Index and the Morningstar Index on December 31, 2012, and that any dividends were reinvested. Data points on the graph are annual. Note that historic stock price performance is not necessarily indicative of future stock price performance. The following graph and related information shall not be deemed “soliciting material” or to be “filed” with the SEC, nor shall such information be incorporated by reference into any filing under the Securities Act or the Exchange Act, except to the extent that we specifically incorporate it by reference into such filing.



COMPANY/INDEX/MARKET	Fiscal Year Ended					
	12/31/2012	12/31/2013	12/31/2014	12/31/2015	12/31/2016	12/31/2017
I.D. Systems, Inc.....	\$ 100.00	\$ 99.48	\$ 114.95	\$ 79.04	\$ 93.13	\$ 119.24
NASDAQ Market Index	100.00	140.12	160.78	171.97	187.22	242.71
Morningstar Industry Index	100.00	127.52	138.74	125.24	137.8	163.50

Prepared by Zacks Investment Research, Inc.

Index Data: Copyright NASDAQ OMX, Inc. Copyright Morningstar, Inc.

Holders.

As of March 27, 2018, there were 17 holders of record of our common stock.

Dividends.

We have never paid a cash dividend on our common stock and do not expect to pay a cash dividend in the near future. We currently intend to retain future earnings, if any, to finance our operations and expand our business. Any future determination to pay cash dividends will be at the discretion of our Board of Directors and will depend upon our financial condition, operating results, capital requirements and any other factors our Board of Directors deems relevant. In addition, our senior credit facility (described in Item 7 of Part II of this Annual Report on Form 10-K under the caption “Capital Requirements”) restricts our ability to pay dividends.

Sales of Unregistered Securities.

None.

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 December 31, 2017. As the table indicates, the Company did not make any share repurchases during the quarterly period ended December 31, 2017.

ISSUER PURCHASES OF EQUITY SECURITIES

<u>Period</u>	<u>Total Number of Shares Purchased</u>	<u>Average Price Paid per Share</u>	<u>Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs</u>	<u>Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs</u>
October 1, 2017 - October 31, 2017	-	-	-	\$ 1,660,000
November 1, 2017 - November 30, 2017....	-	-	-	1,660,000
December 1, 2017 - December 31, 2017	6,000 ⁽¹⁾	\$ 6.78	-	1,660,000
Total.....	6,000	\$ 6.78	-	\$ 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 December 2017.

In addition, on May 3, 2007, the Company previously had announced that its Board of Directors had authorized the repurchase of issued and outstanding shares of our common stock having an aggregate value of up to \$10,000,000 pursuant to a share repurchase program (the “2007 Repurchase Program”). The 2007 Repurchase Program was terminated by the Board of Directors in March 2012. Prior to such termination, the Company had purchased approximately 1,075,000 shares of its common stock in open market transactions under the 2007 Repurchase Program for an aggregate purchase price of approximately \$9,970,000, or an average cost of \$9.27 per share. The repurchases were funded from the Company’s working capital, and the amount and timing of such repurchases depended upon the price and availability of shares, general market conditions and the availability of cash, as determined at the discretion of our management.

Item 6. Selected Financial Data

The following table sets forth selected financial data for each of the five years ended December 31, 2017 derived from our audited financial statements. You should read the information in the table below together with the section of this Annual Report on Form 10-K entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations," which discusses the 2015, 2016 and 2017 fiscal years, and our financial statements and related notes and the other financial data included elsewhere in this Annual Report on Form 10-K.

	Year Ended December 31,				
	2013	2014	2015	2016	2017
Statement of Operations Data:					
Revenues.....	\$39,946,000	\$ 45,633,000	\$ 41,784,000	\$36,822,000	\$40,958,000
Cost of revenues	<u>22,036,000</u>	<u>25,627,000</u>	<u>24,761,000</u>	<u>18,528,000</u>	<u>20,031,000</u>
Gross profit	17,910,000	20,006,000	17,023,000	18,294,000	20,927,000
Operating expenses:					
Selling, general and administrative expenses.....	21,769,000	25,094,000	22,750,000	20,126,000	21,053,000
Research and development expenses	4,389,000	6,649,000	4,556,000	4,536,000	3,965,000
Loss on settlement of finance receivable ..	<u>-</u>	<u>441,000</u>	<u>-</u>	<u>-</u>	<u>-</u>
Loss from operations	(8,248,000)	(12,178,000)	(10,283,000)	(6,368,000)	(4,091,000)
Interest income.....	635,000	595,000	360,000	285,000	253,000
Interest expense	-	(29,000)	(18,000)	(293,000)	(342,000)
Other income (loss), net.....	<u>51,000</u>	<u>37,000</u>	<u>(11,000)</u>	<u>6,000</u>	<u>(1,000)</u>
Net loss before income taxes	(7,562,000)	(11,575,000)	(9,952,000)	(6,370,000)	(4,181,000)
Income tax benefit - sale of NJ net operating losses and R&D tax credits	<u>63,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>311,000</u>
Net loss	<u><u>\$ (7,499,000)</u></u>	<u><u>\$ (11,575,000)</u></u>	<u><u>\$ (9,952,000)</u></u>	<u><u>\$ (6,370,000)</u></u>	<u><u>\$ (3,870,000)</u></u>
Net loss per share - basic and diluted.....	<u><u>\$ (0.63)</u></u>	<u><u>\$ (0.96)</u></u>	<u><u>\$ (0.79)</u></u>	<u><u>\$ (0.49)</u></u>	<u><u>\$ (0.26)</u></u>
Weighted average common shares outstanding - basic and diluted					
	11,912,000	12,098,000	12,614,000	12,984,000	14,961,000
Balance Sheet Data (at end of period):					
Cash and cash equivalents	\$ 6,882,000	\$ 6,277,000	\$ 4,793,000	\$ 5,277,000	\$ 5,403,000
Investments	7,190,000	7,315,000	1,598,000	1,614,000	11,479,000
Total assets	55,515,000	52,486,000	44,428,000	44,246,000	60,932,000
Long term debt.....	293,000	149,000	-	-	-
Total stockholders' equity	37,449,000	27,255,000	20,570,000	16,002,000	32,971,000

Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations

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

Overview

I.D. Systems, Inc. (“IDS”, and together with its subsidiaries, “I.D. Systems,” the “Company,” “we,” “our,” or “us”) develops, markets and sells 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 wireless asset management 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 our customers to achieve tangible economic benefits by making timely, informed decisions that increase the safety, security, revenue, productivity and efficiency of their operations.

We have focused our business activities on three primary business solutions: (i) Industrial Truck Asset Management, (ii) Transportation Asset Management, and (iii) Connected Vehicle Solutions. Our solution for industrial truck asset management allows our customers to reduce operating risks including unsafe activity, facility equipment and goods damage, operational 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 solutions for connected vehicles include unique Internet-of-Things (“IoT”) projects similar to projects we have delivered to Avis Budget Group. These engineering programs help our customers transform their operations. For Avis Budget Group, our rental fleet management platform 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.

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

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

We have incurred net losses of approximately \$10.0 million, \$6.4 million and \$3.9 million for the years ended December 31, 2015, 2016 and 2017 respectively, and have incurred additional net losses since inception. As of December 31, 2017, we had cash, cash equivalents and marketable securities of \$16.9 million, working capital of \$10.1 million, and an accumulated deficit of \$95.4 million. Our primary sources of cash are cash flows from operating activities and the Company’s holdings of cash, cash equivalents and investments from the sale of common stock. To date, the Company has not generated sufficient cash flow solely from operating activities to fund our operations.

During the year ended December 31, 2017, we generated revenues of \$41.0 million with Wal-Mart Stores, Inc. accounting for 16% of our revenues. During the year ended December 31, 2016, we generated revenues of \$36.8 million with Wal-Mart Stores, Inc. accounting for 18% of our revenues. During the year ended December 31, 2015, we generated revenues of \$41.8 million with Wal-Mart Stores, Inc. accounting for 23% of our revenues.

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

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

In 2017, we improved our next generation vehicle management system on-vehicle platform and improved our product line of over-the-road asset management solutions, as described below:

- we increased the performance and reliability of our fourth-generation on-vehicle device, the VAC4, which we expect to provide benefits to both the Company (primarily through lower costs, fewer product SKU’s, easier installation, integration with our hosted service offering, and expanded functional capabilities) and end users (including a simpler, universal interface with multiple vehicle types, reduced installation time, reduced upgrade time, compatibility with all known driver ID cards, newer wireless networking protocols, a larger display for vehicle operators, and enhancements to the content and style of the information displayed); we also upgraded our core processor and firmware platform to simplify ongoing development, testing and upgrade, as well as improve development quality and timeliness;
- we increased the performance and reliability of three new transportation asset management products, the GSM-D400, an intermodal container tracking system, the GSM-D150, an intermodal chassis tracking device, and the GSM-D300, a dry van management system with an advanced cargo sensor, which enables customers to perform full-function asset monitoring with either satellite or cellular communications;
- we initiated two new product development projects for the transportation asset management product line that will enable the use of LTE cellular communication as well as the incorporation of wireless sensors; and
- we developed and delivered our next-generation motor-vehicle asset communicator, tailored to the needs of both on-lot and off-lot car rental - and for the connected car market in general, including LTE cellular communication, improved, hardened, secure firmware and a more secure, scalable software platform; and
- we improved the enterprise analysis capabilities of our Analytics platform for multi-site, multi-region customers.

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.

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

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

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

Critical Accounting Policies and Estimates

We have adopted various accounting policies that govern the application of accounting principles generally accepted in the United States in the preparation of our financial statements. Our significant accounting policies are described in Note 2 to our consolidated financial statements included in this Annual Report on Form 10-K. Certain accounting policies involve significant judgments and assumptions by our management that can have a material impact on the carrying value of certain assets and liabilities. We consider such accounting policies to be our critical accounting policies. The judgments and assumptions used by our management in these critical accounting policies are based on historical experience and other factors that our management believes to be reasonable under the circumstances. Because of the nature of these judgments and assumptions, actual results could differ significantly from these judgments and estimates, which could have a material impact on the carrying values of our assets and liabilities and our results of operations. Our critical accounting policies are described below.

Revenue Recognition

We derive revenue from: (i) sales of our wireless asset management systems and spare parts; (ii) remotely hosted SaaS agreements and post-contract maintenance and support agreements; (iii) services, which includes training and technical support; and (iv) periodically, leasing arrangements.

Our industrial truck and connected vehicle wireless asset management systems consist of on-asset hardware, communication infrastructure, SaaS, and hosting infrastructure. Revenue derived from the sale of our industrial truck and connected vehicle wireless asset management systems is allocated to each element based upon vendor specific objective evidence (VSOE) of the fair value or best estimate of selling price (“BESP”) of the element. VSOE of the fair value is based upon the price charged when the element is sold separately. BESP is determined based on the overall pricing objectives taking into consideration market conditions and entity specific factors. Revenue is recognized as each element is delivered based on the allocation of arrangement consideration to each element based upon VSOE or BESP, 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 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.

We recognize revenues from the sale of 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 SaaS 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, ranging from one to five years, beginning at the time that a customer acknowledges acceptance of the equipment and service. The customer service contracts typically range from one to five years.

The service revenue for our transportation 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 transportation asset monitoring equipment activation fees are 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.

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

Under certain customer contracts, we invoice 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, we recognize 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.

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 consolidated statements of operations.

Financing Receivables

Notes receivable relate to interest-bearing product financing arrangements that exceed one year and are recorded at face value. Interest income is recognized over the life of the note. Amounts collected on notes receivable are included in net cash provided by operating activities in the consolidated statements of cash flows. Unearned income is amortized to interest income over the life of the notes using the effective-interest method.

We also derive revenue under leasing arrangements. The 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 future minimum lease payments. Revenue is deferred and recognized over the service contract, as described above. Maintenance revenue is recognized monthly over the lease term. Interest income is recognized monthly over the lease term using the effective-interest method.

The allowance for uncollectable minimum lease payments represents our best estimate of the amount of credit losses in the existing notes and sales-type lease receivable. The allowance 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. We consider our 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 years ended December 31, 2015, 2016 and 2017. We do 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/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. We resume accrual of interest when it is probable that we will collect the remaining principal and interest of an impaired note/lease. Notes and leases become past due based on how recently payments have been received.

Inventory

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

Inventory valuation reserves are established in order to report inventories at the lower of cost or net realizable value in the consolidated balance sheet. The determination of inventory valuation reserves requires management to make estimates and judgments on the future salability of inventories. Valuation reserves for obsolete and slow-moving inventory are estimated based on assumptions of future sales forecasts, product life cycle expectations, the impact of new product introductions, production requirements, and specific identification of items, such as product discontinuance or engineering/material changes and by comparing the inventory levels to historical usage rates.

Stock-Based Compensation

We account for stock-based employee compensation for all share-based payments, including grants of stock options, as an operating expense, based on their fair values on the grant date. The Company recorded stock-based compensation expense of \$1,609,000, \$1,658,000 and \$2,437,000 for the years ended December 31, 2015, 2016 and 2017, respectively.

We estimate the fair value of share-based payment awards on the grant date using an option pricing model. The value of the portion of the award that is ultimately expected to vest is recognized as expense over the requisite service period in our consolidated statement of operations. We estimate forfeitures at the time of grant in order to estimate the amount of share-based awards that will ultimately vest. The estimate is based on our historical rates of forfeitures. Estimated forfeitures are revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates.

Long-lived Assets

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of the assets to the future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets and would be charged to earnings.

Business Combinations

Goodwill represents costs in excess of fair values assigned to the underlying net assets of acquired businesses. Goodwill and intangible assets deemed to have indefinite lives are not amortized. Intangible assets are amortized over their estimated useful lives unless the lives are determined to be indefinite. Intangible assets are carried at cost, less accumulated amortization and impairment charges. Intangible assets consist of trademarks and trade names, patents, customer relationships and other intangible assets. We test goodwill and other intangible assets annually, or when a triggering event occurs between annual impairment tests, to determine if impairment exists and if the use of indefinite lives is currently applicable.

The Company re-measures the fair value of the contingent consideration at each reporting period and any change in the fair value from either the passage of time or events occurring after the acquisition date, is recorded in earnings in the accompanying consolidated statement of operations. Actual results could differ from such estimates in future periods based on the re-measurement of the fair value.

Product Warranties

We provide a one-year warranty on our products. Estimated future warranty costs are accrued in the period that the related revenue is recognized. These estimates are derived from historical data and trends of product reliability and costs of repairing and replacing defective products.

Income taxes

We use the asset and liability method of accounting for deferred income taxes. Deferred income taxes are measured by applying enacted statutory rates to net operating loss carryforwards and to the differences between the financial reporting and tax bases of assets and liabilities. Deferred tax assets are reduced, if necessary, by a valuation allowance if it is more likely than not that some portion or all of the deferred tax assets will not be realized. At December 31, 2016 and 2017, we had a valuation allowance on all of our deferred tax assets.

Fair Value Measurements

In determining fair value of financial instruments, we utilize 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 participant assumptions.

Results of Operations

The following table sets forth certain items related to our statement of operations as a percentage of revenues for the periods indicated and should be read in conjunction with our consolidated financial statements and the related notes included elsewhere in this Annual Report on Form 10-K. Our results reflect the operations of Keytroller from July 31, 2017, the effective date of the Keytroller Acquisition. A detailed discussion of the material changes in our operating results is set forth below.

	Year Ended December 31,		
	2015	2016	2017
Revenues:			
Products	58.7%	58.0%	57.5%
Services.....	41.3	42.0	42.5
	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>
Cost of revenues:			
Cost of products	43.1	38.1	32.8
Cost of services.....	16.1	12.2	16.1
Total gross profit.....	40.8	49.7	51.1
Selling, general and administrative expenses	54.4	54.7	51.4
Research and development expenses	10.9	12.3	9.7
Loss from operations	(24.5)	(17.3)	(10.0)
Interest income.....	0.8	0.8	0.6
Interest expense	-	(0.8)	(0.8)
Other income (loss), net.....	-	-	-
Loss before income taxes.....	(23.7)	(17.3)	(10.2)
Income tax benefit - sale of NJ R&D tax credits	-	-	0.8
Net loss	<u>(23.7)%</u>	<u>(17.3)%</u>	<u>(9.4)%</u>

Year Ended December 31, 2017 Compared to Year Ended December 31, 2016

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

	Year Ended December 31,	
	2016	2017
Product revenue:		
Industrial truck asset management and connected vehicles	\$ 14,299,000	\$ 17,524,000
Transportation asset management.....	7,067,000	6,028,000
	<u>21,366,000</u>	<u>23,552,000</u>
Services revenue:		
Industrial truck asset management and connected vehicles	6,685,000	9,154,000
Transportation asset management.....	8,771,000	8,252,000
	<u>15,456,000</u>	<u>17,406,000</u>
	<u>\$ 36,822,000</u>	<u>\$ 40,958,000</u>

REVENUES. Revenues increased by approximately \$4.1 million, or 11.2%, to \$41.0 million in 2017 from \$36.8 million in 2016. The increase in revenue is attributable to an increase in total industrial truck asset management and connected vehicles revenue of approximately \$5.7 million to \$26.7 million in 2017 from \$21.0 million in 2016, partially offset by a decrease in total transportation asset management revenue of approximately \$1.6 million to \$14.3 million in 2017 from \$15.8 million in 2016.

