ARI NETWORK SERVICES INC /WI
Form 10-Q
March 12, 2013

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended January 31, 2013

( ) 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

39-1388360

(State or other jurisdiction of incorporation or organization) (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 ü 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 ü 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 ü

(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 ü

As of March 4, 2013 there were 8,787,789 shares of the registrant’s common stock outstanding.

ARI Network Services, Inc.

FORM 10-Q

FOR THE THREE MONTHS ENDED JANUARY 31, 2013

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Item 1. Financial Statements

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

| | (Unaudited) January 31 2013 | July 31 2012 |
|---|---|---|
| ASSETS | | |
| Cash and cash equivalents | $ 190 | $ 1,350 |
| Trade receivables, less allowance for doubtful accounts of $239 and $215 at January 31, 2013 and July 31, 2012, respectively | 1,272 | 1,187 |
| Work in process | 208 | 151 |
| Prepaid expenses and other | 694 | 766 |
| Deferred income taxes | 3,245 | 2,686 |
| Total current assets | 5,609 | 6,140 |
| Equipment and leasehold improvements: | | |
| Computer equipment and software for internal use | 2,677 | 2,592 |
| Leasehold improvements | 609 | 584 |
| Furniture and equipment | 2,432 | 1,989 |
| | 5,718 | 5,165 |
| Less accumulated depreciation and amortization | 3,614 | 3,214 |
| Net equipment and leasehold improvements | 2,104 | 1,951 |
| Capitalized software product costs: | | |
| Amounts capitalized for software product costs | 20,381 | 18,247 |
| Less accumulated amortization | 16,158 | 15,298 |
| Net capitalized software product costs | 4,223 | 2,949 |
| Deferred income taxes | 2,650 | 2,443 |
| Other long term assets | 138 | 148 |
| Other intangible assets | 4,394 | 1,439 |
| Goodwill | 12,238 | 5,439 |
| Total assets | $ 31,356 | $ 20,509 |

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

| | (Unaudited) January 31 2013 | July 31 2012 |
|---|---|---|
| LIABILITIES | | |
| Current borrowings on line of credit | $ 180 | $ - |
| Current portion of long-term debt | 4,469 | 1,084 |
| Current portion of contingent liabilities | 362 | - |
| Accounts payable | 1,406 | 725 |
| Deferred revenue | 8,944 | 4,926 |
| Accrued payroll and related liabilities | 921 | 758 |
| Accrued sales, use and income taxes | 124 | 216 |
| Other accrued liabilities | 778 | 214 |
| Current portion of capital lease obligations | 108 | 150 |
| Total current liabilities | 17,292 | 8,073 |
| Long-term debt | 2,943 | 2,888 |
| Long-term portion of contingent liabilities | 463 | - |
| Capital lease obligations | 16 | 58 |
| Other long term liabilities | 256 | 274 |
| Total non-current liabilities | 3,678 | 3,220 |
| Total liabilities | 20,970 | 11,293 |
| | | |
| SHAREHOLDERS' EQUITY | | |
| Cumulative preferred stock, par value $.001 per share, 1,000,000 shares authorized; 0 shares issued and outstanding at January 31, 2013 and July 31, 2012, respectively | - | - |
| Junior preferred stock, par value $.001 per share, 100,000 shares authorized; 0 shares issued and outstanding at January 31, 2013 and July 31, 2012, respectively | - | - |
| Common stock, par value $.001 per share, 25,000,000 shares authorized; 8,787,789 and 8,037,750 shares issued and outstanding at January 31, 2013 and July 31, 2012, respectively | 9 | 8 |
| Common stock warrants and options | 1,372 | 1,287 |
| Additional paid-in capital | 96,924 | 95,931 |
| Accumulated deficit | (87,892) | (88,009) |
| Other accumulated comprehensive loss | (27) | (1) |
| Total shareholders' equity | 10,386 | 9,216 |
| Total liabilities and shareholders' equity | $ 31,356 | $ 20,509 |

