

ARI NETWORK SERVICES INC /WI
Form S-1/A
March 27, 2014

Filed Pursuant to Rule 424(b)(3)

Registration No. 333-188093

PROSPECTUS SUPPLEMENT NO. 5

ARI NETWORK SERVICES, INC.

4,330,667 shares of Common Stock

This prospectus supplement relates to the prospectus dated November 15, 2013, as supplemented by Prospectus Supplement No. 1 dated November 26, 2013, Prospectus Supplement No. 2 dated December 10, 2013, Prospectus Supplement No. 3 dated December 19, 2013 and Prospectus Supplement No. 4 dated January 13, 2014, which covers the sale of an aggregate of up to 4,330,667 shares of our common stock, \$0.001 par value per share (the “Common Stock”), by the selling security holders identified in the prospectus (collectively with any such holder’s transferee, pledgee, donee or successor, referred to below as the “Selling Shareholders”). The Common Stock covered by the prospectus consists of (i) 3,200,000 shares of Common Stock which were issued in a private placement pursuant to a Securities Purchase Agreement we entered into on March 12, 2013 with selected accredited investors (the “Securities Purchase Agreement”); (ii) 1,066,667 shares of Common Stock issued or issuable upon exercise of warrants issued pursuant to the Securities Purchase Agreement (the “Purchaser Warrants”); and (iii) 64,000 shares of Common Stock issuable upon exercise of the warrants issued to affiliates of the placement agent in connection with the private placement as consideration for the placement agent’s services (together with the Purchaser Warrants, the “Warrants”).

We will not receive any proceeds from the sale by the Selling Shareholders of the shares covered by the prospectus. To the extent Warrants are exercised for cash, we will receive the exercise price for those Warrants.

This prospectus supplement is being filed to include the information set forth in our quarterly report on Form 10-Q filed on March 17, 2014, which is set forth below. This prospectus supplement should be read in conjunction with the prospectus, which is to be delivered with this prospectus supplement.

This prospectus supplement should be read in conjunction with the prospectus, which is to be delivered with this prospectus supplement.

Our Common Stock is traded on the NASDAQ Capital Market under the symbol “ARIS”. The last reported market price of our Common Stock on the NASDAQ Capital Market on March 25, 2014 was \$3.31 per share. Our executive offices are located at 10850 West Park Place, Suite 1200, Milwaukee, Wisconsin 53224, and our telephone number is (414) 973-4300.

Investing in our securities involves risks. You should carefully consider the Risk Factors beginning on page 1 of the prospectus before you make an investment in our securities.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if the prospectus or this prospectus supplement are truthful or complete. Any representation to the contrary is a criminal offense.

The date of this prospectus supplement is March 27, 2014

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 January 31, 2014

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 39-1388360

(State or other jurisdiction of incorporation or organization)(IRS Employer Identification No.)

Edgar Filing: ARI NETWORK SERVICES INC /WI - Form S-1/A

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

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 March 9, 2014 there were 13,369,867 shares of the registrant's common stock outstanding.

ARI Network Services, Inc.

FORM 10-Q

FOR THE THREE MONTHS ENDED JANUARY 31, 2014

INDEX

TABLE OF CONTENTS

PART I	FINANCIAL INFORMATION	Page
Item 1	Consolidated Financial Statements	
	Consolidated Balance Sheets as of January 31, 2014 (unaudited) and July 31, 2013	3
	Consolidated Statements of Income (unaudited) for the three and six months ended January 31, 2014 and 2013	5
	Consolidated Statements of Comprehensive Income (unaudited) for the three and six months ended January 31, 2014 and 2013	5
	Consolidated Statements of Cash Flows (unaudited) for the six months ended January 31, 2014 and 2013	6
	Notes to the Unaudited Consolidated Financial Statements	7
Item 2	Management's Discussion and Analysis of Financial Condition and Results of Operations	25
Item 3	Quantitative and Qualitative Disclosures about Market Risk	38
Item 4	Controls and Procedures	38
PART II	OTHER INFORMATION	
Item 1	Legal Proceedings	38
Item 1A	Risk Factors	38
Item 2	Unregistered Sales of Equity Securities and Use of Proceeds	38
Item 3	Defaults upon Senior Securities	39