Revenues from products increased by approximately \$2.2 million, or 10.2%, to \$23.6 million in 2017 from \$21.4 million in 2016. Industrial truck asset management and connected vehicles product revenue increased by approximately \$3.2 million to \$17.5 million in 2017 from \$14.3 million in 2016. The increase in industrial truck asset management and connected vehicles product revenue resulted principally from increased product sales of approximately \$3.5 million in product sales from Keytroller. Transportation asset management product revenue decreased by approximately \$1.0 million to \$6.0 million in 2017 from \$7.1 million in 2016. The decrease in transportation asset management product revenue resulted principally from decreased spare parts sales.

Revenues from services increased by approximately \$2.0 million, or 12.6%, to \$17.4 million in 2017 from \$15.5 million in 2016. Industrial truck asset management and connected vehicles service revenue increased by approximately \$2.5 million to \$9.2 million in 2017 from \$6.7 million in 2016, principally due to increased service revenue pursuant to a statement of work (“SOW#4”) we entered into with Avis Budget Car Rental, LLC (“ABCR”) in March 2017. Transportation asset management service revenue decreased by approximately \$0.5 million to \$8.3 million in 2017 from \$8.8 million in 2016 principally due to a decrease in revenue per active units.

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

	Year Ended December 31,	
	2016	2017
Cost of products:		
Industrial truck asset management and connected vehicles	\$ 8,541,000	\$ 8,622,000
Transportation asset management.....	5,495,000	4,831,000
	<u>14,036,000</u>	<u>13,453,000</u>
Cost of services:		
Industrial truck asset management and connected vehicles	1,950,000	4,228,000
Transportation asset management.....	2,542,000	2,350,000
	<u>4,492,000</u>	<u>6,578,000</u>
	<u>\$ 18,528,000</u>	<u>\$ 20,031,000</u>

COST OF REVENUES. Cost of revenues increased by approximately \$1.5 million, or 8.1%, to \$20.0 million in 2017 from \$18.5 million for the same period in 2016. Gross profit was \$20.9 million in 2017 compared to \$18.3 million for the same period in 2016. As a percentage of revenues, gross profit increased to 51.1% in 2017 from 49.7% in 2016.

Cost of products decreased by approximately \$0.6 million, or 4.2%, to \$13.5 million in 2016 from \$14.0 million in the same period in 2016. Gross profit for products was \$10.1 million in 2017 compared to \$7.3 million in 2016. The increase in gross profit was attributable to an increase of approximately \$3.1 million in the industrial truck asset management and connected vehicles gross profit to \$8.9 million in 2017 from \$5.8 million in 2016. The transportation asset management gross profit decreased approximately \$0.4 million to \$1.2 million in 2017 from \$1.6 million in 2016. As a percentage of product revenues, gross profit increased to 42.9% in 2017 from 34.3% in 2016. The increase in gross profit as a percentage of product revenue was due to an increase in the industrial truck asset management and connected vehicles gross profit percentage to 50.8% in 2017 from 40.3% in 2016, which was principally due to improved customer pricing. The transportation asset management product revenue gross profit percentage decreased to 19.9% in 2017 from 22.2% in 2016 principally due to an increase in warranty expense.

Cost of services increased by approximately \$2.1 million, or 46.4%, to \$6.6 million in 2017 from \$4.5 million in 2016. Gross profit for services was \$10.8 million in 2017 compared to \$11.0 million in 2016. The decrease in gross profit was attributable to a decrease in the transportation asset management gross profit of approximately \$0.3 million to \$5.9 million in 2017 from \$6.2 million in 2016, partially offset by increase of approximately \$0.2 million in the industrial truck asset management and connected vehicles gross profit to \$4.9 million in 2017 from \$4.7 million in 2016. As a percentage of service revenues, gross profit decreased to 62.2% in 2017 from 70.9% in 2016. The decrease in gross profit as a percentage of service revenue was principally due to a decrease in the industrial truck asset management and connected vehicles management gross profit percentage to 53.8% in 2017 from 70.8% in 2016 principally due to a lower gross margin on the development project portion of the SOW#4 we entered into with Avis. The transportation asset management gross profit percentage of 71.5% in 2017 remained generally consistent with the gross profit percentage of 71.0% in 2016.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES. Selling, general and administrative expenses (“SG&A”) increased by approximately \$0.9 million, or 4.6%, to \$21.1 million in 2017 compared to \$20.1 million in the same period in 2016. The increase was principally due to approximately \$1.0 million in SG&A expenses from Keytroller, \$0.7 million increase in stock-based compensation and \$0.4 million in acquisition related fees, partially offset by a \$0.7 million decrease in severance costs and \$0.8 million decrease in foreign currency translation. As a percentage of revenues, selling, general and administrative expenses decreased to 51.4% in 2017 from 54.7% in the same period in 2016, primarily due to the increase in revenues from 2016 to 2017.

RESEARCH AND DEVELOPMENT EXPENSES. Research and development expenses decreased by approximately \$0.6 million, or 12.6%, to \$4.0 million in 2017 compared to \$4.5 million in the same period in 2016 principally due to a reallocation of internal product development resources to cost of services for the Avis SOW#4 project. As a percentage of revenues, research and development expenses decreased to 9.7% in 2017 from 12.3% in the same period in 2016, primarily due to the decrease in expenses noted above and the increase in revenue from 2016 to 2017.

INTEREST INCOME. Interest income decreased by \$32,000, or 11.2%, to \$253,000 in 2017 from \$285,000 in the same period in 2016 principally due to a decrease in interest income from financing receivables.

INTEREST EXPENSE. Interest expense increased by \$49,000, or 16.7%, to \$342,000 in 2017 from \$293,000 in the same period in 2016, principally due to accretion of the contingent consideration.

INCOME TAX BENEFIT. Income tax benefit increased to \$311,000 in 2017 from \$-0- in 2016 due to the reversal of the valuation allowance in 2017 on the New Jersey R&D tax credits deferred tax asset sold during 2017.

NET LOSS. Net loss was \$3.9 million, or \$(0.26) per basic and diluted share, for 2017 as compared to net loss of \$6.4 million, or \$(0.49) per basic and diluted share, for the same period in 2016. The decrease in the net loss was due primarily to the reasons described above.

Year Ended December 31, 2016 Compared to Year Ended December 31, 2015

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

	Year Ended December 31,	
	2015	2016
Product revenue:		
Industrial truck asset management and connected vehicles	\$ 13,201,000	\$ 14,299,000
Transportation asset management.....	11,330,000	7,067,000
	<u>24,531,000</u>	<u>21,366,000</u>
Services revenue:		
Industrial truck asset management and connected vehicles	7,372,000	6,685,000
Transportation asset management.....	9,881,000	8,771,000
	<u>17,253,000</u>	<u>15,456,000</u>
	<u>\$ 41,784,000</u>	<u>\$ 36,822,000</u>

REVENUES. Revenues decreased by approximately \$5.0 million, or 11.9%, to \$36.8 million in 2016 from \$41.8 million in 2015. The decrease in revenue is attributable to decrease in total transportation asset management revenue of approximately \$5.4 million to \$15.8 million in 2015 from \$21.2 million in 2015, partially offset by an increase in total industrial truck asset management and connected vehicles revenue of approximately \$0.4 million to \$21.0 million in 2015 from \$20.6 million in 2015.

Revenues from products decreased by approximately \$3.2 million, or 12.9%, to \$21.4 million in 2016 from \$24.5 million in 2015. Transportation asset management product revenue decreased by approximately \$4.3 million to \$7.1 million in 2016 from \$11.3 million in 2015. The decrease in transportation asset management product revenue resulted principally from decreased product revenue of approximately \$0.5 million to Ashley Distribution Services, Ltd. and spare parts sales of approximately \$2.9 million to Wal-Mart Stores, Inc and \$1.0 million to Knight Transportation Inc. Industrial truck asset management and connected vehicles product revenue increased by approximately \$1.1 million to \$14.3 million in 2016 from \$13.2 million in 2015. The increase in industrial truck asset management and connected vehicles product revenue resulted principally from increased product sales of approximately \$1.4 million to Ford Motor Company and \$1.1 million to the General Motors Company partially offset by decreased product sales of approximately \$0.7 million to the Raymond Corporation and \$0.5 million to Procter & Gamble.

Revenues from services decreased by approximately \$1.8 million, or 10.4%, to \$15.5 million in 2016 from \$17.3 million in 2015. Industrial truck asset management and connected vehicles service revenue decreased by approximately \$0.7 million to \$6.7 million in 2016 from \$7.4 million in 2015, principally due to decreased service revenue of approximately \$0.7 million from Avis Budget, Inc. Transportation asset management service revenue decreased by approximately \$1.1 million to \$8.8 million in 2016 from \$9.9 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:

	Year Ended December 31,	
	2015	2016
Cost of products:		
Industrial truck asset management and connected vehicles	\$ 8,889,000	\$ 8,541,000
Transportation asset management.....	9,129,000	5,495,000
	<u>18,018,000</u>	<u>14,036,000</u>
Cost of services:		
Industrial truck asset management and connected vehicles	3,675,000	1,950,000
Transportation asset management.....	3,068,000	2,542,000
	<u>6,743,000</u>	<u>4,492,000</u>
	<u>\$ 24,761,000</u>	<u>\$ 18,528,000</u>

COST OF REVENUES. Cost of revenues decreased by approximately \$6.2 million, or 25.2%, to \$18.5 million in 2016 from \$24.8 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 \$18.3 million in 2016 compared to \$17.0 million for the same period in 2015. As a percentage of revenues, gross profit increased to 49.7% in 2016 from 40.8% in 2015.

Cost of products decreased by approximately \$4.0 million, or 22.1%, to \$14.0 million in 2016 from \$18.0 million in the same period in 2015. Gross profit for products was \$7.3 million in 2016 compared to \$6.5 million in 2015. The increase in gross profit was attributable to an increase of approximately \$1.4 million in the industrial truck asset management and connected vehicles gross profit to \$5.8 million in 2016 from \$4.3 million in 2015. The transportation asset management gross profit decreased approximately \$0.6 million to \$1.6 million in 2016 from \$2.2 million in 2015. As a percentage of product revenues, gross profit increased to 34.3% in 2016 from 26.6% in 2015. The increase in gross profit as a percentage of product revenue was due to an increase in the industrial truck asset management and connected vehicles gross profit percentage to 40.3% in 2016 from 32.7% in 2015, which was principally due to improved customer pricing. The transportation asset management product revenue gross profit percentage increased to 22.2% in 2016 from 19.4% in 2015 principally from a decrease in spare parts sales which have a lower gross margin.

Cost of services decreased by approximately \$2.3 million, or 33.4%, to \$4.5 million in 2016 from \$6.7 million in 2015. Gross profit for services was \$11.0 million in 2016 compared to \$10.5 million in 2015. The increase in gross profit was attributable to an increase of approximately \$1.0 million in the industrial truck asset management and connected vehicles gross profit to \$4.7 million in 2016 from \$3.7 million in 2015, partially offset by a decrease in the transportation asset management gross profit of approximately \$0.6 million to \$6.2 million in 2016 from \$6.8 million in 2015. As a percentage of service revenues, gross profit increased to 70.9% in 2016 from 60.9% in 2015. The increase in gross profit as a percentage of service revenue was principally due to an increase in the industrial truck asset management and connected vehicles gross profit percentage to 70.8% in 2016 from 50.1% in 2015 and an increase in the transportation asset management gross profit percentage to 71.0% in 2016 from 69.0% in 2015. The increase in the industrial truck asset management and connected vehicles gross profit percentage was principally due to a decrease in installation expenses. The increase in transportation asset management gross profit percentage was principally due to a decrease in communication expenses.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES. Selling, general and administrative expenses decreased by approximately \$2.6 million, or 11.5%, to \$20.1 million in 2016 compared to \$22.8 million in the same period in 2015. The decrease was 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, partially offset by \$0.4 million increase in severance costs related to the Company's executive management change in December 2016, and \$0.4 million increase in foreign currency translation losses. As a percentage of revenues, selling, general and administrative expenses increased to 54.7% in 2016 from 54.4% in the same period in 2015, primarily due to the decrease in revenues from 2016 to 2015.

RESEARCH AND DEVELOPMENT EXPENSES. Research and development expenses of approximately \$4.5 million in 2016 remained generally consistent with research and development expenses in 2015. As a percentage of revenues, research and development expenses increased to 12.3% in 2016 from 10.9% in the same period in 2015, primarily due to the decrease in revenues from 2016 to 2015.

INTEREST INCOME. Interest income decreased by \$57,000, or 16.7%, to \$285,000 in 2016 from \$342,000 in the same period in 2015 principally due to a decrease in interest income from financing receivables.

INTEREST EXPENSE, Interest expense increased to approximately \$293,000 in 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 \$6.4 million, or \$(0.49) per basic and diluted share, for 2016 as compared to net loss of \$10.0 million, or \$(0.79) 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 December 31, 2017, we had cash, cash equivalents and marketable securities of \$16.9 million and working capital of \$10.1 million, compared to cash, cash equivalents and marketable securities of \$6.9 million and working capital of \$10.1 million as of December 31, 2016.

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

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

Capital Requirements

As of December 31, 2017, we had cash (including restricted cash), cash equivalents and marketable securities of \$16.9 million and working capital of \$10.1 million. Our primary sources of cash are cash flows from operating activities and our holdings of cash, cash equivalents from the sale of common stock. To date, we have not generated sufficient cash flow solely from operating activities, although we had positive cash flows in the current twelve-month period, to fund our operations.

We believe our available working capital, anticipated level of future revenues, expected cash flows from operations and net proceeds we raised from the underwritten public offering that closed on July 17, 2017 will provide sufficient funds to cover capital requirements for at least the next twelve months.

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

Operating Activities

Net cash provided by operating activities was \$3.9 million for the year ended December 31, 2017, compared to net cash used in operating activities of \$2.5 million for the same period in 2016. The net cash provided by operating activities for the year ended December 31, 2017 reflects a net loss of \$3.9 million and includes non-cash charges of \$2.4 million for stock-based compensation and \$1.1 million for depreciation and amortization expense. Changes in working capital items included:

- a decrease in accounts receivable of \$1.6 million;
- a decrease in financing receivables of \$1.3 million;
- a decrease in deferred costs of \$1.8 million; and
- a decrease in accounts payable and accrued expenses of \$1.1 million.

Net cash used in operating activities was \$2.5 million for the year ended December 31, 2016, compared to net cash used in operating activities of \$6.9 million for the same period in 2015. The net cash used in operating activities for the year ended December 31, 2016 reflects a net loss of \$6.4 million and includes non-cash charges of \$1.7 million for stock-based compensation and \$0.7 million for depreciation and amortization expense. Changes in working capital items included:

- a decrease in accounts receivable of \$1.2 million;
- a decrease in inventory of \$3.0 million;
- an increase in deferred costs of \$3.8 million;
- an increase in deferred revenue of \$2.9 million;
- an increase in prepaid expenses and other assets of \$1.1 million;
- a decrease in financing receivables of \$0.8 million; and
- a decrease in accounts payable and accrued expenses of \$1.9 million.

Investing Activities

Net cash used in investing activities was \$17.7 million for the year ended December 31, 2017, compared to net cash used in investing activities of \$0.5 million for the same period in 2016. The change from the same period in 2016 was primarily due to approximately \$7.4 million used for the Keytroller Acquisition and net investment purchases of approximately \$10.0 million in 2017.

Net cash used in investing activities was \$0.5 million for the year ended December 31, 2016, compared to net cash provided by investing activities of \$3.5 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 partially offset by a decrease in expenditures for fixed assets and website development costs of \$1.7 million from 2015.

Financing Activities

Net cash provided by financing activities was \$14.3 million for the year ended December 31, 2017, compared to net cash provided by financing activities of \$3.1 million for the same period in 2016. The change from the same period in 2016 was primarily due to net proceeds from a public offering of approximately \$16.1 million, an increase in proceeds from the exercise of stock options of \$1.2 million, partially offset by net repayments of \$3.0 million of the revolving credit.

Net cash provided by financing activities was \$3.1 million for the year ended December 31, 2016, compared to net cash provided by financing activities of \$1.9 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 \$1.9 million from 2015 partially offset by net borrowing of \$3.0 million from the revolving credit facility.

Contractual Obligations and Commitments

The following table summarizes our significant contractual obligations and commitments as of December 31, 2017:

	Payment due by Period				
	Total	Less than one year	1 to 3 years	3 to 5 years	After 5 Years
Operating leases.....	\$ 2,882,000	\$ 926,000	\$ 1,956,000	\$ -	\$ -

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

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

Inflation

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

Business Acquisitions

In addition to focusing on our core applications, we adapt our systems to meet our customers' broader asset management needs and seek opportunities to expand our solution offerings through strategic acquisitions. For example, in 2009 we acquired Didbox Ltd., a privately held, United Kingdom-based manufacturer and marketer of vehicle operator identification systems, which provides us with a wider range of industrial vehicle management solutions and expands our base of operations in Europe.

