

ARI NETWORK SERVICES INC /WI
Form 10-Q
June 15, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended April 30, 2015

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 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.)

Edgar Filing: ARI NETWORK SERVICES INC /WI - Form 10-Q

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 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 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 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 June 9, 2015, there were 16,909,055 shares of the registrant's common stock outstanding.

ARI Network Services, Inc.

FORM 10-Q

FOR THE THREE MONTHS ENDED APRIL 30, 2015

INDEX

| | Page |
|------------------------------|---|
| PART I FINANCIAL INFORMATION | |
| Item 1 | 3 |
| | <u>Consolidated</u> <u>Financial</u> <u>Statements</u> <u>Management's</u> <u>Discussion</u> <u>and Analysis</u> <u>of Financial</u> <u>Condition</u> <u>and Results</u> <u>of Operations</u> <u>Quantitative</u> <u>and</u> <u>Qualitative</u> <u>Disclosures</u> <u>about Market</u> <u>Risk</u> |
| Item 2 | 20 |
| Item 3 | 32 |
| Item 4 | 32 |
| PART II OTHER INFORMATION | |
| Item 1 | 32 |
| Item 1A | 32 |
| Item 2 | 32 |
| Item 3 | 32 |
| Item 4 | 32 |

| | | |
|-------------------|--------------------|----|
| | <u>Mine Safety</u> | |
| | <u>Disclosures</u> | |
| Item 5 | <u>Other</u> | 33 |
| | <u>Information</u> | |
| Item 6 | <u>Exhibits</u> | 33 |
| <u>Signatures</u> | | 34 |

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

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

| | (Unaudited) Apr 30 2015 | (Audited) July 31 2014 |
|---|-------------------------------|------------------------------|
| ASSETS | | |
| Cash and cash equivalents | \$ 2,161 | \$ 1,808 |
| Trade receivables, less allowance for doubtful accounts of \$386 and \$359 at April 30, 2015 and July 31, 2014, respectively | 2,271 | 1,212 |
| Work in process | 169 | 294 |
| Prepaid expenses and other | 1,114 | 1,030 |
| Deferred income taxes | 3,235 | 2,655 |
| Total current assets | 8,950 | 6,999 |
| Equipment and leasehold improvements: | | |
| Computer equipment and software for internal use | 2,722 | 2,382 |
| Leasehold improvements | 626 | 626 |
| Furniture and equipment | 2,546 | 2,327 |
| | 5,894 | 5,335 |
| Less accumulated depreciation and amortization | (4,026) | (3,564) |
| Net equipment and leasehold improvements | 1,868 | 1,771 |
| Capitalized software product costs: | | |
| Amounts capitalized for software product costs | 24,729 | 22,676 |
| Less accumulated amortization | (20,216) | (18,656) |
| Net capitalized software product costs | 4,513 | 4,020 |
| Deferred income taxes | 2,451 | 3,507 |
| Other long-term assets | 82 | 72 |
| Other intangible assets | 8,092 | 3,612 |
| Goodwill | 18,517 | 12,367 |
| Total non-current assets | 35,523 | 25,349 |
| Total assets | \$ 44,473 | \$ 32,348 |

See accompanying notes

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

| | (Unaudited) Apr 30 2015 | (Audited) July 31 2014 |
|---|-------------------------------|------------------------------|
| LIABILITIES | | |
| Current portion of long-term debt | \$ 1,094 | \$ 675 |
| Current portion of contingent liabilities | 627 | 295 |
| Accounts payable | 766 | 656 |
| Deferred revenue | 7,796 | 7,415 |
| Accrued payroll and related liabilities | 1,690 | 1,336 |
| Accrued sales, use and income taxes | 137 | 123 |
| Other accrued liabilities | 773 | 472 |
| Current portion of capital lease obligations | 216 | 195 |
| Total current liabilities | 13,099 | 11,167 |
| Long-term borrowings on line of credit | 1,750 | — |
| Long-term debt | 7,587 | 3,375 |
| Long-term portion of contingent liabilities | 477 | 153 |
| Capital lease obligations | 133 | 233 |
| Other long-term liabilities | 194 | 214 |
| Total non-current liabilities | 10,141 | 3,975 |
| Total liabilities | 23,240 | 15,142 |
| SHAREHOLDERS' EQUITY | | |
| Cumulative preferred stock, par value \$.001 per share, 1,000,000 shares authorized; 0 shares issued and outstanding at April 30, 2015 and July 31, 2014, respectively | — | — |
| Junior preferred stock, par value \$.001 per share, 100,000 shares authorized; 0 shares issued and outstanding at April 30, 2015 and July 31, 2014, respectively | — | — |
| Common stock, par value \$.001 per share, 25,000,000 shares authorized; 15,149,055 and 13,506,316 shares issued and outstanding at April 30, 2015 and July 31, 2014, respectively | 15 | 14 |
| Additional paid-in capital | 109,356 | 106,077 |
| Accumulated deficit | (88,161) | (88,864) |
| Other accumulated comprehensive income (loss) | 23 | (21) |
| Total shareholders' equity | 21,233 | 17,206 |
| Total liabilities and shareholders' equity | \$ 44,473 | \$ 32,348 |