Item 4	Mine Safety Disclosures	39
Item 5	Other Information	39
Item 6	Exhibits	39
	Signatures	40

Item 1. Financial Statements

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

	(Unaudited) January 31 2014	(Audited) July 31 2013
ASSETS		
Cash and cash equivalents	\$ 581	\$ 2,195
Trade receivables, less allowance for doubtful accounts of \$377 and \$220 at January 31, 2014 and July 31, 2013, respectively	1,691	945
Work in process	180	154
Prepaid expenses and other	1,033	934
Deferred income taxes	2,912	2,938
Total current assets	6,397	7,166
Equipment and leasehold improvements:		

Computer equipment and software for internal use	2,848	2,641
Leasehold improvements	612	609
Furniture and equipment	2,903	2,561
	6,363	5,811
Less accumulated depreciation and amortization	(4,301)	(3,948)
Net equipment and leasehold improvements	2,062	1,863
Capitalized software product costs: Amounts capitalized for software product costs	21,891	20,814
Less accumulated amortization	(17,566)	(16,604)
Net capitalized software product costs	4,325	4,210
Deferred income taxes	3,621	3,451
Other long term assets	95	141
Other intangible assets	3,901	4,099
Goodwill	12,326	12,198

Total assets	\$ 32,727	\$ 33,128
-----------------	-----------	-----------

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

	(Unaudited) January 31 2014	(Audited) July 31 2013
LIABILITIES		
Current borrowings on line of credit	\$ 400	\$ -
Current portion of long-term debt	562	450
Current portion of earn-out payable	286	303
Accounts payable	866	710
Deferred revenue	7,523	8,571
Accrued payroll and related liabilities	1,365	1,434
Accrued sales, use and income taxes	134	147
Other accrued liabilities	614	316
Current portion of capital lease obligations	30	24
Total current liabilities	11,780	11,955
Long-term debt	3,714	4,050
Common stock warrants at fair value	286	254
Long-term portion of earn-out payable	169	418
Capital lease obligations	158	169
Other long term liabilities	223	233
Total non-current liabilities	4,550	5,124
Total liabilities	16,330	17,079
SHAREHOLDERS' EQUITY		
Cumulative preferred stock, par value \$.001 per share, 1,000,000 shares authorized; 0 shares issued and outstanding at January 31, 2014 and July 31, 2013, respectively	-	-
Junior preferred stock, par value \$.001 per share, 100,000 shares authorized; 0 shares issued and outstanding at January 31, 2014 and July 31, 2013, respectively	-	-
Common stock, par value \$.001 per share, 25,000,000 shares authorized; 13,367,992 and 12,976,588 shares issued and outstanding at January 31, 2014 and July 31, 2013, respectively	13	13
Additional paid-in capital	105,607	104,816
Accumulated deficit	(89,198)	(88,762)
Other accumulated comprehensive loss	(25)	(18)
Total shareholders' equity	16,397	16,049
Total liabilities and shareholders' equity	\$ 32,727	\$ 33,128

See accompanying notes

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

	Three months ended January 31		Six months ended January 31	
	2014	2013	2014	2013
Net revenue	\$ 8,135	\$ 7,478	\$ 16,295	\$ 13,420
Cost of revenue	1,686	1,721	3,246	3,129
Gross profit	6,449	5,757	13,049	10,291
Operating expenses:				
Sales and marketing	2,442	1,913	4,899	3,135
Customer operations and support	1,780	1,515	3,391	2,561
Software development and technical support (net of capitalized software product costs)	781	710	1,337	1,323
General and administrative	1,713	1,846	3,201	2,917
Depreciation and amortization (exclusive of amortization of software product costs included in cost of revenue)	339	339	660	619
Net operating expenses	7,055	6,323	13,488	10,554
Operating loss	(606)	(566)	(439)	(263)
Other income (expense):				
Interest expense	(78)	(269)	(148)	(337)
Loss on change in fair value of stock warrants	(10)	-	(32)	-
Gain on change in fair value of earn-out payable	-	-	26	-
Other income, net	7	4	15	8
Total other expense	(81)	(265)	(139)	(329)
Loss before provision for income tax	(687)	(831)	(578)	(592)
Income tax benefit	226	835	142	709
Net income (loss)	\$ (461)	\$ 4	\$ (436)	\$ 117
Net income (loss) per common share:				
Basic	\$ (0.03)	\$ 0.00	\$ (0.03)	\$ 0.01
Diluted	\$ (0.03)	\$ 0.00	\$ (0.03)	\$ 0.01