In 2010, we entered into a purchase agreement with General Electric Capital Corporation and GE Asset Intelligence, LLC ("GEAI"), pursuant to which we acquired GEAI's telematics business through the purchase of Asset Intelligence, LLC ("AI"). AI combines web-based software technologies with satellite and cellular communications to deliver data-driven telematics solutions for supply chain asset management. These solutions help secure and optimize the performance of trailers, railcars, containers, and the freight they carry, enabling shippers and carriers to maximize security and efficiency throughout their supply chains.

On July 31, 2017, we completed the Keytroller Acquisition. The business we acquired in the Keytroller Acquisition develops and markets electronic products for managing forklifts and construction vehicles. The Keytroller Acquisition gives us a full suite of industrial fleet management product offerings capable of covering any sized fleet and budget and provides our industrial truck business more scale, both from a product and revenue standpoint and markets its line of forklift management devices mainly through a network of lift truck dealers, offering solutions for different fleet sizes at a wide range of price points.

Off-Balance Sheet Arrangements

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

Recently Issued Accounting Pronouncements

In May 2017, the Financial Accounting Standards Board issued Accounting Standards Update ("ASU") 2017-09, "Compensation - Stock Compensation (Topic 718): Scope of Modification Accounting". The FASB issued the update to provide clarity and reduce the cost and complexity when applying the guidance in Topic 718. The amendments in this update provide guidance about which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting in Topic 718. This ASU will be effective for public companies for fiscal years beginning after December 15, 2017, including interim periods. Early adoption is permitted. The Company does not expect the adoption of this standard to have a material impact on the consolidated financial statements.

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

In January 2017, FASB issued ASU No. 2017-01, "Business Combinations (Topic 805): Clarifying the Definition of a Business". The amendment was issued to clarify the definition of a business with the objective of adding guidance to assist entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. The amendments in this ASU provide a screen to determine when a set (inputs and processes that produce an output) is not a business. The screen requires that when substantially all of the fair value of the gross assets acquired (or disposed of) is concentrated in a single identifiable asset or a group of similar identifiable assets, the set is not a business. This screen reduces the number of transactions that need to be further evaluated. The requirement is for public business entities to apply the guidance to annual reporting periods beginning after December 15, 2017. The Company does not expect the adoption of this standard to have a material impact on the consolidated financial statements.

In November 2016, the FASB issued ASU No. 2016-18, "Statement of Cash Flows (Topic 230): Restricted Cash," which requires the inclusion of restricted cash with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. This ASU is effective for public business entities for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. The Company does not expect the adoption of this standard to have a material impact on the consolidated financial statements.

In August 2016, the FASB issued ASU No. 2016-15, “Statement of Cash Flows (Topic 230) - Classification of Certain Cash Receipts and Cash Payments,” which provides clarification on how companies present and classify certain cash receipts and cash payments in the statement of cash flows. This ASU will be effective for fiscal periods beginning after December 15, 2017 and interim periods within those fiscal years. Early adoption is permitted. If an entity early adopts the amendments in an interim period, any adjustments must be reflected as of the beginning of the fiscal year that includes that interim period. An entity that elects early adoption must adopt all of the amendments in the same period. The Company does not expect the adoption of this standard to have a material impact on the consolidated financial statements.

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

In March 2016, the FASB issued ASU No. 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 ASU is effective for annual periods beginning after December 15, 2016, with early adoption permitted. The Company adopted this pronouncement January 1, 2017. The adoption of this guidance did not have a material impact on the Company’s financial results.

In February 2016, the FASB issued ASU No. 2016-02, “Leases” (Topic 842), which requires lessees to recognize the following for all leases (with the exception of short-term leases) at the commencement date: a lease liability, which is a lessee’s obligation to make lease payments arising from a lease, measured on a discounted basis; and a right-of-use asset, which is an asset that represents the lessee’s right to use, or control the use of, a specified asset for the lease term. 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 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 adopted this pronouncement January 1, 2017. The adoption of this guidance did not have a material impact on the Company’s financial results.

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 new revenue standard provides the option between two different methods of adoption. The full retrospective method calls for the Company to present each prior reported period shown in the financial statements under the new guidance. The modified retrospective method requires the Company to calculate the cumulative effect of applying the new guidance as of the date of adoption via adjustment to retained earnings. The Company continues to assess the impact the new revenue standard will have on its consolidated financial statements. The Company expects to adopt this update in its 2018 first quarter using the modified retrospective approach. As part of our ongoing evaluations, the Company does not expect the adoption of the new revenue standard to have a significant impact on our consolidated financial statements as the revenue recognition of the majority of transactions under our current policy are expected to be appropriate under the guidance of the new revenue standard.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

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

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

For the years ended December 31, 2015, 2016 and 2017 revenues denominated in foreign currencies were approximately 3.9%, 5.8% and 4.7%, respectively. Cumulative foreign currency translation (losses) gains of \$(140,000), \$408,000 and \$(373,000) related to the Company’s German and United Kingdom subsidiaries is included in accumulated other comprehensive loss in the stockholders’ equity section of the consolidated balance sheet at December 31, 2015, 2016 and 2017, respectively. The aggregate foreign currency transaction exchange rate losses included in loss before income taxes were \$(60,000), \$(437,000) and \$456,000 for the years ended December 31, 2015, 2016 and 2017, respectively.

We also are subject to market risk from changes in interest rates which could affect our future results of operations and financial condition. We manage our exposure to these risks through our regular operating and financing activities. We also are subject to market risks from changes in equity prices of equity securities we hold in our investment portfolio, which risks currently are immaterial to us. As of December 31, 2017, we had cash, cash equivalents and investments of \$16.9 million.

As of December 31, 2017, the carrying value of our cash and cash equivalents approximated fair value. Changes in interest rates affect the interest earned on the Company’s cash, cash equivalents and marketable securities and the fair value of those securities. 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 our cash and cash equivalents 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 deteriorate.

Item 8. Financial Statements and Supplementary Data

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of I.D. Systems, Inc. and Subsidiaries (the “Company”) as of December 31, 2016 and 2017, and the related consolidated statements of operations, comprehensive loss, changes in stockholders’ equity, and cash flows for each of the years in three-year period ended December 31, 2017, and the related notes and financial statement schedule identified in Item 15 (collectively referred to as the “financial statements”). In our opinion, the financial statements present fairly, in all material respects, the consolidated financial position of the Company as of December 31, 2016 and 2017, and the consolidated results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2017, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on the Company’s financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (“PCAOB”) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits, we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ EisnerAmper LLP

We have served as the Company’s auditor since 1999.

EISNERAMPER LLP
Iselin, New Jersey
March 30, 2018

I.D. SYSTEMS, INC. AND SUBSIDIARIES
Consolidated Balance Sheets

	As of December 31,	
	2016	2017
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 4,972,000	\$ 5,097,000
Restricted cash	305,000	306,000
Investments - short term	115,000	1,201,000
Accounts receivable, net of allowance for doubtful accounts of \$341,000 and \$87,000 in 2016 and 2017, respectively	9,585,000	8,746,000
Financing receivables - current, net of allowance for doubtful accounts of \$-0- in 2016 and 2017	1,766,000	1,295,000
Inventory, net	3,920,000	4,586,000
Deferred costs - current	3,750,000	4,296,000
Prepaid expenses and other current assets	3,495,000	3,627,000
Total current assets	27,908,000	29,154,000
Investments - long term	1,499,000	10,278,000
Financing receivables - less current portion	2,430,000	1,557,000
Deferred costs - less current portion	6,638,000	4,302,000
Fixed assets, net	3,075,000	2,747,000
Goodwill	1,837,000	7,318,000
Intangible assets, net	706,000	5,417,000
Other assets	153,000	159,000
	<u>\$ 44,246,000</u>	<u>\$ 60,932,000</u>
LIABILITIES		
Current liabilities:		
Short-term borrowings	\$ 2,993,000	\$ -
Accounts payable and accrued expenses	7,622,000	7,440,000
Deferred revenue – current	7,197,000	9,711,000
Acquisition related contingent consideration – current	-	1,923,000
Total current liabilities	17,812,000	19,074,000
Deferred revenue - less current portion	10,066,000	7,738,000
Acquisition related contingent consideration - less current portion	-	854,000
Deferred rent	366,000	295,000
	<u>28,244,000</u>	<u>27,961,000</u>
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; 14,578,000 and 18,327,000 shares issued at December 31, 2016 and 2017, respectively; shares outstanding, 13,767,000 and 17,440,000 at December 31, 2016 and 2017, respectively	129,000	183,000
Additional paid-in capital	111,844,000	133,569,000
Accumulated deficit	(91,498,000)	(95,368,000)
Accumulated other comprehensive loss	(103,000)	(578,000)
Treasury stock; 811,000 and 887,000 common shares at cost at December 31, 2016 and 2017, respectively	(4,370,000)	(4,835,000)
Total stockholders' equity	16,002,000	32,971,000
Total liabilities and stockholders' equity	\$ 44,246,000	\$ 60,932,000

SEE ACCOMPANYING NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

I.D. SYSTEMS, INC. AND SUBSIDIARIES
Consolidated Statements of Operations

	Year Ended December 31,		
	2015	2016	2017
Revenues:			
Products	\$ 24,531,000	\$ 21,366,000	\$ 23,552,000
Services.....	<u>17,253,000</u>	<u>15,456,000</u>	<u>17,406,000</u>
	<u>41,784,000</u>	<u>36,822,000</u>	<u>40,958,000</u>
Cost of Revenues:			
Cost of products	18,018,000	14,036,000	13,453,000
Cost of services.....	<u>6,743,000</u>	<u>4,492,000</u>	<u>6,578,000</u>
	<u>24,761,000</u>	<u>18,528,000</u>	<u>20,031,000</u>
Gross Profit.....	<u>17,023,000</u>	<u>18,294,000</u>	<u>20,927,000</u>
Operating expenses:			
Selling, general and administrative expenses	22,750,000	20,126,000	21,053,000
Research and development expenses.....	<u>4,556,000</u>	<u>4,536,000</u>	<u>3,965,000</u>
	<u>27,306,000</u>	<u>24,662,000</u>	<u>25,018,000</u>
Loss from operations	(10,283,000)	(6,368,000)	(4,091,000)
Interest income.....	342,000	285,000	253,000
Interest expense	-	(293,000)	(342,000)
Other (expense) income, net	<u>(11,000)</u>	<u>6,000</u>	<u>(1,000)</u>
Net loss before income taxes	(9,952,000)	(6,370,000)	(4,181,000)
Income tax benefit - sale of NJ R&D tax credits	<u>-</u>	<u>-</u>	<u>311,000</u>
Net loss	<u>\$ (9,952,000)</u>	<u>\$ (6,370,000)</u>	<u>\$ (3,870,000)</u>
Net loss per share - basic and diluted.....	<u>\$ (0.79)</u>	<u>\$ (0.49)</u>	<u>\$ (0.26)</u>
Weighted average common shares outstanding - basic and diluted.	<u>12,614,000</u>	<u>12,984,000</u>	<u>14,961,000</u>

SEE ACCOMPANYING NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

I.D. SYSTEMS, INC. AND SUBSIDIARIES
Consolidated Statements of Comprehensive Loss

	Year Ended December 31,		
	<u>2015</u>	<u>2016</u>	<u>2017</u>
Net loss	\$ (9,952,000)	\$ (6,370,000)	\$ (3,870,000)
Other comprehensive (loss) income, net:			
Unrealized loss on investments	(28,000)	(5,000)	(103,000)
Reclassification of net realized investment losses (gains) included in net loss	43,000	(6,000)	1,000
Foreign currency translation adjustment	<u>(140,000)</u>	<u>408,000</u>	<u>(373,000)</u>
Total other comprehensive (loss) income	<u>(125,000)</u>	<u>397,000</u>	<u>(475,000)</u>
Comprehensive loss	<u>\$ (10,077,000)</u>	<u>\$ (5,973,000)</u>	<u>\$ (4,345,000)</u>

SEE ACCOMPANYING NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

	Common Stock		Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive (Loss) Income	Treasury Stock	Stockholders' Equity
	Number of Shares	Amount					
Balance at January 1, 2015.....	<u>13,476,000</u>	<u>\$124,000</u>	<u>\$106,272,000</u>	<u>\$(75,176,000)</u>	<u>\$ (375,000)</u>	<u>\$(3,590,000)</u>	<u>\$ 27,255,000</u>
Net loss	-	-	-	(9,952,000)	-	-	(9,952,000)
Foreign currency translation adjustment.....	-	-	-	-	(140,000)	-	(140,000)
Unrealized gain on investments, net of realized amounts.....	-	-	-	-	15,000	-	15,000
Shares issued pursuant to exercise of stock options .	568,000	5,000	2,235,000	-	-	-	2,240,000
Issuance of restricted stock	232,000	-	-	-	-	-	-
Forfeiture of restricted shares.....	(65,000)	-	-	-	-	-	-
Shares withheld pursuant to exercise of stock options and restricted stock	-	-	-	-	-	(457,000)	(457,000)
Stock based compensation - restricted stock	-	-	1,325,000	-	-	-	1,325,000
Stock based compensation - options and performance shares.....	-	-	284,000	-	-	-	284,000
Balance at December 31, 2015.....	<u>14,211,000</u>	<u>\$129,000</u>	<u>\$110,116,000</u>	<u>\$(85,128,000)</u>	<u>\$ (500,000)</u>	<u>\$(4,047,000)</u>	<u>\$ 20,570,000</u>
Net loss	-	-	-	(6,370,000)	-	-	(6,370,000)
Foreign currency translation adjustment.....	-	-	-	-	408,000	-	408,000
Unrealized loss on investments, net of realized amounts.....	-	-	-	-	(11,000)	-	(11,000)
Shares issued pursuant to exercise of stock options .	20,000	-	70,000	-	-	-	70,000
Issuance of restricted stock	566,000	-	-	-	-	-	-
Forfeiture of restricted shares.....	(219,000)	-	-	-	-	-	-
Shares withheld pursuant to exercise of stock options and restricted stock	-	-	-	-	-	(323,000)	(323,000)
Stock based compensation - restricted stock	-	-	908,000	-	-	-	908,000
Stock based compensation - options and performance shares.....	-	-	750,000	-	-	-	750,000
Balance at December 31, 2016	<u>14,578,000</u>	<u>\$129,000</u>	<u>\$111,844,000</u>	<u>\$(91,498,000)</u>	<u>\$ (103,000)</u>	<u>\$(4,370,000)</u>	<u>\$ 16,002,000</u>
Net loss	-	-	-	(3,870,000)	-	-	(3,870,000)
Foreign currency translation adjustment.....	-	-	-	-	(373,000)	-	(373,000)
Unrealized loss on investments, net of realized amounts.....	-	-	-	-	(102,000)	-	(102,000)
Shares issued pursuant to exercise of stock options	271,000	3,000	1,274,000	-	-	-	1,277,000
Shares issued pursuant to an underwritten public offering, net of issuance costs of \$1,200,000.....	3,000,000	30,000	16,035,000	-	-	-	16,065,000
Shares issued pursuant to Keytroller acquisition	296,000	3,000	1,997,000	-	-	-	2,000,000
Issuance of restricted stock	240,000	19,000	(19,000)	-	-	-	-
Forfeiture of restricted shares.....	(58,000)	(1,000)	1,000	-	-	-	-
Shares withheld pursuant to exercise of stock options and restricted stock	-	-	-	-	-	(465,000)	(465,000)
Stock based compensation - restricted stock	-	-	1,682,000	-	-	-	1,682,000
Stock based compensation - options and performance shares.....	-	-	755,000	-	-	-	755,000
Balance at December 31, 2017	<u>18,327,000</u>	<u>\$183,000</u>	<u>\$133,569,000</u>	<u>\$(95,368,000)</u>	<u>\$ (578,000)</u>	<u>\$(4,835,000)</u>	<u>\$ 32,971,000</u>

SEE ACCOMPANYING NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

I.D. SYSTEMS, INC. AND SUBSIDIARIES
Consolidated Statements of Cash Flows

	Year Ended December 31,		
	2015	2016	2017
Cash flows from operating activities (net of net assets acquired):			
Net loss	\$ (9,952,000)	\$ (6,370,000)	\$ (3,870,000)
Adjustments to reconcile net loss to cash used in operating activities:			
Inventory reserve	186,000	205,000	313,000
Stock based compensation expense	1,609,000	1,658,000	2,437,000
Depreciation and amortization	718,000	685,000	1,132,000
Bad debt expense	326,000	117,000	115,000
Change in contingent consideration	-	-	94,000
Other non-cash items	106,000	2,000	(69,000)
Changes in:			
Restricted cash	(1,000)	(1,000)	(1,000)
Accounts receivable	3,350,000	1,174,000	1,597,000
Financing receivables	943,000	832,000	1,344,000
Inventory	(1,086,000)	3,027,000	87,000
Prepaid expenses and other assets	(437,000)	(1,120,000)	(138,000)
Deferred costs	(1,166,000)	(3,758,000)	1,790,000
Deferred revenue	(347,000)	2,939,000	186,000
Accounts payable and accrued expenses	(1,151,000)	(1,874,000)	(1,099,000)
Net cash (used in) provided by operating activities	<u>(6,902,000)</u>	<u>(2,484,000)</u>	<u>3,918,000</u>
Cash flows from investing activities:			
Acquisition	-	-	(7,373,000)
Capital expenditures	(2,182,000)	(505,000)	(386,000)
Purchases of investments	(2,754,000)	(956,000)	(11,083,000)
Proceeds from the sale and maturities of investments	8,434,000	932,000	1,113,000
Net cash provided by (used in) investing activities	<u>3,498,000</u>	<u>(529,000)</u>	<u>(17,729,000)</u>
Cash flows from financing activities:			
Net proceeds from underwritten public offering			16,065,000
Borrowings under revolving credit facility	-	14,650,000	11,655,000
Repayments under revolving credit facility	-	(11,657,000)	(14,648,000)
Proceeds from exercise of stock options	2,006,000	70,000	1,277,000
Principal payments of capital lease obligation	(149,000)	-	-
Net cash provided by financing activities	<u>1,857,000</u>	<u>3,063,000</u>	<u>14,349,000</u>
Effect of foreign exchange rate changes on cash and cash equivalents	62,000	433,000	(413,000)
Net (decrease) increase in cash and cash equivalents	<u>(1,485,000)</u>	<u>483,000</u>	<u>125,000</u>
Cash and cash equivalents - beginning of period	<u>5,974,000</u>	<u>4,489,000</u>	<u>4,972,000</u>
Cash and cash equivalents - end of period	<u>\$ 4,489,000</u>	<u>\$ 4,972,000</u>	<u>\$ 5,097,000</u>
Supplemental disclosure of cash flow information:			
Cash paid for:			
Interest	<u>\$ 18,000</u>	<u>\$ 175,000</u>	<u>\$ 130,000</u>
Non-cash investing and financing activities:			
Shares withheld pursuant to stock issuance	<u>\$ 457,000</u>	<u>\$ 323,000</u>	<u>\$ 465,000</u>
Unrealized gain (loss) on investments	<u>\$ 15,000</u>	<u>\$ (11,000)</u>	<u>\$ (102,000)</u>
Value of shares issued pursuant to acquisition			<u>\$ 2,000,000</u>
Contingent consideration relating to acquisition			<u>\$ 2,683,000</u>

SEE ACCOMPANYING NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

I.D. SYSTEMS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2016 and 2017

NOTE 1 - DESCRIPTION OF BUSINESS AND LIQUIDITY

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, airport ground support equipment, rental vehicles and transportation assets, such as dry van trailers, refrigerated trailers, railcars and containers. The Company’s patented wireless asset management system addresses the needs of organizations to control, track, monitor and analyze their assets. Our cloud-based software application 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 to provide an even deeper layer of insights into asset operations. 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.