See accompanying notes

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

| | Three months ended January 31 | | Six months ended January 31 | |
|---|---|---|---|---|
| | 2013 | 2012 | 2013 | 2012 |
| Net revenue | $ 7,478 | $ 5,501 | $ 13,420 | $ 10,911 |
| Cost of revenue | 1,721 | 1,251 | 3,129 | 2,387 |
| Gross profit | 5,757 | 4,250 | 10,291 | 8,524 |
| Operating expenses: | | | | |
| Sales and marketing | 1,744 | 1,118 | 2,790 | 2,151 |
| Customer operations and support | 1,470 | 850 | 2,478 | 1,696 |
| Software development and technical support (net of capitalized software product costs) | 672 | 490 | 1,249 | 878 |
| General and administrative | 2,098 | 1,218 | 3,418 | 2,326 |
| Depreciation and amortization (exclusive of amortization of software product costs included in cost of revenue) | 339 | 404 | 619 | 807 |
| Net operating expenses | 6,323 | 4,080 | 10,554 | 7,858 |
| Operating income (loss) | (566) | 170 | (263) | 666 |
| Other income (expense): | | | | |
| Interest expense | (269) | (59) | (337) | (121) |
| Other, net | 4 | 11 | 8 | 17 |
| Total other income (expense) | (265) | (48) | (329) | (104) |
| Income before provision for income tax | (831) | 122 | (592) | 562 |
| Income tax benefit (expense) | 835 | (61) | 709 | (229) |
| Net income | $ 4 | $ 61 | $ 117 | $ 333 |
| | | | | |
| Net income per common share: | | | | |
| Basic | $ 0.00 | $ 0.01 | $ 0.01 | $ 0.04 |
| Diluted | $ 0.00 | $ 0.01 | $ 0.01 | $ 0.04 |

See accompanying notes

Consolidated Statements of Comprehensive Income (Loss)
(Dollars in Thousands, Except per Share Data)
(Unaudited)

| | Three months ended January 31 | | Six months ended January 31 | |
|---|---|---|---|---|
| | 2013 | 2012 | 2013 | 2012 |

| | | | | |
|---|---|---|---|---|
| Net income | $ 4 | $ 61 | $ 117 | $ 333 |
| | | | | |
| Other comprehensive income (loss), net of tax: | | | | |
| Foreign currency translation adjustments | (16) | 16 | (26) | 23 |
| Total other comprehensive income (loss) | (16) | 16 | (26) | 23 |
| Comprehensive Income (loss) | $ (12) | $ 77 | $ 91 | $ 356 |

See accompanying notes

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

| | Six months ended January 31 | |
|---|---|---|
| | 2013 | 2012 |
| Operating activities: | | |
| Net income | $ 117 | $ 333 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Amortization of software products | 860 | 685 |
| Amortization of discount related to present value of earnout | (16) | (23) |
| Amortization of bank loan fees | 165 | - |
| Depreciation and other amortization | 619 | 807 |
| Provision for bad debt allowance | 50 | 15 |
| Deferred income taxes | (766) | 205 |
| Stock based compensation related to stock options | 85 | 43 |
| Stock issued as contribution to 401(k) plan | - | 55 |
| Net change in assets and liabilities: | | |
| Trade receivables | (83) | 116 |
| Work in process | (57) | 3 |
| Prepaid expenses and other | 260 | 35 |
| Other long term assets | (140) | 9 |
| Accounts payable | 681 | (186) |
| Deferred revenue | (710) | (427) |
| Accrued payroll and related liabilities | 280 | (286) |
| Accrued sales, use and income taxes | (92) | (30) |
| Other accrued liabilities | 124 | 21 |
| Net cash provided by operating activities | $ 1,377 | $ 1,375 |
| Investing activities: | | |
| Purchase of equipment, software and leasehold improvements | (435) | (211) |
| Cash received from disposition of a component of the business | 102 | 179 |
| Cash paid for net assets related to acquisitions | (2,478) | - |
| Software developed for internal use | - | (123) |
| Software development costs capitalized | (818) | (807) |
| Net cash used in investing activities | $ (3,629) | $ (962) |
| Financing activities: | | |
| Borrowings (repayments) under line of credit | 180 | (245) |
| Payments on long-term debt | (501) | (417) |
| Borrowings under long-term debt | 1,500 | - |
| Payments of capital lease obligations | (84) | (70) |
| Proceeds from issuance of common stock | 9 | 12 |
| Net cash provided by (used in) financing activities | $ 1,104 | $ (720) |
| Effect of foreign currency exchange rate changes on cash | (12) | 14 |

| | | |
|---|---|---|
| Net change in cash and cash equivalents | (1,160) | (293) |
| Cash and cash equivalents at beginning of period | 1,350 | 1,134 |
| Cash and cash equivalents at end of period | $ 190 | $ 841 |
| Cash paid for interest | $ 270 | 66 |
| Cash paid for income taxes | $ 29 | 14 |
| | | |
| 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 executive compensation | 108 | 12 |
| Contingent liabilities incurred in connection with acquisition | 749 | - |

