U.S. SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-QSB

(MARK ONE)

☑ Quarterly Report Pursuant to Section 13 or 15(d) of Securities Exchange Act of 1934

For the quarterly period ended **October 31, 2001**

☐ Transition report under Section 13 or 15(d) of the Securities Exchange Act of 1934

For the transition period from _______ to _______.

Commission File No. 000-28321

ARS NETWORKS, INCORPORATED
(Name of Small Business Issuer in Its Charter)

New Hampshire	14-1805077
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)
100 Walnut Street, Champlain, New York	12919
(Address of Principal Executive Offices)	(Zip Code)

(518) 298-2042
(Issuer's Telephone Number, Including Area Code)

Check whether the issuer: (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months, and (2) has been subject to such filing requirements for the past 90 days. Yes ☑ No ☐

There were 18,135,373 shares of Common Stock outstanding as of December 11, 2001.

Part I -- Financial Information

Item 1. Financial Statements

ARS NETWORKS, INCORPORATED AND SUBSIDIARY
CONSOLIDATED BALANCE SHEET (UNAUDITED)
($US)

ASSETS	
	October 31, 2001
CURRENT	
Cash	$ 74,534
Accounts receivable	183,621
Due from officer	8,085
Inventories	71,232
Prepaid expenses	8,269
TOTAL CURRENT ASSETS	345,741
OTHER ASSETS	
Goodwill, net of amortization of $70,064	345,140
Machinery and equipment, net	13,138
Other	646
	$ 704,665
	=========
LIABILITIES AND STOCKHOLDERS' DEFICIT	
CURRENT LIABILITIES	
Accounts payable	$ 401,576
Accrued compensation and fees	434,638
Accrued income taxes payable	21,237
Note payable - related party (Note 5)	68,500
Note payable - investor (Note 4)	50,000
Current maturities of long-term debt	2,679
TOTAL CURRENT LIABIILTIES	978,630

COMMITMENTS AND CONTINGENCIES (NOTES 2 AND 4)	
STOCKHOLDERS' DEFICIT (NOTES 4 AND 5)	
Preferred stock, $.0001 par value - 25,000,000 shares authorized; none outstanding	-
Common stock - $.0001 par value - 50,000,000 shares authorized; 16,716,377 outstanding	1,672
Additional paid in capital	3,616,394
Accumulated deficit	(3,892,031)
TOTAL STOCKHOLDERS' DEFICIT	(273,965)
	$ 704,665
	=========

See accompanying notes

ARS NETWORKS, INCORPORATED AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF LOSS (UNAUDITED)
($US)

	Nine Months Ended October 31, 2000	Nine Months Ended October 31, 2001
SALES	$ 131,795	$ 849,591
COST OF SALES	109,117	700,940
GROSS PROFIT	22,678	148,651
OPERATING EXPENSES		
Advertising and promotion	67,898	149,108
Professional fees	466,017	462,645
Officers' compensation	522,693	387,156
Development expenses	53,809	96,724
Office compensation	22,309	43,964
Rent and telecommunications	19,367	29,529
Depreciation and amortization	15,274	44,642
Travel	-	40,482
General	5,019	20,407
TOTAL OPERATING EXPENSES	1,172,386	1,274,657
OPERATING LOSS	(1,149,708)	(1,126,006)
INTEREST EXPENSE (NOTE 4)	3,766	154,748
LOSS BEFORE INCOME TAXES	(1,153,474)	(1,280,754)
INCOME TAXES	-	21,000
NET LOSS	$ (1,153,474)	$ (1,301,754)
	=========	=========
LOSS PER SHARE (BASIC AND DILUTED):		
Net loss	$ (.11)	$ (.10)
	=========	=========
WEIGHTED AVERAGE SHARES OUTSTANDING	10,929,248	13,691,914
	=========	=========

See accompanying notes

ARS NETWORKS, INCORPORATED AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF LOSS (UNAUDITED)
($US)