Public Offering

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

Keytroller Acquisition

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

Liquidity

As of December 31, 2017, we had cash (including restricted cash), cash equivalents and marketable securities of \$16.9 million and working capital of \$10.1 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 from the sale of common stock. To date, the Company has not generated sufficient cash flows solely from operating activities, although we had positive cash flows in 2017, to fund its operations.

We believe our available working capital, anticipated level of future revenues, expected cash flows from operations and net proceeds we raised from the underwritten public offering that closed on July 17, 2017 will provide sufficient funds to cover capital requirements through at least March 31, 2018.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

[A] Principles of consolidation:

The consolidated financial statements include the accounts of I.D. Systems, Inc. and its wholly owned subsidiaries, Asset Intelligence, LLC (“AI”), I.D. Systems GmbH (“IDS GmbH”), I.D. Systems (UK) Ltd (formerly Didbox Ltd.) (“IDS Ltd”) and Keytroller (which, as noted above, are collectively referred to herein as the “Company”). All material intercompany balances and transactions have been eliminated in consolidation.

[B] Use of estimates:

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

[C] Cash and cash equivalents:

The Company considers all highly liquid debt instruments with an original maturity of three months or less when purchased to be cash equivalents unless they are legally or contractually restricted. The Company’s cash and cash equivalent balances generally exceed FDIC limits.

[D] Restricted cash:

Restricted cash at December 31, 2016 and 2017 consists of cash held in escrow for purchases from a vendor.

[E] Investments:

The Company’s investments include debt securities, U.S. Treasury Notes, government and state agency bonds, corporate bonds 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. All of the Company’s investments are currently 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). The Company has classified as short-term those securities that mature within one year and all other securities are classified as long-term. Realized gains and losses from the sale of available for sale securities are determined on a specific-identification basis. Net realized gains and losses from the sale of investment securities available for sale are included in “other income” in the consolidated statement of operations. Dividend and interest income are recognized when earned.

[F] Accounts receivable:

Accounts receivable are recorded at the invoiced amount and do not bear interest. Amounts collected on trade accounts receivable are included in net cash provided by operating activities in the consolidated statements of cash flows. The Company maintains reserves against its accounts receivable for potential losses. Allowances for uncollectible accounts are estimated based on the Company’s periodic review of accounts receivable balances. In establishing the required allowance, management considers our customers’ financial condition, the amount of receivables in dispute, and the current receivables aging and current payment patterns. Account balances are charged off against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote. Accounts receivable are net of an allowance for doubtful accounts in the amount of \$341,000 and \$87,000 in 2016 and 2017, respectively. The Company does not have any off-balance sheet credit exposure related to its customers.

[G] Financing receivables:

Financing receivables consists of sales-type lease receivables from the sale of the Company’s products and services. 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 future minimum lease payments. Amounts collected on sales-type leases are included in net cash provided by operating activities in the consolidated statements of cash flows. Interest income is recognized monthly over the lease term using the effective-interest method.

The allowance for uncollectable minimum lease payments 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 is determined on an individual lease basis if it is probable that the Company will not collect all principal and interest contractually due. The Company considers our 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 years ended December 31, 2015, 2016 and 2017. The Company does not accrue interest when a lease is considered impaired. When the ultimate collectability of the principal balance of the impaired lease is in doubt, all cash receipts on impaired lease are applied to reduce the principal amount of such lease until the principal has been recovered and are recognized as interest income thereafter. Impairment losses are charged against the allowance and increases in the allowance are charged to bad debt expense. Leases are written off against the allowance when all possible means of collection have been exhausted and the potential for recovery is considered remote. The Company resumes accrual of interest when it is probable that the Company will collect the remaining principal and interest of an impaired lease. Leases become past due based on how recently payments have been received.

[H] Revenue recognition:

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

Our industrial truck and connected vehicle wireless asset management systems consist of on-asset hardware, communication infrastructure, SaaS, and hosting infrastructure. Revenue derived from the sale of our industrial truck and connected vehicle wireless asset management systems is allocated to each element based upon vendor specific objective evidence (VSOE) of the fair value or best estimate of selling price ("BESP") of the element. VSOE of the fair value is based upon the price charged when the element is sold separately. BESP is determined based on overall pricing objectives taking into consideration market conditions and entity specific factors. Revenue is recognized as each element is delivered based on the allocation of arrangement consideration to each element based on VSOE or BESP, 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 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 SaaS 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, ranging from one to five years, beginning at the time that a customer acknowledges acceptance of the equipment and service. The customer service contracts typically range from one to five years.

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

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

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.

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 consolidated statements of operations.

[I] Deferred costs:

Deferred product costs consist of transportation asset management equipment costs deferred in accordance with our revenue recognition policy. The Company will continue to evaluate the realizability of the carrying amount of the deferred contract costs on a quarterly basis. To the extent the carrying value of the deferred contract costs exceed the contract revenue, an impairment loss will be recognized.

[J] Inventory:

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

Inventory valuation reserves are established in order to report inventories at the lower of cost or net realizable value in the consolidated balance sheet. The determination of inventory valuation reserves requires management to make estimates and judgments on the future salability of inventories. Valuation reserves for obsolete and slow-moving inventory are estimated based on assumptions of future sales forecasts, product life cycle expectations, the impact of new product introductions, production requirements, and specific identification of items, such as product discontinuance or engineering/material changes and by comparing the inventory levels to historical usage rates.

[K] Fixed assets and depreciation:

Fixed assets are recorded at cost and depreciated using the straight-line method over the estimated useful lives of the assets, which range from three to ten years. Leasehold improvements are amortized using the straight-line method over the terms of the respective leases, or their estimated useful lives, whichever is shorter. For website development costs, the Company capitalizes costs incurred during the application development stage. Costs related to preliminary project activities and post-implementation activities are expensed as incurred. Internal-use software is amortized on a straight-line basis over its estimated useful life, generally three years.

[L] Long-lived assets:

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of the assets to the future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets and would be charged to earnings. Fair value is determined through various valuation techniques including discounted cash flow models, quoted market values and third-party independent appraisals, as considered necessary.

[M] Business Combinations:

Goodwill represents costs in excess of fair values assigned to the underlying net assets of acquired businesses. Goodwill and intangible assets deemed to have indefinite lives are not amortized. Intangible assets other than goodwill are amortized over their useful lives unless the lives are determined to be indefinite. Intangible assets are carried at cost, less accumulated amortization. Intangible assets consist of trademarks and trade name, patents, customer relationships and other intangible assets. The Company tests goodwill and other intangible assets annually, or when a triggering event occurs between annual impairment tests, to determine if impairment exists and if the use of indefinite lives is currently applicable. For purposes of the goodwill impairment test, the Company's product lines are aggregated within one reporting unit. For the years ended December 31, 2015, 2016 and 2017, the Company has not incurred an impairment charge.

The Company re-measures the fair value of the contingent consideration at each reporting period and any change in the fair value from either the passage of time or events occurring after the acquisition date, is recorded in earnings in the accompanying consolidated statement of operations. Actual results could differ from such estimates in future periods based on the re-measurement of the fair value.

[N] Product warranties:

The Company typically provides a one-year warranty on its products. Estimated future warranty costs are accrued in the period that the related revenue is recognized. These estimates are derived from historical data and trends of product reliability and costs of repairing and replacing defective products.

[O] Research and development:

Research and development costs are charged to expense as incurred and consists primarily of salaries and related expenses, supplies and contractor costs. Research and development costs were \$4,556,000, \$4,536,000 and \$3,965,000 in 2015, 2016 and 2017, respectively.

[P] Patent costs:

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

[Q] Benefit plan:

The Company maintains a retirement plan under Section 401(k) of the Internal Revenue Code, which covers all eligible employees. All employees with U.S. source income are eligible to participate in the plan immediately upon employment. The Company did not make any contributions to the plan during the years ended December 31, 2015, 2016 and 2017.

[R] Rent expense:

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

[S] Stock-based compensation:

The Company accounts for stock-based employee compensation for all share-based payments, including grants of stock options and restricted stock, as an operating expense based on their fair values on grant date. The Company recorded stock-based compensation expense of \$1,609,000, \$1,658,000 and \$2,437,000 for the years ended December 31, 2015, 2016 and 2017, respectively.

The Company estimates the fair value of share-based option awards on the grant date using an option pricing model. The value of the portion of the award that is ultimately expected to vest is recognized as expense over the requisite service period in the Company's consolidated statement of operations. The Company estimates forfeitures at the time of grant in order to estimate the amount of share-based awards that will ultimately vest. The estimate is based on the Company's historical rates of forfeitures. Estimated forfeitures are revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates.

[T] Income taxes:

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

The Company recognizes uncertainty in income taxes in the financial statements using a recognition threshold and measurement attribute of a tax position taken or expected to be taken in a tax return. The Company applies the "more-likely-than-not" recognition threshold to all tax positions, commencing at the adoption date of the applicable accounting guidance, which resulted in no unrecognized tax benefits as of such date. Additionally, there have been no unrecognized tax benefits subsequent to adoption. The Company has opted to classify interest and penalties that would accrue according to the provisions of relevant tax law as selling, general, and administrative expenses, in the consolidated statement of operations. For the years ended December 31, 2015, 2016 and 2017, there was no such interest or penalty.

The Company files federal income tax returns and separate income tax returns in various states. For federal and certain states, the 2014 through 2017 tax years remain open for examination by the tax authorities under the normal three-year statute of limitations. For certain other states, the 2013 through 2017 tax years remain open for examination by the tax authorities under a four-year statute of limitations.

[U] Fair value of financial instruments:

Cash and cash equivalents and investments in securities are carried at fair value. The carrying value of financing receivables approximates fair value due to the interest rate implicit in the instruments approximating current market rates. The carrying value of accounts receivable, accounts payable and other liabilities approximates their fair values due to the short period to maturity of these instruments.

[V] Advertising and marketing expense:

Advertising and marketing costs are expensed as incurred. Advertising and marketing expense for the years ended December 31, 2015, 2016 and 2017 amounted to \$455,000, \$510,000 and \$538,000, respectively.

[W] Commitments and contingencies:

Liabilities for loss contingencies arising from claims, assessments, litigation, fines, and penalties and other sources are recorded when it is probable that a liability has been incurred and the amount can be reasonably estimated.

[X] Recently issued accounting pronouncements:

In May 2017, the Financial Accounting Standards Board issued Accounting Standards Update (“ASU”) 2017-09, “Compensation - Stock Compensation (Topic 718): Scope of Modification Accounting”. The FASB issued the update to provide clarity and reduce the cost and complexity when applying the guidance in Topic 718. The amendments in this update provide guidance about which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting in Topic 718. This ASU will be effective for public companies for fiscal years beginning after December 15, 2017, including interim periods. Early adoption is permitted. The Company does not expect the adoption of this standard to have a material impact on the consolidated financial statements.

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

In January 2017, FASB issued ASU No. 2017-01, “Business Combinations (Topic 805): Clarifying the Definition of a Business”. The amendment was issued to clarify the definition of a business with the objective of adding guidance to assist entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. The amendments in this ASU provide a screen to determine when a set (inputs and processes that produce an output) is not a business. The screen requires that when substantially all of the fair value of the gross assets acquired (or disposed of) is concentrated in a single identifiable asset or a group of similar identifiable assets, the set is not a business. This screen reduces the number of transactions that need to be further evaluated. The requirement is for public business entities to apply the guidance to annual reporting periods beginning after December 15, 2017. The Company does not expect the adoption of this standard to have a material impact on the consolidated financial statements.

In November 2016, the FASB issued ASU No. 2016-18, “Statement of Cash Flows (Topic 230): Restricted Cash,” which requires the inclusion of restricted cash with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. This ASU is effective for public business entities for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. The Company does not expect the adoption of this standard to have a material impact on the consolidated financial statements.

In August 2016, the FASB issued ASU No. 2016-15, "Statement of Cash Flows (Topic 230) - Classification of Certain Cash Receipts and Cash Payments," which provides clarification on how companies present and classify certain cash receipts and cash payments in the statement of cash flows. This ASU will be effective for fiscal periods beginning after December 15, 2017 and interim periods within those fiscal years. Early adoption is permitted. If an entity early adopts the amendments in an interim period, any adjustments must be reflected as of the beginning of the fiscal year that includes that interim period. An entity that elects early adoption must adopt all of the amendments in the same period. The Company does not expect the adoption of this standard to have a material impact on the consolidated financial statements.

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

In March 2016, the FASB issued ASU No. 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 ASU is effective for annual periods beginning after December 15, 2016, with early adoption permitted. The Company adopted this pronouncement January 1, 2017. The adoption of this guidance did not have a material impact on the Company's financial results.

In February 2016, the FASB issued ASU No. 2016-02, "Leases" (Topic 842), which requires lessees to recognize the following for all leases (with the exception of short-term leases) at the commencement date: a lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis; and a right-of-use asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term. 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 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 adopted this pronouncement January 1, 2017. The adoption of this guidance did not have a material impact on the Company's financial results.

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 new revenue standard provides the option between two different methods of adoption. The full retrospective method calls for the Company to present each prior reported period shown in the financial statements under the new guidance. The modified retrospective method requires the Company to calculate the cumulative effect of applying the new guidance as of the date of adoption via adjustment to retained earnings. The Company continues to assess the impact the new revenue standard will have on its consolidated financial statements. The Company expects to adopt this update in its 2018 first quarter using the modified retrospective approach. As part of our ongoing evaluations, the Company does not expect the adoption of the new revenue standard to have a significant impact on our consolidated financial statements as the revenue recognition of the majority of transactions under our current policy are expected to be appropriate under the guidance of the new revenue standard.

NOTE 3 - INVESTMENTS AND FAIR VALUE MEASUREMENTS

The Company's investments include debt securities, U.S. Treasury Notes, government and state agency bonds, corporate bonds 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 December 31, 2016 and 2017, 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 years ended December 31, 2015, 2016 and 2017, the Company reported unrealized losses, net of realized amounts, of \$(28,000), \$(5,000) and \$(103,000), respectively, on available for sale securities in total comprehensive loss. Realized gains and losses from the sale of available for sale securities are determined on a specific-identification basis. The Company has classified as short-term those securities that mature within one year. All other securities are classified as long-term.