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See accompanying notes

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") provides technology-enabled services that help our customers effectively and efficiently sell more whole goods, parts, garments and accessories ("PG&A"). Our customer base of more than 22,000 dealers, 195 distributors, and 140 manufacturers utilize ARI's products and services to drive and manage leads, efficiently service consumers at the parts counter, and enable eCommerce sales of PG&A. ARI's solutions are aimed at markets with complex equipment requiring service and sold through an independent dealer channel and including the outdoor power, powersports, marine, RV, automotive wheel and tire, and white goods markets.

Most of our solutions leverage our library of electronic content that we have published and aggregated into a large content management system, which contains data related to more than 10 million active parts across more than 469,000 models; more than 500,000 active accessories; SKUs across more than 73,000 active products; more than 300 actively updated whole goods brands; and holds full model data and images for more than 175,000 active models.

We market our products primarily through software-as-a-service ("SaaS") and data-as-a-service ("DaaS") business models that typically contain both an annual auto-renewing subscription component as well as a variable usage-based revenue component. It is the nature of our products, along with the content and the continual management and updating of the content, which allows us to sell the majority of our products and services in a recurring revenue model. Today, more than 85% of our revenues are recurring.

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 The Netherlands.

Basis of Presentation

These consolidated financial statements include the financial statements of ARI and its wholly-owned subsidiaries. We eliminated all significant intercompany balances and transactions in consolidation. Any other adjustments deemed necessary by management for a fair presentation of all periods presented have been reflected as required by Regulation S-X, Rule 8-03, in the normal course of business.

Significant Accounting Policies

Our accounting policies are fully described in the footnotes to our Consolidated Financial Statements for the fiscal year ended July 31, 2012, which appear in our Annual Report on Form 10-K filed with the Securities and Exchange Commission on October 29, 2012. There were no changes to our accounting policies during the six months ended January 31, 2013.

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 twelve 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 period 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. 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 pursuant to contract accounting using the percentage-of-completion method with progress-to-completion measured based upon labor hours incurred. 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 bears 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 three to five years. Amortization starts when the product is available for general release to customers. All other software development and support expenditures are charged to expense in the period incurred.

Legal Provisions

ARI is 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 or six months ended January 31, 2013 and 2012.

Deferred Loan Fees and Debt Discounts

Fees associated with securing debt are capitalized and included in other long term assets on the balance sheet. Stock issued in connection with securing debt is recorded to debt discount, reducing the carrying amount of the debt on the balance sheet. Deferred loan fees and debt discounts are amortized to interest expense over the life of the debt.

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 that could occur if all of the Company's outstanding stock options that have a strike price below the market price were exercised (calculated using the treasury stock method).

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):

| | Three months ended January 31 | | Six months ended January 31 | |
|---|---|---|---|---|
| | 2013 | 2012 | 2013 | 2012 |

| | | | | |
|---|---|---|---|---|
| Net income | $ 4 | $ 61 | $ 117 | $ 333 |
| | | | | |
| Weighted-average common shares outstanding | 8,528 | 8,006 | 8,325 | 7,966 |
| Effect of dilutive stock options and warrants | 231 | 50 | 173 | 50 |
| Diluted weighted-average common shares outstanding | 8,759 | 8,056 | 8,498 | 8,016 |
| | | | | |
| Earnings per share | | | | |
| Basic | $ 0.00 | $ 0.01 | $ 0.01 | $ 0.04 |
| Diluted | $ 0.00 | $ 0.01 | $ 0.01 | $ 0.04 |
| | | | | |
| Options and warrants that could potentially dilute net income per share in the future that are not included in the computation of diluted net income per share, as their impact is anti-dilutive | 280 | 823 | 735 | 823 |

3. Stock-based Compensation Plans

Stock Option Plans

We used the Black-Scholes model to value stock options granted. Expected volatility is based on historical volatility of the Company’s stock. The expected life of options granted represents the period of time that options granted are expected to be outstanding. The risk-free rate for periods within the contractual term of the options is based on the United States Treasury yields in effect at the time of grant.

