

ARI NETWORK SERVICES INC /WI
Form 10-Q
December 15, 2010

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended October 31, 2010

TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE EXCHANGE ACT

For the transition period from _____ to _____

Commission file number 000-19608

ARI Network Services, Inc.
(Exact name of registrant as specified in its charter)

WISCONSIN
(State or other jurisdiction of incorporation or organization)

39-1388360
(IRS Employer Identification No.)

10850 West Park Place, Suite 1200, Milwaukee, Wisconsin 53224
(Address of principal executive offices)

(414) 973-4300
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act 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 Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (S232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

YES NO

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

Large accelerated filer Accelerated filer
Non-accelerated filer Smaller reporting company
(Do not check if a smaller reporting 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

As of December 8, 2010, there were 7,785,585 shares of the registrant's common stock outstanding.

ARI Network Services, Inc.

FORM 10-Q
FOR THE THREE MONTHS ENDED OCTOBER 31, 2010
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Item 1. Financial Statements

ARI Network Services, Inc.
Consolidated Balance Sheets
(Dollars in Thousands, Except per Share Data)

| | (Unaudited) October 31 2010 | (Audited) July 31 2010 |
|---|-----------------------------------|------------------------------|
| Current assets: | | |
| Cash and cash equivalents | \$ 861 | \$ 938 |
| Trade receivables, less allowance for doubtful accounts of \$332 at October 31, 2010 and \$565 at July 31, 2010 | 1,160 | 1,359 |
| Work in process | 212 | 133 |
| Prepaid expenses and other | 372 | 481 |
| Deferred income taxes | 2,377 | 2,600 |
| Total current assets | 4,982 | 5,511 |
| Equipment and leasehold improvements: | | |
| Computer equipment | 1,924 | 1,883 |
| Leasehold improvements | 506 | 506 |
| Software and equipment | 2,073 | 1,970 |
| | 4,503 | 4,359 |
| Less accumulated depreciation and amortization | 2,650 | 2,433 |
| Net equipment and leasehold improvements | 1,853 | 1,926 |
| Capitalized software product costs: | | |
| Amounts capitalized for software product costs | 16,324 | 15,919 |
| Less accumulated amortization | 13,775 | 13,524 |
| Net capitalized software product costs | 2,549 | 2,395 |
| Deferred income taxes | 1,696 | 1,616 |
| Other long term assets | 65 | 63 |
| Other intangible assets | 2,625 | 2,827 |
| Goodwill | 5,439 | 5,439 |
| Total assets | \$ 19,209 | \$ 19,777 |

See accompanying notes

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Consolidated Balance Sheets
(Dollars in Thousands, Except per Share Data)

| | (Unaudited) October 31 2010 | (Audited) July 31 2010 |
|---|-----------------------------------|------------------------------|
| Current liabilities: | | |
| Current borrowings on line of credit | \$ 1,025 | \$ 1,025 |
| Current portion of notes payable | 360 | - |
| Accounts payable | 318 | 490 |
| Deferred revenue | 5,073 | 5,270 |
| Accrued payroll and related liabilities | 1,045 | 1,322 |
| Accrued taxes | 62 | 60 |
| Other accrued liabilities | 869 | 844 |
| Current portion of capital lease obligations | 169 | 192 |
| Total current liabilities | 8,921 | 9,203 |
| Non-current liabilities: | | |
| Notes payable | 4,640 | 5,000 |
| Long-term portion of accrued compensation | - | 17 |
| Capital lease obligations | 307 | 338 |
| Total non-current liabilities | 4,947 | 5,355 |
| Total liabilities | 13,868 | 14,558 |
| Shareholders' equity: | | |
| Cumulative preferred stock, par value \$.001 per share, 1,000,000 shares authorized; 0 shares issued and outstanding at October 31, 2010 and July 31, 2010 | - | - |
| Junior preferred stock, par value \$.001 per share, 100,000 shares authorized; 0 shares issued and outstanding at October 31, 2010 and July 31, 2010 | - | - |
| Common stock, par value \$.001 per share, 25,000,000 shares authorized; 7,785,585 and 7,768,921 shares issued and outstanding at October 31, 2010 and July 31, 2010 | 8 | 8 |
| Common stock warrants and options | 1,008 | 983 |
| Additional paid-in-capital | 95,757 | 95,748 |
| Accumulated deficit | (91,408) | (91,507) |
| Other accumulated comprehensive loss | (24) | (13) |
| Total shareholders' equity | 5,341 | |