The following table summarizes the estimated fair value of investment securities designated as available for sale, classified by the contractual maturity date of the security as of December 31, 2017:

	<u>Fair Value</u>
Due within one year	\$ 1,201,000
Due one year through three years	8,954,000
Due after three years	<u>1,324,000</u>
	<u>\$ 11,479,000</u>

The cost, gross unrealized gains (losses) and fair value of available for sale, held-to-maturity and trading by major security type at December 31, 2016 and 2017 were as follows:

<u>December 31, 2017</u>	<u>Cost</u>	<u>Unrealized Gain</u>	<u>Unrealized Loss</u>	<u>Fair Value</u>
Investments - short term				
Available for sale				
U.S. Treasury Notes	\$ 1,066,000	-	(1,000)	\$ 1,065,000
Corporate bonds and commercial paper	<u>136,000</u>	-	-	<u>136,000</u>
Total investments - short term	<u>1,202,000</u>	-	<u>(1,000)</u>	<u>1,201,000</u>
Investments - long term				
Available for sale				
U.S. Treasury Notes	3,367,000	-	(37,000)	3,330,000
Government agency bonds	4,279,000	-	(40,000)	4,239,000
Corporate bonds and commercial paper	<u>2,744,000</u>	-	<u>(35,000)</u>	<u>2,709,000</u>
Total investments - long term	<u>10,390,000</u>	-	<u>(112,000)</u>	<u>10,278,000</u>
Total investments.....	<u>\$ 11,592,000</u>	<u>\$ -</u>	<u>\$ (113,000)</u>	<u>\$ 11,479,000</u>
<u>December 31, 2016</u>	<u>Cost</u>	<u>Unrealized Gain</u>	<u>Unrealized Loss</u>	<u>Fair Value</u>
Investments - short term				
Available for sale				
U.S. Treasury Notes	\$ 40,000	-	-	\$ 40,000
Government agency bonds	50,000	-	-	50,000
Corporate bonds and commercial paper	<u>25,000</u>	-	-	<u>25,000</u>
Total investments - short term	<u>115,000</u>	-	-	<u>115,000</u>
Investments - long term				
Available for sale				
U.S. Treasury Notes	1,027,000	-	(7,000)	1,020,000
Government agency bonds	100,000	-	(1,000)	99,000
Corporate bonds and commercial paper	<u>383,000</u>	-	<u>(3,000)</u>	<u>380,000</u>
Total investments - long term	<u>1,510,000</u>	-	<u>(11,000)</u>	<u>1,499,000</u>
Total investments.....	<u>\$ 1,625,000</u>	<u>\$ -</u>	<u>\$ (11,000)</u>	<u>\$ 1,614,000</u>

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 participant assumptions.

At December 31, 2016 and 2017, the Company’s investments described above are classified as Level 1 for fair value measurement.

NOTE 4 - REVENUE RECOGNITION

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

Deferred revenue consists of the following:

	December 31,	
	2016	2017
Deferred activation fees	\$ 385,000	\$ 313,000
Deferred revenue	230,000	2,276,000
Deferred maintenance and SaaS revenue.....	3,049,000	3,296,000
Deferred transportation asset management product revenue	13,599,000	11,564,000
	<u>17,263,000</u>	<u>17,449,000</u>
Less: Current portion	7,197,000	9,711,000
Deferred revenue - less current portion.....	<u>\$ 10,066,000</u>	<u>\$ 7,738,000</u>

During the years ended December 31, 2015, 2016 and 2017, the Company amortized deferred equipment revenue of \$5,373,000, \$5,258,000 and \$5,785,000, respectively, to product revenue.

In April 2015, we entered into a development project with Avis Budget Car Rental, LLC (“ABCR”), a subsidiary of Avis Budget Group, that included certain contractual milestones. This development project was completed during 2016 and the Company recognized milestone revenue of \$255,000 for the year ended December 31, 2016 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.

On March 18, 2017 (the “SOW#4 Effective Date”), the Company entered into a statement of work (the “SOW#4”) with ABCR for the Company’s cellular-enabled rental fleet car management system (the “System”). The SOW#4 provides for a period of exclusivity commencing on the SOW#4 Effective Date and ending fourteen months after the SOW#4 Effective Date, which may be extended in six-month increments by Avis under certain conditions. Avis has the right to cancel or accept the System and pay a lower price if the System cannot retrieve the necessary vehicle data from twenty-five makes and models six months after the SOW#4 Effective Date.

Pursuant to the SOW#4, the Company will also provide ABCR with services for ongoing maintenance and support of the System (“Maintenance Services”) for an initial period of sixty months from installation of the equipment. ABCR has the option to renew such period for an additional twelve months upon its expiry, and then after such 12-month period, ABCR can purchase additional Maintenance Services on a month-to-month basis (during which ABCR can terminate the Maintenance Services) for up to forty-eight additional months.

ABCR has agreed to pay approximately \$21,270,000 to the Company for the System and maintenance and support services which cover 50,000 units. ABCR has an option to purchase additional units. Under the terms of the SOW#4, the Company is entitled to an upfront payment of \$3,290,000, which is comprised of a \$2,000,000 initial payment for the units to be delivered, \$902,000 for development of additional system enhancements and \$388,000 for production readiness development. The Company invoiced the upfront payment and the initial payment for the units to be delivered is included in current deferred revenue at December 31, 2017. In September 2017, the Company and ABCR amended SOW#4 for out-of-scope system enhancements performed by the Company. If ABCR exercises its right to terminate the agreement if the System is not able to retrieve the necessary vehicle data from twenty-five makes and models six months after the SOW#4 Effective Date, approximately \$1,785,000 of the upfront payment for the units would be refundable. The Company recognizes revenue on the development project, which was completed and approved in December 2017, on a proportional method performance basis, as determined by the relationship of actual labor and material costs incurred to date compared to the estimated total project costs. Estimates of total project costs are reviewed and revised during the term of the project. Revisions to project costs estimates, where applicable, are recorded in the period in which the facts that give rise to such changes become known. The Company recognized development project revenue of \$2,470,000 during the year ended December 31, 2017.

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

NOTE 5 - FINANCING RECEIVABLES

Financing receivables include notes and sales-type lease receivables from the sale of the Company’s products and services. The present value of net investment in sales-type lease receivable is principally for three to five-year leases of the Company’s product and is reflected net of unearned income of \$293,000 and \$164,000 at December 31, 2016 and 2017, respectively, at a weighted-average discount rate of 4%

Scheduled maturities of minimum lease payments outstanding as of December 31, 2017 are as follows:

Year ending December 31:

2018	\$	1,295,000
2019		802,000
2020		540,000
2021		182,000
2022		<u>33,000</u>
		2,852,000
Less: Current portion		<u>1,295,000</u>
Total.....	\$	<u><u>1,557,000</u></u>

NOTE 6 - ACQUISITION

On July 31, 2017, the Company completed the Keytroller Acquisition pursuant to an asset purchase agreement (the “Purchase Agreement”) by and among the Company, Keytroller, Keytroller, LLC, a Florida limited liability company (“Keytroller FL”) and the principals of Keytroller FL party thereto. Consideration for the Keytroller Acquisition included (i) \$7,098,000 in cash paid at closing, (ii) 295,902 shares of our common stock issued at closing with a fair value of \$2,000,000 and (iii) up to \$3,000,000 of shares of our common stock as potential earn-out payments, computed in accordance with the terms of the Purchase Agreement. The potential earn-out payments were estimated at a fair value of \$2,683,000. During the fourth quarter of 2017, the Company paid a post-closing working capital adjustment of \$275,000.

The Company incurred acquisition-related expenses of approximately \$301,000, which are included in selling, general and administrative expenses for the year ended December 31, 2017.

The purchase method of accounting in accordance with ASC805, *Business Combinations*, was applied for the Keytroller Acquisition. This requires the total cost of an acquisition to be allocated to the tangible and identifiable intangible assets acquired and liabilities assumed based on their respective fair values at the date of acquisition with the excess cost accounted for as goodwill. Goodwill arising from the acquisition is attributable to expected product and sales synergies from combining the operations of the acquired business with those of the Company. The Company recorded \$2,683,000 of contingent consideration based on the estimated financial performance for the two years following closing. The contingent consideration was discounted at an interest rate of 14.6%, which represents the Company's weighted-average discount rate. During the year ended December 31, 2017, the Company measured the intangibles acquired in the Keytroller Acquisition at fair value on a non-recurring basis. Contingent consideration related to acquisitions are recorded at fair value (level 3) with changes in fair value recorded in other (expense) income, net.

The changes in contingent consideration through December 31, 2017 is as follows:

Balance August 1, 2017	\$	2,683,000
Change in contingent consideration.....		94,000
Balance as of December 31, 2017.....	\$	<u>2,777,000</u>

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

Accounts receivable	\$	835,000
Inventory.....		1,066,000
Other assets, net		42,000
Intangibles		5,086,000
Goodwill (a).....		5,481,000
Less: Current liabilities assumed		<u>(454,000)</u>
Net assets acquired	\$	<u>12,056,000</u>

- (a) The goodwill is expected to be fully deductible for tax purposes, except the contingent consideration which is deductible only when paid.

The results of operations of Keytroller have been included in the consolidated statement of operations as of the effective date of acquisition. The following revenue and operating income of Keytroller are included in the Company's consolidated results of operations:

		Year Ended December 31, 2017
Revenues.....	\$	<u>3,468,000</u>
Operating income.....	\$	<u>708,000</u>

The following table represents the combined pro forma revenue and earnings for the years ended December 31, 2015, 2016 and 2017:

	Year Ended December 31, 2015		Year Ended December 31, 2016		Year Ended December 31, 2017	
	Historical	Pro Forma Combined	Historical	Pro Forma Combined	Historical	Pro Forma Combined
Revenues.....	\$ 41,784,000	\$47,074,000	\$36,822,000	\$43,446,000	\$40,958,000	\$44,796,000
Operating loss	(10,283,000)	(9,703,000)	(6,368,000)	(5,505,000)	(4,091,000)	(3,617,000)
Net loss per share - basic and diluted	\$ (0.79)	\$ (0.60)	\$ (0.49)	\$ (0.35)	\$ (0.26)	\$ (0.24)

The combined pro forma revenue and earnings for the years ended December 31, 2015, 2016 and 2017 were prepared as though the Keytroller Acquisition had occurred as of January 1, 2015. The pro forma results do not include any anticipated cost synergies or other effects of the planned integration of Keytroller. This summary is not necessarily indicative of what the results of operations would have been had the Keytroller Acquisition occurred during such period, nor does it purport to represent results of operations for any future periods.

NOTE 7 - INVENTORIES

Inventory, which primarily consists of finished goods and components used in the Company's products, is stated at the lower of cost or net realizable value using the first-in first-out (FIFO) method. Inventory is shown net of valuation reserves of \$208,000 and \$266,000 at December 31, 2016 and 2017, respectively.

Inventories consist of the following:

	December 31,	
	2016	2017
Components	\$ 1,183,000	\$ 1,083,000
Finished goods	2,737,000	3,503,000
	<u>\$ 3,920,000</u>	<u>\$ 4,586,000</u>

NOTE 8 - FIXED ASSETS

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

	December 31,	
	2016	2017
Equipment.....	\$ 1,678,000	\$ 1,054,000
Computer software and website development	5,874,000	5,610,000
Computer hardware	2,761,000	2,560,000
Furniture and fixtures	401,000	416,000
Automobiles.....	60,000	60,000
Leasehold improvements	181,000	181,000
	10,955,000	9,881,000
Accumulated depreciation and amortization.....	<u>(7,880,000)</u>	<u>(7,134,000)</u>
	<u>\$ 3,075,000</u>	<u>\$ 2,747,000</u>

The Company had expenditures of approximately \$1,919,000 and \$13,000 for computer equipment and software which had not been placed in service as of December 31, 2016 and 2017, respectively. Depreciation and amortization expense is not recorded for such assets until they are placed in service.

Depreciation and amortization expense for the years ended December 31, 2015, 2016 and 2017 was \$583,000, \$549,000 and \$757,000, respectively. This includes amortization of costs associated with computer software and website development for the years ended December 31, 2015, 2016 and 2017 of \$156,000, \$165,000 and \$410,000, 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 \$461,000 and \$100,000 for such projects for the years ended December 31, 2016 and 2017, respectively.

NOTE 9 - INTANGIBLE ASSETS AND GOODWILL

The following table summarizes identifiable intangible assets of the Company as of December 31, 2016 and 2017:

December 31, 2017	Useful Lives (In Years)	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Amortized:				
Customer relationships	10	\$ 3,123,000	(130,000)	2,993,000
Trademark and tradename	10 - 15	1,367,000	(52,000)	1,315,000
Patents.....	11	1,489,000	(1,083,000)	406,000
Favorable contract interest.....	5	388,000	(40,000)	348,000
Covenant not to compete	4	208,000	(18,000)	190,000
		6,575,000	(1,323,000)	5,252,000
Unamortized:				
Customer list.....		104,000	-	104,000
Trademark and Tradename		61,000	-	61,000
		165,000	-	165,000
Total.....		\$ 6,740,000	\$ (1,323,000)	\$ 5,417,000
December 31, 2016	Useful Lives (In Years)	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Amortized:				
Patents.....	11	\$ 1,489,000	\$ (948,000)	\$ 541,000
Unamortized:				
Customer list.....		104,000	-	104,000
Trademark and Tradename		61,000	-	61,000
		165,000	-	165,000
Total.....		\$ 1,654,000	\$ (948,000)	\$ 706,000

The Company tests the goodwill and other intangible assets on an annual basis in the fourth quarter or more frequently if the Company believes indicators of impairment exist. As of December 31, 2016 and 2017, the Company determined that no impairment existed to the goodwill, customer list and trademark and trade name of its acquired intangibles.

The Company also determined that the use of indefinite lives for the customer list and remaining trademark and trade name remains applicable at December 31, 2016 and 2017, as the Company expects to continue to derive future benefits from these intangible assets.

Amortization expense for the years ended December 31, 2015, 2016 and 2017 was \$135,000, \$136,000 and \$375,000, respectively. Estimated future amortization expense for each of the five succeeding fiscal years for these intangible assets is as follows:

Year ending December 31:

2018.....	\$	712,000
2019.....		712,000
2020.....		712,000
2021.....		536,000
2022.....		462,000
Thereafter.....		2,118,000
	\$	5,252,000

The changes in goodwill from January 1, 2017 to December 31, 2017 is as follows:

Balance of as January 1, 2017	\$	1,837,000
Keytroller acquisition		5,481,000
Balance as of December 31, 2017.....	\$	<u>7,318,000</u>

NOTE 10 - NET LOSS PER SHARE

Basic and diluted loss per share	December 31,		
	2015	2016	2017
Net loss	\$ (9,952,000)	\$ (6,370,000)	\$ (3,870,000)
Weighted-average common shares outstanding - basic and diluted	<u>12,614,000</u>	<u>12,984,000</u>	<u>14,961,000</u>
Net loss per share - basic and diluted.....	\$ (0.79)	\$ (0.49)	\$ (0.26)

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 restricted stock and performance share awards. For the years ended December 31, 2015, 2016 and 2017, 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 1,887,000, 1,896,000 and 1,831,000, respectively, would have been anti-dilutive.

NOTE 11 - STOCK-BASED COMPENSATION

The Company 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 1999 Stock Option Plan expired during 2009 and the Company cannot issue additional options under this plan.

The Company adopted the 2007 Equity Compensation Plan, pursuant to which, as amended, the Company may grant options to purchase up to an aggregate of 2,500,000 shares of common stock. The 2007 Equity Compensation Plan expired during 2017 and the Company cannot issue additional options under this plan. The Company also adopted the 2009 Non-Employee Director Equity Compensation Plan, pursuant to which, as amended, the Company may grant options to purchase up to an aggregate of 600,000 shares of common stock. There were 14,000 shares available for future issuance under the 2009 Non-Employee Director Equity Compensation Plan at December 31, 2017. 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. There were 228,000 shares available for future issuance under the 2015 Plan at December 31, 2017. The plans are administered by the Compensation Committee of the Company's Board of Directors (the "Compensation Committee"), 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.

On December 20, 2016, the Company and Kenneth Ehrman, its former Chief Executive Officer, entered into Amendment No. 2 to Severance Agreement, which amends the Severance Agreement dated September 22, 2009 (as amended, the "Ehrman Severance Agreement"). Under the terms of the Ehrman Severance Agreement, a pro-rata portion of Mr. Ehrman's unvested stock options and restricted stock were partially vested based on the number of months elapsed since the date of grant as compared to the scheduled vesting date. Due to the modification of the terms of the stock option and restricted stock agreements, the Company recognized a \$(26,000) reduction of stock-based compensation expense in the fourth quarter of 2016 which is included in the stock option and restricted stock stock-based compensation expense.