See accompanying notes

ARI Network Services, Inc.
Consolidated Statements of Operations
(Dollars in Thousands, Except per Share Data)
(Unaudited)

| | Three months ended | | Nine months ended | |
|---|--------------------|----------|-------------------|-----------|
| | April 30 | | April 30 | |
| | 2015 | 2014 | 2015 | 2014 |
| Net revenue | \$ 10,280 | \$ 8,176 | \$ 29,531 | \$ 24,471 |
| Cost of revenue | 1,780 | 1,560 | 5,391 | 4,806 |
| Gross profit | 8,500 | 6,616 | 24,140 | 19,665 |
| Operating expenses: | | | | |
| Sales and marketing | 2,718 | 2,291 | 7,928 | 7,190 |
| Customer operations and support | 1,831 | 1,638 | 5,392 | 5,029 |
| Software development and technical support (net of capitalized software product costs) | 1,102 | 679 | 3,046 | 2,016 |
| General and administrative | 1,709 | 1,289 | 4,901 | 4,490 |
| Depreciation and amortization (exclusive of amortization of software product costs included in cost of revenue) | 465 | 354 | 1,245 | 1,014 |
| Net operating expenses | 7,825 | 6,251 | 22,512 | 19,739 |
| Operating income (loss) | 675 | 365 | 1,628 | (74) |
| Other income (expense): | | | | |
| Interest expense | (123) | (68) | (352) | (216) |
| Loss on change in fair value of stock warrants | — | 4 | — | (28) |
| Gain on change in fair value of estimated contingent liabilities | — | — | — | 26 |
| Gain on change in fair value of contingent assets | 28 | — | 28 | — |
| Other, net | 2 | 12 | 5 | 27 |
| Total other income (expense) | (93) | (52) | (319) | (191) |
| Income (loss) before provision for income tax | 582 | 313 | 1,309 | (265) |
| Income tax benefit (expense) | (243) | (153) | (606) | (11) |
| Net income (loss) | \$ 339 | \$ 160 | \$ 703 | \$ (276) |
| Weighted average common shares outstanding: | | | | |
| Basic | 14,362 | 13,394 | 14,100 | 13,235 |
| Diluted | 14,786 | 13,790 | 14,536 | 13,235 |
| Net income (loss) per common share: | | | | |
| Basic | \$ 0.02 | \$ 0.01 | \$ 0.05 | \$ (0.02) |
| Diluted | \$ 0.02 | \$ 0.01 | \$ 0.05 | \$ (0.02) |

See accompanying notes

Consolidated Statements of Comprehensive Income
(Dollars in Thousands)
(Unaudited)

| | Three months ended | | Nine months ended | |
|--|--------------------|--------|-------------------|----------|
| | April 30 | | April 30 | |
| | 2015 | 2014 | 2015 | 2014 |
| Net income (loss) | \$ 339 | \$ 160 | \$ 703 | \$ (276) |
| Other comprehensive income (loss), net of tax: | | | | |
| Foreign currency translation adjustments | 6 | (8) | 44 | (15) |
| Total other comprehensive income (loss) | 6 | (8) | 44 | (15) |
| Comprehensive income (loss) | \$ 345 | \$ 152 | \$ 747 | \$ (291) |

See accompanying notes

ARI Network Services, Inc.

Consolidated Statements of Cash Flows

(Dollars in Thousands)

(Unaudited)