As recognizing stock-based compensation expense is based on awards ultimately expected to vest, the amount of recognized expense has been reduced for estimated forfeitures based on the Company's historical experience. Total stock compensation expense recognized by the Company was approximately $48,000 and $27,000 during the three month periods ended January 31, 2013 and 2012, respectively, and $85,000 and $43,000 for the six month periods ended January 31, 2013 and 2012, respectively. There was approximately $232,000 and $164,000 of total unrecognized compensation costs related to non-vested options granted under the Company's stock option plans as of January 31, 2013 and July 31, 2012, respectively. There were no capitalized stock-based compensation costs at January 31, 2013 or July 31, 2012.

The fair value of each option granted was estimated in the period of issuance using the assumptions in the following table for the three and six month periods ended January 31, 2013 and 2012, respectively:

| | Three months ended January 31 | | | | Six months ended January 31 | | | |
|---|---|---|---|---|---|---|---|---|
| | 2013 | | 2012 | | 2013 | | 2012 | |
| Expected life (years) | 10 years | | 10 years | | 10 years | | 10 years | |
| Risk-free interest rate | 1.7 | % | 2.0 | % | 1.7 | % | 2.1 | % |
| Expected volatility | 130.6 | % | 125.5 | % | 130.5 | % | 123.9 | % |
| Expected forfeiture rate | 11.7 | % | 24.8 | % | 13.5 | % | 21.2 | % |
| Expected dividend yield | - | % | - | % | - | % | - | % |
| Weighted-average estimated fair value of options granted during the year | $ 1.29 | | $ 1.04 | | $ 1.25 | | $ 0.96 | |

2000 Stock Option Plan

The Company's 2000 Stock Option Plan (the "2000 Plan") had 1,950,000 shares of common stock authorized for issuance. Each incentive stock option that was granted under the 2000 Plan is exercisable for a period of not more than ten years from the date of grant (five years in the case of a participant who is a 10% shareholder of the Company, unless the stock options are nonqualified), or such shorter period as determined by the Compensation Committee, and shall lapse upon the expiration of said period, or earlier upon termination of the participant's employment with the Company. The 2000 Plan expired on December 13, 2010, at which time it was terminated except for outstanding options. As a result, no new options may be granted under the 2000 Plan. Changes in option shares under the 2000 Plan during the three and six months ended January 31, 2013 and 2012 are as follows:

| | Number of Options | Wtd. Avg. Exercise | Wtd. Avg. Remaining Contractual | Aggregate Instrinsic Value |
|---|---|---|---|---|

| | | Price | Period (Years) | |
|---|---|---|---|---|
| Outstanding at 10/31/11 | 1,173,594 | $ 1.37 | 5.82 | $ 90,116 |
| Granted | - | n/a | n/a | n/a |
| Exercised | (7,750) | 0.65 | n/a | n/a |
| Forfeited | (8,575) | 0.85 | n/a | n/a |
| Outstanding at 1/31/12 | 1,157,269 | $ 1.38 | 5.59 | $ 298,444 |
| Exercisable at 1/31/12 | 981,552 | $ 1.50 | 5.10 | $ 167,097 |
| | | | | |
| Outstanding at 10/31/12 | 1,002,461 | $ 1.40 | 4.97 | $ 114,006 |
| Granted | - | n/a | n/a | n/a |
| Exercised | (2,000) | 0.35 | n/a | n/a |
| Forfeited | (2,500) | 0.73 | n/a | n/a |
| Outstanding at 1/31/13 | 997,961 | $ 1.41 | 4.72 | $ 459,617 |
| Exercisable at 1/31/13 | 922,374 | $ 1.47 | 4.72 | $ 375,251 |