[A] Stock options:

A summary of the status of the Company's stock options as of December 31, 2015, 2016 and 2017 and changes during the years then ended, is presented below:

	2015		2016		2017	
	Number of Shares	Weighted - Average Exercise Price	Number of Shares	Weighted - Average Exercise Price	Number of Shares	Weighted - Average Exercise Price
Outstanding at beginning of year	2,209,000	\$ 6.84	1,212,000	\$ 6.94	1,243,000	\$ 5.08
Granted	-	-	395,000	4.75	350,000	6.00
Exercised	(568,000)	3.95	(20,000)	3.44	(271,000)	4.72
Forfeited or expired	<u>(429,000)</u>	10.36	<u>(344,000)</u>	11.36	<u>(32,000)</u>	8.26
Outstanding at end of year	<u>1,212,000</u>	\$ 6.94	<u>1,243,000</u>	\$ 5.08	<u>1,290,000</u>	\$ 5.33
Exercisable at end of year	<u>904,000</u>	\$ 7.40	<u>822,000</u>	\$ 5.07	<u>667,000</u>	\$ 5.11

The following table summarizes information about stock options at December 31, 2017:

Exercise Prices (\$)	Options Outstanding			Options Exercisable	
	Number Outstanding	Weighted - Average Remaining Contractual Life in Years	Weighted-Average Exercise Price	Number Outstanding	Weighted-Average Exercise Price
2.07 – 4.87	330,000	5	\$ 4.03	210,000	\$ 3.72
4.88 – 5.70	346,000	6	5.35	203,000	5.39
5.71 – 5.97	221,000	5	5.80	209,000	5.81
5.98 – 7.41	<u>393,000</u>	8	6.14	<u>45,000</u>	7.21
	<u>1,290,000</u>	6	\$ 5.33	<u>667,000</u>	\$ 5.11

As of December 31, 2017

	Aggregate Intrinsic Value	Weighted Average Remaining Contractual Life in Years
Options outstanding	\$ 2,093,000	6
Options exercisable.....	\$ 1,232,000	4

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

	December 31,		
	2015	2016	2017
Expected volatility	-	43.6%	42.4%
Expected life of options	-	4.0 years	4.0 years
Risk free interest rate	-	1.27%	1.69%
Dividend yield.....	-	0%	0%
Weighted-average fair value of options granted during the year	\$ -	\$ 1.68	\$ 2.11

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.

For the years ended December 31, 2015, 2016 and 2017, the Company recorded \$282,000, \$270,000 and \$411,000, respectively, of stock-based compensation expense in connection with the stock option grants. The total intrinsic value of options exercised during the years ended December 31, 2015, 2016 and 2017 was \$1,524,000, \$33,000 and \$375,000, respectively.

The fair value of options vested during the years ended December 31, 2015, 2016 and 2017 was \$505,000, \$280,000 and \$291,000, respectively. As of December 31, 2017, there was \$965,000 of total unrecognized compensation costs 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 2.8 years.

[B] Restricted Stock Awards:

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 at the time of grant and, upon vesting, there are no legal restrictions on the stock. The fair value of each share is based on the Company's closing stock price on the date of the grant. A summary of the non-vested shares for the years ended December 31, 2015, 2016 and 2017 is as follows:

	Number of Non-vested Shares	Weighted - Average Grant Date Fair Value
Non-vested at January 1, 2015	616,000	\$ 5.69
Granted	232,000	6.00
Vested	(210,000)	5.75
Forfeited	<u>(63,000)</u>	5.70
Non-vested at December 31, 2015	575,000	\$ 5.79
Granted	271,000	4.80
Vested	(272,000)	5.34
Forfeited	<u>(182,000)</u>	5.72
Non-vested at December 31, 2016	392,000	\$ 5.45
Granted	240,000	6.26
Vested	(194,000)	5.42
Forfeited	<u>(8,000)</u>	5.69
Non-vested at December 31, 2017	<u><u>430,000</u></u>	\$ 5.91

For the years ended December 31, 2015, 2016 and 2017, the Company recorded \$1,325,000, \$908,000 and \$1,682,000 respectively, of stock-based compensation expense in connection with the restricted stock grants. As of December 31, 2017, there was \$1,658,000 of total unrecognized compensation cost related to non-vested shares. That cost is expected to be recognized over a weighted-average period of 2.0 years.

[C] Performance Shares:

In January 2016, the Company granted 295,000 performance shares to employees pursuant to the 2015 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.

The following table summarizes the activity relating to the Company's performance shares for the years ended December 31, 2015, 2016 and 2017:

	Number of Non-vested Shares	Weighted- Average Grant Date Fair Value
Performance shares, non-vested, at January 1, 2015.....	18,000	\$ 0.38
Granted	-	-
Vested	-	-
Forfeited.....	<u>(18,000)</u>	<u>0.38</u>
Performance shares, non-vested, at December 31, 2015.....	-	-
Granted	295,000	\$ 4.07
Vested	-	-
Forfeited.....	<u>(34,000)</u>	<u>4.07</u>
Performance shares, non-vested, at December 31, 2016.....	261,000	4.07
Granted	-	\$ -
Vested	(100,000)	4.07
Forfeited.....	<u>(50,000)</u>	<u>4.07</u>
Performance shares, non-vested, December 31, 2017.....	<u>111,000</u>	<u>\$ 4.07</u>

For the years ended December 31, 2015, 2016 and 2017, the Company recorded \$-0-, \$480,000 and \$344,000 respectively, of stock-based compensation expense in connection with the performance shares. As of December 31, 2017, there was \$11,000 of total unrecognized compensation cost related to non-vested performance shares. That cost is expected to be recognized over a weighted-average period of 0.1 years.

NOTE 12 - REVOLVING CREDIT FACILITY

On December 18, 2015, the Company and AI entered into a loan and security agreement (the "Revolver") with Siena Lending Group LLC. The Revolver provided a revolving credit facility in an aggregate principal amount of up to \$7.5 million and a maturity date of December 18, 2017. Effective August 30, 2017, the Company terminated the Revolver. The Company did not incur an early termination penalty as a result of terminating the Revolver.

NOTE 13 - ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts payable and accrued expenses consist of the following:

	December 31,	
	2016	2017
Accounts payable.....	\$ 6,195,000	\$ 6,233,000
Accrued warranty.....	472,000	535,000
Accrued severance	609,000	100,000
Accrued compensation.....	297,000	507,000
Other current liabilities	<u>49,000</u>	<u>65,000</u>
	<u>\$ 7,622,000</u>	<u>\$ 7,440,000</u>

Included in accounts payable and accrued expenses at December 31, 2016 and 2017 is accrued severance of \$609,000 and \$100,000, respectively, to Kenneth Ehrman and Norman L. Ellis, the former Chief Executive Officer and Chief Operating Officer of the Company, respectively. The accrued severance was payable in equal monthly installments of approximately \$37,000 as of December 31, 2017.

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 Consolidated Balance Sheets as of December 31, 2016 and 2017.

The following table summarizes warranty activity during the years ended December 31, 2016 and 2017:

	Year Ended	
	2016	2017
Accrued warranty reserve, beginning of year	\$ 614,000	\$ 472,000
Accrual for product warranties issued	431,000	253,000
Product replacements and other warranty expenditures.....	(252,000)	(68,000)
Expiration of warranties.....	(321,000)	(122,000)
Accrued warranty reserve, end of period	<u>\$ 472,000</u>	<u>\$ 535,000</u>

NOTE 14 - CONCENTRATION OF CUSTOMERS

One customer accounted for 16% the Company's revenue during the year ended and as of December 31, 2017 and two customers accounted for 14% and 11% of the Company's accounts receivable as of December 31, 2017. One customer accounted for 14% of finance receivables as of December 31, 2017.

One customer accounted for 18% the Company's revenue during the year ended and as of December 31, 2016 and one customer accounted for 12% of the Company's accounts receivable as of December 31, 2016.

One customer accounted for 23% the Company's revenue during the year ended and as of December 31, 2015 and one customer accounted for 10% of the Company's accounts receivable as of December 31, 2015. One customer accounted for 11% of finance receivables as of December 31, 2015.

NOTE 15 - STOCKHOLDERS' EQUITY

[A] Public Offering:

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

[B] Preferred stock:

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

[C] 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 years ended December 31, 2015 through 2017. As of December 31, 2017, 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.

[D] Shares withheld:

During the year ended December 31, 2017, 76,000 shares 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 \$465,000.

During the year ended December 31, 2016, 67,000 shares 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 \$323,000.

During the year ended December 31, 2015, 80,000 shares 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 \$457,000.

NOTE 16 - ACCUMULATED OTHER COMPREHENSIVE INCOME (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 Consolidated Balance Sheets.

The accumulated balances for each classification of other comprehensive loss are as follows:

	Foreign currency items	Unrealized gain (losses) on investments	Accumulated other comprehensive income
Balance at January 1, 2015	\$ (360,000)	\$ (15,000)	\$ (375,000)
Net current period change.....	<u>(140,000)</u>	<u>15,000</u>	<u>(125,000)</u>
Balance at December 31, 2015	<u>(500,000)</u>	<u>\$ -</u>	<u>(500,000)</u>
Net current period change.....	<u>408,000</u>	<u>(11,000)</u>	<u>397,000</u>
Balance at December 31, 2016	<u>(92,000)</u>	<u>\$ (11,000)</u>	<u>(103,000)</u>
Net current period change.....	<u>(373,000)</u>	<u>(102,000)</u>	<u>(475,000)</u>
Balance at December 31, 2017	<u>\$ (465,000)</u>	<u>\$ (113,000)</u>	<u>(578,000)</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 currency financial statements and the effect of exchange rate changes on intercompany transactions of a long-term investment nature with IDS GmbH resulted in translation (losses) gains of \$(140,000), \$408,000 and \$(373,000) at December 31, 2015, 2016 and 2017, respectively, which are included in comprehensive loss in the Consolidated Statement of Changes in Stockholders' Equity. Effective December 1, 2015, the intercompany transactions with IDS GmbH are not considered of a long-term investment nature and the effect of the exchange rate changes subsequent to December 1, 2015 on the intercompany transactions are included selling, general and administrative expenses in the Consolidated Statement of Operations.

Gains and losses resulting from foreign currency transactions are included in determining net income or loss. Foreign currency transaction (losses) gains for the years ended December 31, 2015, 2016 and 2017 of \$(60,000), \$(437,000) and \$456,000, respectively, are included in selling, general and administrative expenses in the Consolidated Statement of Operations.

NOTE 17 - INCOME TAXES

At December 31, 2017, the Company had an aggregate net operating loss carryforward of approximately \$78,966,000 for U.S. federal income tax purposes. At December 31, 2017, the Company had an aggregate net operating loss carryforward of approximately \$56,162,000 for state income tax purposes and a foreign net operating loss carryforward of approximately \$2,813,000. Substantially all of the net operating loss carryforwards expire from 2021 through 2037 for federal purposes and from 2018 through 2037 for state purposes. The net operating loss carryforwards may be limited to use in any particular year based on Internal Revenue Code ("IRC") Section 382 related to change of ownership restrictions. Section 382 of the IRC imposes an annual limitation on the utilization of NOL carryforwards based on long-term bond rates and the value of the corporation at the time of a change in ownership as defined by Section 382 of the IRC. In addition, future stock issuances may subject the Company to further limitations on the utilization of its net operating loss carryforwards under the same Internal Revenue Code provision.

At December 31, 2017, the Company has New Jersey net operating loss carryforwards (“NJ NOLs”) included above in the approximate amount of \$34,383,000 expiring through 2037, which are available to reduce future earnings which would otherwise be subject to state income tax. In 2017, the Company sold approximately \$332,000 of NJ research and development tax credits, subject to a 6.2% seller’s allocation factor for approximately \$311,000.

On December 22, 2017, the U.S. President signed the Tax Cuts and Jobs Act (the “Tax Act”) into law. Effective January 1, 2018, among other changes, the Tax Act (1) reduces the U.S. federal corporate tax rate from 35 percent to 21 percent, (2) changes the rules relating to net operating loss carryforwards and carrybacks, (3) eliminates the corporate alternative minimum tax (“AMT”) and changes how existing AMT credits can be realized; and (4) requires companies to pay a one-time transition tax on certain unrepatriated earnings of foreign subsidiaries.

The Tax Act did not have a material impact on our consolidated financial statements since our deferred temporary differences in the United States are fully offset by a valuation allowance and we do not have any significant off shore earnings from which to record the mandatory transition tax.

On December 22, 2017, the SEC issued guidance under Staff Accounting Bulletin No. 118, Income Tax Accounting Implications of the Tax Cuts and Jobs Act (“SAB 118”) directing taxpayers to consider the impact of the Tax Act as “provisional” when it does not have the necessary information available, prepared or analyzed (including computations) in reasonable detail to complete its accounting for the change in tax law. The changes in the Tax Act are broad and complex. The final impacts of the Tax Act may differ from the Company’s estimates due to, among other things, changes in interpretations of the Tax Act, further legislation related to the Tax Act, changes in accounting standards for income taxes or related interpretations in response to the Tax Act, or any updates to estimates the Company has utilized to calculate the impacts of the Tax Act. The SEC has issued rules that would allow for a measurement period of up to one year after the enactment date of the Tax Act to finalize the related tax impacts. The Company currently anticipates finalizing any resulting adjustments by the end of our next fiscal year ending December 31, 2018. The Company, based on current knowledge, did estimate the impact of SAB 118 on its income tax provision for the year ended December 31, 2017. The impact on the Company’s consolidated financial statements for the year ended December 31, 2017 is immaterial, primarily because the Company has a valuation allowance on deferred tax assets.

The Company has net deferred tax assets of approximately \$31,753,000 and \$26,112,000 at December 31, 2016 and 2017, respectively. The net deferred tax assets decreased by approximately \$10,848,000 with a corresponding decrease to the valuation allowance as a result of the decrease in federal corporate tax rate to 21% as a result of the Tax Act. A significant portion of the deferred tax assets recognized relate to net operating losses. The Company had other temporary differences between financial and tax reporting for stock-based compensation, fixed asset depreciation expense, deferred revenue, deferred expenses, bad debt reserves, inventory reserves, warranty reserves and acquisition-related expenses.

For the year ended December 31, 2017, the Company’s valuation allowance has decreased to \$26,112,000 compared to \$31,753,000 as of December 31, 2016, largely due to the decrease in federal corporate tax rate to 21% as a result of the Tax Act. The Company has provided a valuation allowance against the full amount of its deferred tax assets. The valuation allowance was established because of the uncertainty of realization of the deferred tax assets due to lack of sufficient history of generating taxable income. Realization is dependent upon generating sufficient taxable income prior to the expiration of the net operating loss carryforwards in future periods. The valuation allowance increased (decreased) in 2015, 2016 and 2017 by \$4,148,000, \$2,287,000 and \$(5,641,000) (net of the decrease of \$10,848,000 due to the decrease in federal corporate tax rate to 21% as a result of the Tax Act), respectively.

Loss before income taxes consists of the following:

	Year Ended December 31,		
	2015	2016	2017
U.S. operations.....	\$ (9,216,000)	\$ (5,547,000)	\$ (4,425,000)
Foreign operations	(736,000)	(823,000)	244,000
	<u>\$ (9,952,000)</u>	<u>\$ (6,370,000)</u>	<u>\$ (4,181,000)</u>

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

	Year Ended December 31,		
	2015	2016	2017
Income tax benefit at the federal statutory rate	\$ (3,384,000)	\$ (2,166,000)	\$ (1,316,000)
State and local income taxes, net of effect on federal taxes	(791,000)	(848,000)	(441,000)
Increase (decrease) in valuation allowance	4,148,000	2,287,000	(8,509,000)
Incentive stock options/forfeitures	(104,000)	624,000	(11,000)
Change in Federal tax rate			10,848,000
Research and development tax credits	-	-	(1,390,000)
Permanent differences and other	131,000	103,000	508,000
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (311,000)</u>

The change in the valuation allowance is adjusted for the tax effects of ASU No. 2016-09 and other comprehensive loss.

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at December 31, 2016 and 2017 are presented below:

	December 31,	
	2016	2017
Deferred tax assets:		
Net operating loss carryforwards	\$ 25,999,000	\$ 21,007,000
Deferred revenue	7,277,000	4,629,000
Stock-based compensation	888,000	839,000
Federal research and development tax credits	-	1,058,000
Intangibles, amortization	1,035,000	675,000
Inventories	178,000	175,000
Acquisition related expenses	328,000	321,000
Bad debt reserve	153,000	30,000
Other deductible temporary differences	693,000	556,000
Total gross deferred tax assets	36,551,000	29,290,000
Less: Valuation allowance	(31,753,000)	(26,112,000)
	<u>4,798,000</u>	<u>3,178,000</u>
Deferred tax liabilities:		
Deferred expenses	(4,715,000)	(2,978,000)
Fixed assets, depreciation	(83,000)	(200,000)
	<u>(4,798,000)</u>	<u>(3,178,000)</u>
Net deferred tax assets	<u>\$ -</u>	<u>\$ -</u>

NOTE 18 - 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 Consolidated Statement of Operations are as follows:

	Year Ended December 31,		
	2015	2016	2017
Net revenue.....	\$ 1,212,000	\$ 1,852,000	\$ 1,365,000
Net (loss) income.....	(303,000)	211,000	103,000

Total assets of IDS GmbH were \$1,012,000 and \$1,086,000 as of December 31, 2016 and 2017, 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 consolidated statement of operations are as follows:

	Year Ended December 31,		
	2015	2016	2017
Net revenue.....	\$ 434,000	\$ 296,000	\$ 577,000
Net (loss) income.....	(433,000)	(612,000)	141,000

Total assets of IDS Ltd were \$1,130,000 and \$1,187,000 as of December 31, 2016 and 2017, respectively. IDS Ltd operates in a local currency environment using the British Pound as its functional currency.