	Three Months Ended October 31, 2000	Three Months Ended October 31, 2001
SALES	$ 131,795	$ 252,427
COST OF SALES	109,117	192,874
GROSS PROFIT	22,678	59,553
EXPENSES		
Officers' compensation	45,376	167,844
Professional fees	123,127	112,918
Advertising and promotion	-	1,193
Development expenses and other	17,176	21,144
Rent and telecommunications	6,538	11,492
Office compensation	22,309	20,896
Depreciation and amortization	15,274	14,628
Travel	-	30,902
General	4,061	4,780
TOTAL EXPENSES	233,861	385,797
OPERATING LOSS	(211,183)	(326,244)
INTEREST EXPENSE (NOTE 4)	3,766	127,726
LOSS BEFORE INCOME TAXES	(214,949)	(453,970)
INCOME TAXES	-	11,000
NET LOSS	$ (214,949)	$ (464,970)
	========	=========
LOSS PER SHARE (BASIC AND DILUTED):		
Net loss	$ (.02)	$ (.03)
	========	=========
WEIGHTED AVERAGE SHARES OUTSTANDING	11,165,740	14,225,259
	========	=========

See accompanying notes

ARS NETWORKS INCORPORATED AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED) (NOTE 7)
($US)

	Nine Months Ended October 31, 2000	Nine Months Ended October 31, 2001
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	$ (1,153,474)	$ (1,301,754)
Adjustments to reconcile net loss to net cash (used in) operating activities:		
Professional fees and officers compensation settled in stock	360,533	348,585
Officers' compensation recognized for modification of stock options	375,922	-
Depreciation and amortization	15,274	44,642
Interest imputed on note payable - investor	-	136,530
Changes in assets and liabilities:		
Decrease in accounts receivable	124,161	54,091
(Increase) decrease in inventories	(16,247)	61,716
(Increase) decrease in prepaid expenses	(3,993)	1,436
(Increase) in due from officer	-	(5,765)
(Increase) in other assets	(3,186)	-
Increase in accounts payable and accrued expenses	199,362	287,599
TOTAL ADJUSTMENTS	1,051,826	928,834
NET CASH (USED IN) OPERATING ACTIVITIES	(101,648)	(372,920)
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of T & T Diesel Power, Ltd., net of cash acquired	(92,762)	-
NET CASH (USED IN) INVESTING ACTIVITIES	(92,762)	-
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from the sale of common stock	205,022	391,600
Proceeds from note payable - related party	68,500	-
Proceeds from note payable - investor	-	150,000
Payments of note payable - investor	-	(100,000)
Payment of note payable - former shareholders of T & T Diesel	-	(115,516)
Payments of long-term debt	(1,471)	(3,996)
Repayment of advance from officer	(15,240)	-
NET CASH PROVIDED BY FINANCING ACTIVITIES	256,811	322,088
NET INCREASE (DECREASE) IN CASH	62,401	(50,832)
CASH, BEGINNING OF PERIOD	138,579	125,366
CASH, END OF PERIOD	$ 200,980	$ 74,534
	========	========

See accompanying notes

ARS NETWORKS, INCORPORATED AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

INFORMATION AS OF OCTOBER 31, 2001 AND FOR THE PERIODS ENDED OCTOBER 31, 2001 AND 2000 IS UNAUDITED ($US)

1. ORGANIZATION

ARS Networks, Incorporated ("ARS"), incorporated on May 4, 1998 in New Hampshire, was formed to design and develop advanced railway communications and data management systems. ARS's first product under development is Crosslogix™, an advanced warning system for railway level crossings. The Company is devoting most of its efforts to this business line.

On July 31, 2000, ARS acquired the stock of T & T Diesel Power, Ltd. ("T & T"). T & T manufactures custom diesel power generating equipment. As a result of this acquisition, ARS began to earn revenue and is no longer considered a development stage enterprise.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND OTHER INFORMATION

Basis of Presentation

The accompanying financial statements have been prepared in accordance with U.S. generally accepted accounting principles and are presented in U.S. dollars.

Principles of Consolidation

The consolidated financial statements include the accounts of ARS and its wholly owned subsidiary, T & T. All material intercompany accounts and transactions are eliminated.