See accompanying notes

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

Edgar Filing: ARI NETWORK SERVICES INC /WI - Form S-1/A

	Three months ended January 31		Six months ended January 31	
	2014	2013	2014	2013
Net income (loss)	\$ (461)	\$ 4	\$ (436)	\$ 117
Other comprehensive income (loss), net of tax:				
Foreign currency translation adjustments	(2)	(16)	(7)	(26)
Total other comprehensive loss	(2)	(16)	(7)	(26)
Comprehensive income (loss)	\$ (463)	\$ (12)	\$ (443)	\$ 91

See accompanying notes

Page 5

ARI Network Services,
 Inc.
 Consolidated
 Statements of Cash
 Flows
 (Dollars in Thousands)
 (Unaudited)

	Six months ended	
	January 31	
	2014	2013
Operating activities:		
Net income	\$(436)	\$ 117
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Amortization of software products	262	860
Amortization of discount related to present value of earned	(8)	(16)
Amortization of bank loan	65	165

fees	
Depreciation and other amortization	619
Loss on change in fair value of stock warrants	-
Provision for bad debt allowance	50
Deferred income taxes	(144)
Stock based compensation related to stock options and restricted stock	334
Net change in assets and liabilities:	
Trade receivables	(83)
Work in process	(57)
Prepaid expenses and other	260
Other long term assets	(178)

Accounts payable	156	681
Deferred revenue	(1,048)	(710)
Accrued payroll and related liabilities	(62)	31
Accrued sales, use and income taxes	(13)	(92)
Other accrued liabilities	188	124
Net cash provided by operating activities	\$ 175	\$ 1,377
Investing activities:		
Purchase of equipment, software and leasehold improvements	(523)	(435)
Cash received on earnout from disposition of a component of the business	37	102
Cash paid related to earn-out	(200)	-
	(200)	(2,478)

Cash paid for assets related to acquisition Software developed for internal use (29)	-
Software development costs capital (284)	(818)
Net cash used in investing activities (1,949)	\$ (3,629)
Financing activities:	
Net borrowings under line of credit (400)	180
Payments on long-term debt (224)	(501)
Borrowings under long-term debt -	1,500
Payments of capital lease obligations (5)	(84)
Proceeds from issuance of common stock (141)	9
Net cash	\$ 312
	\$ 1,104

provided by financing activities		
Effect of foreign currency exchange rate changes on cash (4)	(12)	
Net change in cash and cash equivalents	(1,160)	
Cash and cash equivalents at beginning of period	1,195	1,350
Cash and cash equivalents at end of period	81	\$ 190
Cash paid for interest	50	\$ 270
Cash paid for income taxes	70	\$ 29
Noncash investing and financing activities		

Issuance of common stock in connection with acquisitions	\$ 101
Debt issued in connection with acquisitions	3,000
Accrued liabilities assumed in connection with acquisitions	4,728
Issuance of common stock in connection with debt issuance and loan fees -	623
Issuance of common stock related to payment of director compensation	140
Issuance of common stock related to payment of	108

employee
compensation
Contingent
liabilities
incurred
in
connection
with
acquisition 749
See accompanying notes