| | Number of Options | Wtd. Avg. Exercise Price | Wtd. Avg. Remaining Contractual Period (Years) | Aggregate Instrinsic Value |
|---|---|---|---|---|
| Outstanding at 7/31/11 | 1,236,333 | $ 1.36 | 6.10 | $ 34,041 |
| Granted | - | n/a | n/a | n/a |
| Exercised | (20,950) | 0.63 | n/a | n/a |
| Forfeited | (58,114) | 1.19 | n/a | n/a |
| Outstanding at 1/31/12 | 1,157,269 | $ 1.38 | 5.59 | $ 298,444 |
| Exercisable at 1/31/12 | 981,552 | $ 1.50 | 5.10 | $ 167,097 |
| | | | | |
| Outstanding at 7/31/12 | 1,099,769 | $ 1.41 | 5.06 | $ 105,849 |
| Granted | - | n/a | n/a | n/a |
| Exercised | (12,800) | 0.54 | n/a | n/a |
| Forfeited | (89,008) | 1.56 | n/a | n/a |
| Outstanding at 1/31/13 | 997,961 | $ 1.41 | 4.72 | $ 459,617 |
| Exercisable at 1/31/13 | 922,374 | $ 1.47 | 4.72 | $ 375,251 |

The range of exercise prices for options outstanding under the 2000 Plan was $0.15 to $2.74 at January 31, 2013 and 2012.

Changes in the 2000 Plan's non-vested option shares included in the outstanding shares above during the three and six months ended January 31, 2013 and 2012 are as follows:

| | Number of Options | Wtd. Avg. Exercise Price |
|---|---|---|
| Non-vested at 10/31/11 | 179,467 | $ 0.75 |
| Granted | - | n/a |
| Vested | (250) | 0.86 |
| Forfeited | (3,500) | 0.80 |
| Non-vested at 1/31/12 | 175,717 | $ 0.75 |
| | | |
| Non-vested at 10/31/12 | 75,587 | $ 0.68 |
| Granted | - | n/a |
| Vested | - | n/a |
| Forfeited | - | n/a |
| Non-vested at 1/31/13 | 75,587 | $ 0.68 |

| | Number of Options | Wtd. Avg. Exercise Price |
|---|---|---|
| Non-vested at 7/31/11 | 181,092 | $ 0.75 |
| Granted | - | n/a |
| Vested | (250) | 0.86 |
| Forfeited | (5,125) | 0.80 |
| Non-vested at 1/31/12 | 175,717 | $ 0.75 |
| | | |
| Non-vested at 7/31/12 | 78,087 | $ 0.69 |
| Granted | - | n/a |
| Vested | - | n/a |
| Forfeited | (2,500) | 0.73 |
| Non-vested at 1/31/13 | 75,587 | $ 0.68 |

The weighted average remaining vesting period was .87 and 1.24 years at January 31, 2013 and 2012, respectively.

2010 Equity Incentive Plan

The Board of Directors adopted the ARI Network Services, Inc. 2010 Equity Incentive Plan (the “2010 Plan”) on November 9, 2010, and the plan was approved by the Company's shareholders in December 2010. The 2010 Plan is the successor to the Company’s 2000 Plan.

The 2010 Plan includes the following provisions:

- the aggregate number of shares of Common Stock subject to the 2010 Plan is 650,000 shares;
- the exercise price for options and stock appreciation rights cannot be less than 100% of the fair market value, as defined, of the Company’s Common Stock on the date of grant;
- the exercise prices for options and stock appreciation rights cannot be repriced without shareholder approval, except to reflect changes to the capital structure of the Company as described in the 2010 Plan;
- a maximum term of ten (10) years for options and stock appreciation rights;
- a maximum of 325,000 of the shares available for issuance under the 2010 Plan can be in the form of restricted shares or restricted stock units, and the 2010 Plan does not have liberal share counting provisions (such as provisions that would permit shares withheld for payment of taxes or the exercise price of stock options to be re-granted under the plan); and
- awards cannot be transferred to third parties, with the exception of certain estate planning transfers, which can be made if the committee that administers the 2010 Plan approves such transfers.

Changes in option shares under the 2010 Plan during the three and six months ended January 31, 2013 and 2012 are as follows:

| | Number of Options | Wtd. Avg. Exercise Price | Wtd. Avg. Remaining Contractual Period (Years) | Aggregate Instrinsic Value |
|---|---|---|---|---|
| Outstanding at 10/31/11 | 117,875 | $ 0.75 | 9.67 | $ 23,096 |
| Granted | | | | |