NOTE 19 - REDUCTION IN WORK FORCE

The Company entered into a Separation and General Release Agreement (the "Ellis Separation Agreement") with Norman L. Ellis, its former Chief Operating Officer, on December 16, 2016 and Amendment No. 2 to Severance Agreement (together with the Ellis Separation Agreement, the "Separation Agreements") with Kenneth Ehrman, its former Chief Executive Officer, on December 20, 2016. Under the terms of the Separation Agreements, the Company recognized severance costs of \$637,000 which are included in selling, general and administrative expenses in the consolidated statement of operations for 2016.

On July 31, 2015, the Company eliminated 27 positions, representing approximately 20% of our total personnel. In order to earn a severance payment, affected employees were required to execute a general release agreement. Total severance costs incurred during the year ended December 31, 2015 were \$280,000, of which \$30,000 is included in research and development expenses and \$250,000 is included in selling, general and administrative expenses in the consolidated statement of operations for 2015. As of December 31, 2015, these costs have been paid.

NOTE 20 - COMMITMENTS AND CONTINGENCIES

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

[A] Contingencies:

On June 12, 2017, ACF FinCo I LP ("ACF") filed a lawsuit against the Company in the District Court for Dallas County, Texas. The complaint alleges that ACF is the successor-in-interest to McDonald Technologies International Inc. ("MTI"), one of our former suppliers, and alleges one cause of action for breach of a May 2015 Master Services Agreement pursuant to which the Company purchased certain products manufactured and services rendered by MTI. The complaint seeks approximately \$2.0 million in damages for amounts allegedly due by the Company under this agreement, plus interest and attorney's fees. On July 7, 2017, the Company filed its answer denying any liability to ACF and asserting various defenses to ACF's claims against the Company. The lawsuit is currently in active discovery. The Company believes that the lawsuit is without merit and intend to continue to vigorously defend ourselves in this matter.

[B] Severance agreements:

The Company entered into severance agreements with five 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, 15 or 18 months, depending on the executive, (ii) continued healthcare coverage during the severance period, (iii) partial accelerated vesting of the executive’s previously granted stock options and restricted stock awards, and (iv) an award of “Performance Shares” under the Restricted Stock Unit Award Agreement previously entered into between the Company and the executive.

The Company entered into the Ellis Separation Agreement on December 16, 2016 and amended the Ehrman Severance Agreement on December 20, 2016. Under the terms of the Separation Agreements, the Company recognized severance costs of \$637,000 which are included in selling, general and administrative expenses. In addition, a pro-rata portion of Mr. Ehrman’s unvested stock options and restricted stock were partially vested based on the number of months elapsed since the date of grant as compared to the scheduled vesting date. Due to the modification of the terms of the stock option and restricted stock agreements, the Company recognized a \$(26,000) reduction of stock-based compensation expense in the fourth quarter of 2016 which is included in the stock option and restricted stock stock-based compensation expense.

[C] Operating leases:

The office leases for the Company’s executive offices in Woodcliff Lake, New Jersey and sales and administrative office in Plano, Texas, which expire in February 2021 also provide for escalations relating to increases in real estate taxes and certain operating expenses. The Company leases office and storage space in Tampa, Florida which will expire in July 2019 and provides for escalations relating to increases in real estate taxes. In addition, the Company leases sales and administrative offices in Milton Keynes, United Kingdom and Dusseldorf, Germany. The Company’s operating leases provide for minimum annual rental payments as follows:

<u>Year Ending December 31,</u>		
2018.....	\$	926,000
2019.....		913,000
2020.....		893,000
2021.....		150,000
2022.....		-
Thereafter.....		-
	\$	<u>2,882,000</u>

Minimum rent payments under operating leases are recognized on a straight-line basis over the term of the lease including any periods of free rent. Rental expense for operating leases was approximately \$860,000, \$1,057,000 and \$1,021,000 for the years ended December 31, 2015, 2016 and 2017, respectively.

NOTE 21 - QUARTERLY SELECTED FINANCIAL DATA (UNAUDITED)

The following tables contain selected quarterly financial data for each quarter for the years ended December 31, 2016 and 2017. We believe the following information reflects all normal recurring adjustments necessary for a fair presentation of the information for the periods presented. The operating results for any period are not necessarily indicative of results for any future periods.

	Year Ended December 31, 2017			
	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Revenues:				
Products	\$ 4,334,000	\$ 6,375,000	\$ 6,490,000	\$ 6,353,000
Services.....	<u>3,665,000</u>	<u>4,331,000</u>	<u>4,596,000</u>	<u>4,814,000</u>
	<u>7,999,000</u>	<u>10,706,000</u>	<u>11,086,000</u>	<u>11,167,000</u>
Cost of revenues:				
Cost of products	2,815,000	3,427,000	3,475,000	3,736,000
Cost of services.....	<u>1,034,000</u>	<u>1,738,000</u>	<u>1,984,000</u>	<u>1,822,000</u>
	<u>3,849,000</u>	<u>5,165,000</u>	<u>5,459,000</u>	<u>5,558,000</u>
Gross Profit.....	4,150,000	5,541,000	5,627,000	5,609,000
Selling, general and administrative expenses	4,782,000	5,189,000	5,213,000	5,869,000
Research and development expenses	1,238,000	854,000	958,000	915,000
Other income, net.....	<u>(16,000)</u>	<u>(22,000)</u>	<u>(42,000)</u>	<u>(10,000)</u>
Net loss before income tax benefit.....	(1,886,000)	(524,000)	(586,000)	(1,185,000)
Income tax benefit - sale of NJ R&D tax credits	<u>-</u>	<u>-</u>	<u>-</u>	<u>311,000</u>
Net loss	<u>\$ (1,886,000)</u>	<u>\$ (524,000)</u>	<u>\$ (586,000)</u>	<u>\$ (874,000)</u>
Net loss per share - basic and diluted.....	<u>\$ (0.14)</u>	<u>\$ (0.04)</u>	<u>\$ (0.04)</u>	<u>\$ (0.05)</u>

	Year Ended December 31, 2016			
	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Revenues:				
Products	\$ 6,282,000	\$ 4,918,000	\$ 4,561,000	\$ 5,605,000
Services.....	<u>4,195,000</u>	<u>3,986,000</u>	<u>3,654,000</u>	<u>3,621,000</u>
	<u>10,477,000</u>	<u>8,904,000</u>	<u>8,215,000</u>	<u>9,226,000</u>
Cost of revenues:				
Cost of products	4,186,000	3,142,000	3,018,000	3,690,000
Cost of services.....	<u>1,093,000</u>	<u>1,037,000</u>	<u>1,195,000</u>	<u>1,167,000</u>
	<u>5,279,000</u>	<u>4,179,000</u>	<u>4,213,000</u>	<u>4,857,000</u>
Gross Profit.....	5,198,000	4,725,000	4,002,000	4,369,000
Selling, general and administrative expenses	4,786,000	5,019,000	4,984,000	5,337,000
Research and development expenses	1,130,000	1,192,000	1,098,000	1,116,000
Other income, net.....	<u>20,000</u>	<u>(11,000)</u>	<u>(12,000)</u>	<u>1,000</u>
Net loss	<u>\$ (698,000)</u>	<u>\$ (1,497,000)</u>	<u>\$ (2,092,000)</u>	<u>\$ (2,083,000)</u>
Net loss per share - basic and diluted.....	<u>\$ (0.05)</u>	<u>\$ (0.12)</u>	<u>\$ (0.16)</u>	<u>\$ (0.16)</u>

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

None.

Item 9A. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

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 December 31, 2017, 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.

Management’s Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act. Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness, as of December 31, 2017, of our internal control over financial reporting based on the framework in 2013 Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our evaluation under this framework, our management concluded that our internal control over financial reporting was effective as of December 31, 2017.

On July 31, 2017, we completed the Keytroller Acquisition. We are currently in the process of integrating policies, processes, people, technology and operations for the combined companies. In accordance with SEC staff guidance permitting a company to exclude an acquired business from management’s assessment of the effectiveness of internal control over financial reporting for the year in which the acquisition is completed, we have excluded the business that we acquired in the Keytroller Acquisition from our assessment of the effectiveness of internal control over financial reporting as of December 31, 2017. As of and for the year ended December 31, 2017, Keytroller had total assets of \$13,382,000, revenues of \$3,468,000 and net income of \$708,000.

Changes in Internal Control over Financial Reporting

There was no change, other than the integration of Keytroller, in our system of internal control over financial reporting (as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934) during the quarter ended December 31, 2017 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. Other Information

None.

PART III.

Item 10. Directors, Executive Officers and Corporate Governance

The Company incorporates by reference herein information to be set forth in its definitive proxy statement for its 2018 annual meeting of stockholders that is responsive to the information required with respect to this Item 10; provided, however, that such information shall not be incorporated herein:

- if the information that is responsive to the information required with respect to this Item 10 is provided by means of an amendment to this Annual Report on Form 10-K filed with the SEC prior to the filing of such definitive proxy statement; or
- if such proxy statement is not filed with the SEC within 120 days after the end of the Company's most recently completed fiscal year, in which case the Company will provide such information by means of an amendment to this Annual Report on Form 10-K filed with the SEC within such 120-day period.

Item 11. Executive Compensation

The Company incorporates by reference herein information to be set forth in its definitive proxy statement for its 2018 annual meeting of stockholders that is responsive to the information required with respect to this Item 11; provided, however, that such information shall not be incorporated herein:

- if the information that is responsive to the information required with respect to this Item 11 is provided by means of an amendment to this Annual Report on Form 10-K filed with the SEC prior to the filing of such definitive proxy statement; or
- if such proxy statement is not filed with the SEC within 120 days after the end of the Company's most recently completed fiscal year, in which case the Company will provide such information by means of an amendment to this Annual Report on Form 10-K filed with the SEC.

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

The Company incorporates by reference herein information to be set forth in its definitive proxy statement for its 2018 annual meeting of stockholders that is responsive to the information required with respect to this Item 12; provided, however, that such information shall not be incorporated herein:

- if the information that is responsive to the information required with respect to this Item 12 is provided by means of an amendment to this Annual Report on Form 10-K filed with the SEC prior to the filing of such definitive proxy statement; or
- if such proxy statement is not filed with the SEC within 120 days after the end of the Company's most recently completed fiscal year, in which case the Company will provide such information by means of an amendment to this Annual Report on Form 10-K filed with the SEC within such 120-day period.

Securities Authorized for Issuance Under Equity Compensation Plans.

The following table provides certain information with respect to the Company's equity compensation plans in effect as of December 31, 2017:

EQUITY COMPENSATION PLAN INFORMATION

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected under column (a)) (c)
Equity compensation plans approved by security holders ⁽¹⁾	1,290,000	\$ 5.33	242,000
Total.....	1,290,000	\$ 5.33	242,000

- (1) These plans consist of the Company's 1999 Stock Option Plan, 2007 Equity Compensation Plan, 2009 Non-Employee Director Equity Compensation Plan and 2015 Equity Compensation Plan, which were our only equity compensation plans under which awards were outstanding as of December 31, 2016. Each of our 1999 Stock Option Plan and 1999 Director Option Plan expired in 2009, and no additional awards may be granted thereunder. The 2007 Equity Compensation Plan expired in 2017, and no additional awards may be granted thereunder.

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

The Company incorporates by reference herein information to be set forth in its definitive proxy statement for its 2018 annual meeting of stockholders that is responsive to the information required with respect to this Item 13; provided, however, that such information shall not be incorporated herein:

- if the information that is responsive to the information required with respect to this Item 13 is provided by means of an amendment to this Annual Report on Form 10-K filed with the SEC prior to the filing of such definitive proxy statement; or
- if such proxy statement is not filed with the SEC within 120 days after the end of the Company's most recently completed fiscal year, in which case the Company will provide such information by means of an amendment to this Annual Report on Form 10-K filed with the SEC within such 120-day period.

Item 14. Principal Accounting Fees and Services

The Company incorporates by reference herein information to be set forth in its definitive proxy statement for its 2018 annual meeting of stockholders that is responsive to the information required with respect to this Item 14; provided, however, that such information shall not be incorporated herein:

- if the information that is responsive to the information required with respect to this Item 14 is provided by means of an amendment to this Annual Report on Form 10-K filed with the SEC prior to the filing of such definitive proxy statement; or
- if such proxy statement is not filed with the SEC within 120 days after the end of the Company's most recently completed fiscal year, in which case the Company will provide such information by means of an amendment to this Annual Report on Form 10-K filed with the SEC within such 120-day period.

PART IV.

Item 15. Exhibits, Financial Statement Schedules

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

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

	<u>Page</u>
Report of Independent Registered Public Accounting Firm	48
Consolidated Balance Sheets at December 31, 2016 and 2017	49
Consolidated Statements of Operations for the Years Ended December 31, 2015, 2016 and 2017	50
Consolidated Statements of Comprehensive Loss for the Years Ended December 31, 2015, 2016 and 2017	51
Consolidated Statements of Changes in Stockholders' Equity for the Years Ended December 31, 2015, 2016 and 2017	52
Consolidated Statements of Cash Flows for the Years Ended December 31, 2015, 2016 and 2017	53
Notes to the Consolidated Financial Statements	54

(2) Financial Statement Schedules.

Schedule II - Valuation and Qualifying Accounts

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

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

- 2.1 Membership Interest Purchase Agreement, dated as of January 7, 2010, by and among I.D. Systems, Inc., General Electric Capital Corporation and GE Asset Intelligence, LLC (incorporated by reference to Exhibit 2.1 to the Current Report on Form 8-K of I.D. Systems, Inc. (File No. 001-15087) filed with the SEC on January 13, 2010).
- 2.2 Asset Purchase Agreement, dated July 11, 2017, by and among I.D. Systems, Inc., Keytroller, LLC, a Delaware limited liability company, Keytroller, LLC, a Florida limited liability company, and the individuals listed on the signature page thereto (incorporated by reference to Exhibit 2.1 to the Current Report on Form 8-K of I.D. Systems, Inc. (File No. 001-15087) filed with the SEC on July 12, 2017).†
- 3.1.1 Restated Certificate of Incorporation of I.D. Systems, Inc., as amended (incorporated by reference to Exhibit 3.1 to Amendment No. 3 to the Registration Statement on Form SB-2 of I.D. Systems, Inc. (File No. 333-76947) filed with the SEC on June 28, 1999).
- 3.1.2 Certificate of Amendment to the Restated Certificate of Incorporation of I.D. Systems (incorporated by reference to Exhibit 4.2 to the Registration Statement on Form S-8 of I.D. Systems, Inc. (File No. 333-144709) filed with the SEC on July 19, 2007).
- 3.1.3 Certificate of Correction to the Restated Certificate of Incorporation of I.D. Systems (incorporated by reference to Exhibit 4.2 to the Registration Statement on Form S-8 of I.D. Systems, Inc. (File No. 333-144709) filed with the SEC on July 19, 2007).
- 3.1.4 Certificate of Designation for the Series A Junior Participating Preferred Stock (incorporated by reference to Exhibit 3.3 to the Current Report on Form 8-K of I.D. Systems, Inc. (File No. 001-15087) filed with the SEC on July 8, 2009).
- 3.1.5 Certificate of Amendment of Amended and Restated Certificate of Incorporation of I.D. Systems, Inc., as amended (incorporated by reference to Exhibit 3.1 to the Current Report on Form 8-K of I.D. Systems, Inc. (File No. 001-15087) filed with the SEC on June 25, 2015).
- 3.2.1 Restated By-Laws of I.D. Systems, Inc. (incorporated by reference to Exhibit 3.2 to Amendment No. 3 to the Registration Statement on Form SB-2 of I.D. Systems, Inc. (File No. 333-76947) filed with the SEC on June 28, 1999).
- 3.2.2 Amendment No. 1 to Restated Bylaws of I.D. Systems, Inc. (incorporated by reference to Exhibit 3.1 to the Current Report on Form 8-K of I.D. Systems, Inc. (File No. 001-15087) filed with the SEC on December 8, 2016).