Page 6

Notes to Unaudited Consolidated Financial Statements

1. Description of the Business and Significant Accounting Policies

Description of the Business

ARI Network Services, Inc. (“ARI” or “the Company”) creates software-as-a-service (“SaaS”) and data-as-a-service (“DaaS”) solutions that help equipment manufacturers, distributors and dealers in selected vertical markets to Sell More Stuff!™ – online and in-store. We remove the complexity of selling and servicing new and used inventory, parts, garments, and accessories (“PG&A”) for customers in the outdoor power equipment (“OPE”), powersports, automotive tire and wheel (“ATW”), home medical equipment (“HME”), marine, recreational vehicle (“RV”) and white goods industries. Our innovative products are powered by a proprietary library of enriched original equipment and aftermarket content that spans more than 469,000 models from over 1,400 manufacturers. More than 22,000 equipment dealers, 195 distributors and 140 manufacturers worldwide leverage our web and eCatalog platforms to Sell More Stuff!™

We were incorporated in Wisconsin in 1981. Our principal executive office and headquarters is located in Milwaukee, Wisconsin. The office address is 10850 West Park Place, Suite 1200, Milwaukee, WI 53224, and our telephone number at that location is (414) 973-4300. Our principal website address is www.arinet.com. ARI also maintains operations in Duluth, Minnesota; Cypress, California; Virginia Beach, Virginia; Floyds Knobs, Indiana; and Leiden, The Netherlands.

Basis of Presentation

These consolidated financial statements include the financial statements of ARI and its wholly-owned subsidiary, ARI Europe B.V. We eliminated all significant intercompany balances and transactions in consolidation. Certain reclassifications were made to amounts previously reported in our financial statements in order to conform to the current presentation related to certain shared corporate overhead expenses which were reclassified between sales and

marketing, customer operations and support, software development and technical support and general and administrative expenses. This had no impact on gross profit, total operating expenses or net income. All adjustments that, in the opinion of management, are necessary for a fair presentation for the periods presented have been reflected as required by Regulation S-X, Rule 10-01.

Significant Accounting Policies

Our accounting policies are fully described in the footnotes to our Consolidated Financial Statements for the fiscal year ended July 31, 2013, which appear in our Annual Report on Form 10-K filed with the Securities and Exchange Commission on October 29, 2013. There were no changes to our accounting policies during the six months ended January 31, 2014.

Revenue Recognition

Revenue from software licenses, annual or periodic maintenance fees and catalog subscription fees, which are included in multiple element arrangements, are all recognized ratably over the contractual term of the arrangement, as vendor specific objective evidence does not exist for these elements. ARI considers all arrangements with payment terms extending beyond 12 months not to be fixed or determinable and evaluates other arrangements with payment terms longer than normal to determine whether the arrangement is fixed or determinable. If the fee is not fixed or determinable, revenue is recognized as payments become due from the customer. Arrangements that include acceptance terms beyond the standard terms are not recognized until acceptance has occurred. If collectability is not considered probable, revenue is recognized when the fee is collected.

Revenue for use of the network and for information services is recognized on a straight-line basis over the term of the contract.

Arrangements that include professional services are evaluated to determine whether those services are essential to the functionality of other elements of the arrangement. Types of services that are considered essential to software license arrangements include customizing complex features and functionality in a product's base software code or developing complex interfaces within a customer's environment. When professional services are considered essential to software license arrangements, the professional service revenue is recognized pursuant to contract accounting using the percentage-of-

completion method with progress-to-completion measured based upon labor hours incurred. Professional services revenue for set-up and integration of hosted websites, or other services considered essential to the functionality of other elements of this type of arrangement, is amortized over the term of the contract. When professional services are not considered essential, the revenue allocable to the professional services is recognized as the services are performed. When the current estimates of total contract revenue and contract cost indicate a loss, a provision for the entire loss on the contract is made in the period the amount is determined.

Revenue for variable transaction fees, primarily for use of the shopping cart feature of our websites, is recognized as it is earned.

Amounts invoiced to customers prior to recognition as revenue, as discussed above, are reflected in the accompanying balance sheets as deferred revenue.

Amounts received for shipping and handling fees are reflected in revenue. Costs incurred for shipping and handling are reported in cost of revenue.

Trade Receivables, Credit Policy and Allowance for Doubtful Accounts

Trade receivables are uncollateralized customer obligations due on normal trade terms, most of which require payment within thirty (30) days from the invoice date. Payments of trade receivables are allocated to the specific invoices identified on the customer's remittance advice or, if unspecified, are applied to the earliest unpaid invoices.

The carrying amount of trade receivables is reduced by an allowance that reflects management's best estimate of the amounts that will not be collected. Management individually reviews receivable balances that exceed ninety (90) days from the invoice date and, based on an assessment of current creditworthiness, estimates the portion of the balance that will not be collected. The allowance for potential doubtful accounts is reflected as an offset to trade receivables in the accompanying balance sheets.

Capitalized and Purchased Software Product Costs

Certain software development and acquisition costs are capitalized when incurred. Capitalization of these costs begins upon the establishment of technological feasibility. The establishment of technological feasibility and the on-going assessment of recoverability of software costs require considerable judgment by management with respect to certain

external factors, including, but not limited to, the determination of technological feasibility, anticipated future gross revenue, estimated economic life and changes in software and hardware technologies.

The annual amortization of software products is the greater of the amount computed using: (a) the ratio that current gross revenue for the network or a software product bear to the total of current and anticipated future gross revenue for the network or a software product, or (b) the straight-line method over the estimated economic life of the product which currently runs from two to nine years. Amortization starts when the product is available for general release to customers. The Company capitalizes costs of developing specific software enhancements on an on-going basis; all other software development and support expenditures are charged to expense in the period incurred.

Fair Value Assets and Liabilities

ARI uses the three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value. These tiers include Level 1, defined as observable inputs such as quoted market prices in active markets; Level 2, defined as inputs other than quoted market prices in active markets that are either directly or indirectly observable; and Level 3, defined as unobservable inputs in which little or no market data exists, therefore requiring an entity to develop its own assumptions. The asset's or liability's fair value measurement level within the hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

Common Stock Warrants

ARI has periodically issued common stock warrants in connection with debt and equity financing arrangements. The terms of the agreements are assessed to determine whether the instrument qualifies as an equity arrangement or a debt arrangement. Arrangements determined to be derivatives are recorded at fair value as liabilities on the balance sheet, with periodic gains and losses related to the change in fair value recorded to earnings on the Statements of Operations. The Company recorded losses

related to the change in fair value of common stock warrants of \$10,000 and \$32,000 for the three and six months ended January 31, 2014.

Legal Provisions

ARI may be periodically involved in legal proceedings arising from contracts, patents or other matters in the normal course of business. We reserve for any material estimated losses if the outcome is probable and can be reasonably estimated. We had no legal provisions for the three and six months ended January 31, 2014 and 2013, respectively.

Deferred Loan Fees and Debt Discounts

Fees associated with securing debt are capitalized and included in prepaid and other and other long term assets on the balance sheets. Stock issued as consideration for debt financing is recorded to debt discount, reducing the carrying amount of the debt on the balance sheets. Deferred loan fees and debt discounts are amortized to interest expense over the life of the debt using the effective interest method.

Deferred Income Taxes

The tax effect of the temporary differences between the book and tax bases of assets and liabilities and the estimated future tax benefit from tax net operating loss carryforwards is reported as deferred tax assets and liabilities in the balance sheet. An assessment of the likelihood that net deferred tax assets will be realized from future taxable income is performed at each reporting date or when events or changes in circumstances indicate that there may be a change in the valuation allowance. Because the ultimate realizability of deferred tax assets is highly subject to the outcome of future events, the amount established as a valuation allowance is considered to be a significant estimate that is subject to change in the near term. To the extent a valuation allowance is established or there is a change in the allowance during a period, the change is reflected with a corresponding increase or decrease in the income tax provision in the Statements of Operations.

2. Basic and Diluted Net Income per Share

Basic net income per common share is computed by dividing net income by the basic weighted average number of common shares outstanding during the period. Diluted net income per common share is computed by dividing net income by the weighted average number of common shares outstanding during the period and reflects the potential

dilution using the treasury stock method, which calculates the number of common shares that could be purchased at market price with the proceeds that would occur if all of the Company's outstanding stock options and warrants that have a strike price below the market price were exercised.

The following table is a reconciliation of basic and diluted net income per common share for the periods indicated (in thousands, except per share data):