- 4.1 Specimen Certificate of I.D. Systems, Inc.'s Common Stock (incorporated by reference to Exhibit 4.1 to Amendment No. 3 to the Registration Statement on Form SB-2 of I.D. Systems, Inc. (File No. 333-76947) filed with the SEC on June 28, 1999).
- 10.1 1995 Non-Qualified Stock Option Plan (incorporated by reference to Exhibit 10.5 to the Registration Statement on Form SB-2 of I.D. Systems, Inc. (File No. 333-76947) filed with the SEC on April 23, 1999).*
- 10.2 1999 Stock Option Plan (incorporated by reference to Exhibit 10.6 to the Registration Statement on Form SB-2 of I.D. Systems, Inc. (File No. 333-76947) filed with the SEC on April 23, 1999).*
- 10.3.1 1999 Director Option Plan (incorporated by reference to Exhibit 10.10 to Amendment No. 2 to the Registration Statement on Form SB-2 of I.D. Systems, Inc. (File No. 333-76947) filed with the SEC on June 8, 1999).*
- 10.3.2 Amendment, dated March 15, 2012, to 1999 Director Option Plan (incorporated by reference to Exhibit 10.1 to the Quarterly Report on Form 10-Q of I.D. Systems, Inc. for the fiscal quarter ended March 31, 2012 (File No. 001-15087) filed with the SEC on May 14, 2012).*
- 10.4 I.D. Systems, Inc. 2007 Equity Compensation Plan, as amended (incorporated by reference to Exhibit 99.1 to the Registration Statement on Form S-8 of I.D. Systems, Inc. (File No. 333-185085) filed with the SEC on November 21, 2012).*
- 10.5.1 2009 Non-Employee Director Equity Compensation Plan (incorporated by reference to Exhibit 10.5 to the Quarterly Report on Form 10-Q of I.D. Systems, Inc. (File No. 001-15087) filed with the SEC on November 6, 2009).*
- 10.5.2 Amendment, dated March 16, 2012, to 2009 Non-Employee Director Equity Compensation Plan (incorporated by reference to Exhibit 10.2 to the Quarterly Report on Form 10-Q of I.D. Systems, Inc. for the fiscal quarter ended March 31, 2012 (File No. 001-15087) filed with the SEC on May 14, 2012).*
- 10.6 I.D. Systems, Inc. 2015 Equity Compensation Plan (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K of I.D. Systems, Inc. (File No. 001-15087) filed with the SEC on June 25, 2015).*
- 10.7 Severance Agreement, dated September 11, 2009, by and between I.D. Systems, Inc. and Jeffrey Jagid (incorporated by reference to Exhibit 10.1 to the Quarterly Report on Form 10-Q of I.D. Systems, Inc. for the fiscal quarter ended September 30, 2009 (File No. 001-15087) filed with the SEC on November 6, 2009).*
- 10.8 Severance Agreement, dated September 11, 2009, by and between the Company and Ned Mavrommatis (incorporated by reference to Exhibit 10.2 to the Quarterly Report on Form 10-Q of I.D. Systems, Inc. for the fiscal quarter ended September 30, 2009 (File No. 001-15087) filed with the SEC on November 6, 2009).*
- 10.9 Severance Agreement, dated September 11, 2009, by and between the Company and Kenneth Ehrman (incorporated by reference to Exhibit 10.3 to the Quarterly Report on Form 10-Q of I.D. Systems, Inc. for the fiscal quarter ended September 30, 2009 (File No. 001-15087) filed with the SEC on November 6, 2009).*
- 10.10 Amendment to Severance Agreement, dated as of June 20, 2013, between I.D. Systems, Inc. and Kenneth Ehrman (incorporated by reference to Exhibit 10.1 to the Quarterly Report on Form 10-Q of I.D. Systems, Inc. for the fiscal quarter ended June 30, 2013 (File No. 001-15087) filed with the SEC on August 14, 2013).*
- 10.11 Amendment No. 2 to Severance Agreement, dated as of December 20, 2016, between I.D. Systems, Inc. and Kenneth Ehrman (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K of I.D. Systems, Inc. (File No. 001-15087) filed with the SEC on December 21, 2016).*
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- 10.13 Office Lease Agreement, dated as of May 10, 2010, by and between IPC New York Properties, LLC, as Landlord, and I.D. Systems, Inc., as Tenant (incorporated by reference to Exhibit 10.1 to the Quarterly Report on Form 10-Q of I.D. Systems, Inc. for the fiscal quarter ended March 31, 2010 (File No. 001-15087) filed with the SEC on May 17, 2010).
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- 10.18 Offer Letter, dated July 21, 2014, between I.D. Systems, Inc. and Norman L. Ellis (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K of I.D. Systems, Inc. (File No. 001-15087) filed with the SEC on July 22, 2014).*

- 10.19 Stock Option Grant Agreement, dated July 21, 2014, between I.D. Systems, Inc. and Norman L. Ellis (incorporated by reference to Exhibit 10.2 to the Current Report on Form 8-K of I.D. Systems, Inc. (File No. 001-15087) filed with the SEC on July 22, 2014).*
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- 10.26 Warrant to Purchase Common Stock (incorporated by reference to Exhibit 99.2 to the Current Report on Form 8-K of I.D. Systems, Inc. (File No. 001-15087) filed with the SEC on August 23, 2011).
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- 10.28 Loan and Security Agreement, dated as of December 18, 2015, among I.D. Systems, Inc. and Asset Intelligence, LLC, as Borrowers, Siena Lending Group LLC and the other loan party obligors party thereto from time to time (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K of I.D. Systems, Inc. (File No. 001-15087) filed with the SEC on December 23, 2015).
- 21.1 List of Subsidiaries (filed herewith).
- 23.1 Consent of EisnerAmper LLP (filed herewith).
- 31.1 Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith).
- 31.2 Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith).
- 32.1 Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (filed herewith).
- 32.2 Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (filed herewith).
- 101.INS XBRL Instance Document.
- 101.SCHXBRL Taxonomy Extension Schema Document.
- 101.CALXBRL Taxonomy Extension Calculation Linkbase Document.
- 101.DEF XBRL Taxonomy Extension Definition Linkbase Document.
- 101.LABXBRL Taxonomy Extension Label Linkbase Document.
- 101.PRE XBRL Taxonomy Extension Presentation Linkbase Document.

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

* Management contract or compensatory plan or arrangement.

(b) Exhibits. The exhibits required by Item 601 of Regulation S-K are filed herewith or incorporated herein by reference. Please see the Index to Exhibits to this Annual Report on Form 10-K, which is incorporated into this Item 15(b) by reference.

SIGNATURES

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

Date: March 30, 2018

I.D. SYSTEMS, INC.

By: /s/ Chris A. Wolfe

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

By: /s/ Ned Mavrommatis

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

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

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ Chris A. Wolfe</u> Chris A. Wolfe	Chief Executive Officer (Principal Executive Officer)	March 30, 2018
<u>/s/ Ned Mavrommatis</u> Ned Mavrommatis	Chief Financial Officer (Principal Financial and Accounting Officer)	March 30, 2018
<u>/s/ Kenneth Brakebill</u> Kenneth Brakebill	Director	March 30, 2018
<u>/s/ Michael Brodsky</u> Michael Brodsky	Director	March 30, 2018
<u>/s/ Michael Casey</u> Michael Casey	Director	March 30, 2018
<u>/s/ Ron Konezny</u> Ron Konezny	Director	March 30, 2018

I.D. SYSTEMS, INC. AND SUBSIDIARIES
SCHEDULE II - VALUATION AND QUALIFYING ACCOUNTS
(In thousands)

<u>Description</u>	<u>Balance at Beginning Period</u>	<u>Charged to (Write-off) Costs and Expenses</u>	<u>Other Additions Or (Deductions)</u>	<u>Balance at End of Period</u>
Inventory reserve				
Year ended December 31, 2017.....	\$ 208	\$ 313	(255)	\$ 266
Year ended December 31, 2016.....	\$ 374	\$ 205	(371)	\$ 208
Year ended December 31, 2015.....	\$ 1,424	\$ 186	(1,236)	\$ 374

<u>Description</u>	<u>Balance at Beginning Period</u>	<u>Charged to (Write-off) to Costs and Expenses</u>	<u>Other Additions Or (Deductions)</u>	<u>Balance at End of Period</u>
Allowance for doubtful accounts				
Year ended December 31, 2017.....	\$ 341	\$ 115	(369)	\$ 87
Year ended December 31, 2016.....	\$ 1,512	\$ 117	(1,288)	\$ 341
Year ended December 31, 2015.....	\$ 1,434	\$ 326	(248)	\$ 1,512

<u>Description</u>	<u>Balance at Beginning Period</u>	<u>Charged to (Write-off) to Costs and Expenses</u>	<u>Other Additions Or (Deductions)</u>	<u>Balance at End of Period</u>
Warranty reserve				
Year ended December 31, 2017.....	\$ 472	\$ 131	(68)	\$ 535
Year ended December 31, 2016.....	\$ 614	\$ 110	(252)	\$ 472
Year ended December 31, 2015.....	\$ 942	\$ (28)	(300)	\$ 614

INDEX TO EXHIBITS

- 2.1 Membership Interest Purchase Agreement, dated as of January 7, 2010, by and among I.D. Systems, Inc., General Electric Capital Corporation and GE Asset Intelligence, LLC (incorporated by reference to Exhibit 2.1 to the Current Report on Form 8-K of I.D. Systems, Inc. (File No. 001-15087) filed with the SEC on January 13, 2010).
- 2.2 Asset Purchase Agreement, dated July 11, 2017, by and among I.D. Systems, Inc., Keytroller, LLC, a Delaware limited liability company, Keytroller, LLC, a Florida limited liability company, and the individuals listed on the signature page thereto (incorporated by reference to Exhibit 2.1 to the Current Report on Form 8-K of I.D. Systems, Inc. (File No. 001-15087) filed with the SEC on July 12, 2017).†
- 3.1.1 Restated Certificate of Incorporation of I.D. Systems, Inc., as amended (incorporated by reference to Exhibit 3.1 to Amendment No. 3 to the Registration Statement on Form SB-2 of I.D. Systems, Inc. (File No. 333-76947) filed with the SEC on June 28, 1999).
- 3.1.2 Certificate of Amendment to the Restated Certificate of Incorporation of I.D. Systems (incorporated by reference to Exhibit 4.2 to the Registration Statement on Form S-8 of I.D. Systems, Inc. (File No. 333-144709) filed with the SEC on July 19, 2007).
- 3.1.3 Certificate of Correction to the Restated Certificate of Incorporation of I.D. Systems (incorporated by reference to Exhibit 4.2 to the Registration Statement on Form S-8 of I.D. Systems, Inc. (File No. 333-144709) filed with the SEC on July 19, 2007).
- 3.1.4 Certificate of Designation for the Series A Junior Participating Preferred Stock (incorporated by reference to Exhibit 3.3 to the Current Report on Form 8-K of I.D. Systems, Inc. (File No. 001-15087) filed with the SEC on July 8, 2009).
- 3.1.5 Certificate of Amendment of Amended and Restated Certificate of Incorporation of I.D. Systems, Inc., as amended (incorporated by reference to Exhibit 3.1 to the Current Report on Form 8-K of I.D. Systems, Inc. (File No. 001-15087) filed with the SEC on June 25, 2015).
- 3.2.1 Restated By-Laws of I.D. Systems, Inc. (incorporated by reference to Exhibit 3.2 to Amendment No. 3 to the Registration Statement on Form SB-2 of I.D. Systems, Inc. (File No. 333-76947) filed with the SEC on June 28, 1999).
- 3.2.2 Amendment No. 1 to Restated Bylaws of I.D. Systems, Inc. (incorporated by reference to Exhibit 3.1 to the Current Report on Form 8-K of I.D. Systems, Inc. (File No. 001-15087) filed with the SEC on December 8, 2016).
- 4.1 Specimen Certificate of I.D. Systems, Inc.'s Common Stock (incorporated by reference to Exhibit 4.1 to Amendment No. 3 to the Registration Statement on Form SB-2 of I.D. Systems, Inc. (File No. 333-76947) filed with the SEC on June 28, 1999).
- 10.1 1995 Non-Qualified Stock Option Plan (incorporated by reference to Exhibit 10.5 to the Registration Statement on Form SB-2 of I.D. Systems, Inc. (File No. 333-76947) filed with the SEC on April 23, 1999).*
- 10.2 1999 Stock Option Plan (incorporated by reference to Exhibit 10.6 to the Registration Statement on Form SB-2 of I.D. Systems, Inc. (File No. 333-76947) filed with the SEC on April 23, 1999).*
- 10.3.1 1999 Director Option Plan (incorporated by reference to Exhibit 10.10 to Amendment No. 2 to the Registration Statement on Form SB-2 of I.D. Systems, Inc. (File No. 333-76947) filed with the SEC on June 8, 1999).*
- 10.3.2 Amendment, dated March 15, 2012, to 1999 Director Option Plan (incorporated by reference to Exhibit 10.1 to the Quarterly Report on Form 10-Q of I.D. Systems, Inc. for the fiscal quarter ended March 31, 2012 (File No. 001-15087) filed with the SEC on May 14, 2012).*
- 10.4 I.D. Systems, Inc. 2007 Equity Compensation Plan, as amended (incorporated by reference to Exhibit 99.1 to the Registration Statement on Form S-8 of I.D. Systems, Inc. (File No. 333-185085) filed with the SEC on November 21, 2012).*
- 10.5.1 2009 Non-Employee Director Equity Compensation Plan (incorporated by reference to Exhibit 10.5 to the Quarterly Report on Form 10-Q of I.D. Systems, Inc. (File No. 001-15087) filed with the SEC on November 6, 2009).*
- 10.5.2 Amendment, dated March 16, 2012, to 2009 Non-Employee Director Equity Compensation Plan (incorporated by reference to Exhibit 10.2 to the Quarterly Report on Form 10-Q of I.D. Systems, Inc. for the fiscal quarter ended March 31, 2012 (File No. 001-15087) filed with the SEC on May 14, 2012).*
- 10.6 I.D. Systems, Inc. 2015 Equity Compensation Plan (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K of I.D. Systems, Inc. (File No. 001-15087) filed with the SEC on June 25, 2015).*
- 10.7 Severance Agreement, dated September 11, 2009, by and between I.D. Systems, Inc. and Jeffrey Jagid (incorporated by reference to Exhibit 10.1 to the Quarterly Report on Form 10-Q of I.D. Systems, Inc. for the fiscal quarter ended September 30, 2009 (File No. 001-15087) filed with the SEC on November 6, 2009).*
- 10.8 Severance Agreement, dated September 11, 2009, by and between the Company and Ned Mavrommatis (incorporated by reference to Exhibit 10.2 to the Quarterly Report on Form 10-Q of I.D. Systems, Inc. for the fiscal quarter ended September 30, 2009 (File No. 001-15087) filed with the SEC on November 6, 2009).*
- 10.9 Severance Agreement, dated September 11, 2009, by and between the Company and Kenneth Ehrman (incorporated by reference to Exhibit 10.3 to the Quarterly Report on Form 10-Q of I.D. Systems, Inc. for the fiscal quarter ended September 30, 2009 (File No. 001-15087) filed with the SEC on November 6, 2009).*

- 10.10 Amendment to Severance Agreement, dated as of June 20, 2013, between I.D. Systems, Inc. and Kenneth Ehrman (incorporated by reference to Exhibit 10.1 to the Quarterly Report on Form 10-Q of I.D. Systems, Inc. for the fiscal quarter ended June 30, 2013 (File No. 001-15087) filed with the SEC on August 14, 2013).*
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- 10.14 Severance Agreement, dated December 14, 2010, by and between the Company and Darryl Miller (incorporated by reference to Exhibit 10.12 to the Annual Report on Form 10-K of I.D. Systems, Inc. for the fiscal year ended December 31, 2010 (File No. 001-15087) filed with the SEC on March 31, 2011).*
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- 21.1 List of Subsidiaries (filed herewith).
- 23.1 Consent of EisnerAmper LLP (filed herewith).

- 31.1 Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith).
- 31.2 Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith).
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† We have omitted certain schedules and exhibits to this agreement in accordance with Item 601(b)(2) of Regulation S-K, and we will supplementally furnish a copy of any omitted schedule and/or exhibit to the Securities and Exchange Commission upon request.

* Management contract or compensatory plan or arrangement.

**I.D. SYSTEMS, INC.
LIST OF SUBSIDIARIES**

Name	Jurisdiction of Formation
Asset Intelligence, LLC	Delaware
I.D. Systems, GmbH	Germany
I.D. Systems (UK) Ltd (formerly Didbox Ltd.)	United Kingdom
Keytroller, LLC	Delaware

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in the Registration Statements of I.D. Systems, Inc. on Form S-8 (Nos. 333-87973, 333-134142, 333-134138, 333-144709, 333-185084, 333-185085, and 333-206080) and on Form S-3 (Nos. 333-217968, 333-116144 and 333-187644) of our report dated March 30, 2018, on our audits of the consolidated financial statements and financial statement schedule as of December 31, 2017 and 2016, and for each of the years in the three-year period ended December 31, 2017, which report is included in this Annual Report on Form 10-K.

/s/ EisnerAmper LLP

Iselin, New Jersey
March 30, 2018

CERTIFICATIONS

I, Chris A. Wolfe, as Chief Executive Officer (Principal Executive Officer), certify that:

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

Date: March 30, 2018

By: /s/ Chris A. Wolfe

Name: Chris A. Wolfe

Title: Chief Executive Officer

(Principal Executive Officer)

CERTIFICATIONS

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

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

Date: March 30, 2018

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

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

In connection with the Annual Report on Form 10-K (the "Report") of I.D. Systems, Inc. (the "Corporation") for the year ended December 31, 2017, as filed with the Securities and Exchange Commission on the date hereof, I, Chris A. Wolfe, Chief Executive Officer of the Corporation, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, to my knowledge, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Corporation.

Dated: March 30, 2018

By: /s/ Chris A. Wolfe

Name: Chris A. Wolfe

Title: Chief Executive Officer

The foregoing certification is being furnished solely pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code) and is not being filed as part of the Report or as a separate disclosure document.

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

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

In connection with the Annual Report on Form 10-K (the "Report") of I.D. Systems, Inc. (the "Corporation") for the year ended December 31, 2017, as filed with the Securities and Exchange Commission on the date hereof, I, Ned Mavrommatis, Chief Financial Officer of the Corporation, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, to my knowledge, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Corporation.

Dated: March 30, 2018

By: /s/ Ned Mavrommatis

Name: Ned Mavrommatis

Title: Chief Financial Officer

The foregoing certification is being furnished solely pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code) and is not being filed as part of the Report or as a separate disclosure document.

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