Going Concern and Management's Plans

The Company has a limited operating history with no revenues from its railway communications and data management systems business. Because of this, the Company faces significant obstacles in regards to financing and customer acceptance of the Company's products. The Company's continuation as a going concern is dependent upon its ability to raise capital under its equity line of credit (Note 4) or from other sources. In connection with the equity line of credit, on June 1, 2001 the Company filed Form SB-2 to register additional shares for sale with the Securities and Exchange Commission. Management believes sufficient funds are or will be available to sustain operations for at least the twelve months following the latest balance sheet date. These funds have been and will continue to be utilized to fund development of the Company's railway communications and data management systems business and marketing efforts.

These factors create uncertainty about the Company's ability to continue as a going concern. The financial statements do not include any adjustments to reflect the possible future effect on recoverability and classification of assets or the classification of liabilities that might result from the outcome of this uncertainty.

Earnings Per Share

The Company follows Statement of Financial Accounting Standards ("SFAS") No. 128, "Earnings per Share," which requires presentation of basic earnings per share and diluted earnings per share by all entities that have publicly traded common stock or potential common stock (options, warrants, convertible securities or contingent stock arrangements). Basic earnings per share is computed by dividing income available to common stockholders by the weighted average number of common shares outstanding during the period. Diluted earnings per share gives effect to dilutive potential common shares outstanding during the period. Assumed exercise of options has not been included in the calculation of diluted earnings per share since the effect would be antidilutive. The number of potential common shares excluded from the diluted loss per share calculations, since the effect would be antidilutive, was 3,543,947 and 4,626,497 for the nine months ended October 31, 2000 and 2001, respectively. Accordingly, basic and diluted net loss per share do not differ for any period presented.

Unaudited Interim Financial Information

The accompanying financial statements are unaudited; however, in the opinion of management, all adjustments necessary for a fair statement of financial position and results for the stated periods have been included. These adjustments are of a normal recurring nature. Selected information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted. Results for interim periods are not necessarily indicative of the results to be expected for an entire fiscal year. It is suggested that these condensed financial statements be read in conjunction with the audited financial statements and accompanying notes for the year ended January 31, 2001.

Effect Of Recent Accounting Pronouncements

In June 2001, the Financial Accounting Standards Board finalized FASB Statements No. 141, *Business Combinations* (SFAS 141), and No. 142, *Goodwill and Other Intangible Assets* (SFAS 142). SFAS 141 requires the use of the purchase method of accounting and prohibits the use of the pooling-of-interests method of accounting for business combinations initiated after June 30, 2001. SFAS 141 also requires that we recognize acquired intangible assets apart from goodwill if the acquired intangible assets meet certain criteria. SFAS 141 applies to all business combinations initiated after June 30, 2001 and for purchase business combinations completed on or after July 1, 2001. It also requires, upon adoption of SFAS 142, that we reclassify the carrying amounts of intangible assets and goodwill based on the criteria in SFAS 141.

SFAS 142 requires, among other things, that companies no longer amortize goodwill, but instead test goodwill for impairment at least annually. In addition, SFAS 142 requires that we identify reporting units for the purposes of assessing potential future impairments of goodwill, reassess the useful lives of other existing recognized intangible assets, and cease amortization of intangible assets with an indefinite useful life. An intangible asset with an indefinite useful life should be tested for impairment in accordance with the guidance in SFAS 142. SFAS 142 is required to be applied in fiscal years beginning after December 15, 2001 to all goodwill and other intangible assets recognized at the date, regardless of when those assets were initially recognized. SFAS 142 requires us to complete a transitional goodwill impairment test six months from the date of adoption. We are also required to reassess the useful lives of other intangible assets within the first interim quarter after adoption of SFAS 142.

The acquisition of T & T was accounted for using the purchase method. As of October 31, 2001, the net carrying amount of goodwill is $345,140. Amortization expense during the nine month period ended October 31, 2001 was $41,588. Currently, we are assessing but have not yet determined how the adoption of SFAS 141 and SFAS 142 will impact our financial position and results of operations.

3. ACQUISITION OF T & T

On July 31, 2000, ARS purchased all of the outstanding stock of T & T. The acquisition was accounted for as a purchase. The purchase price was $418,266 of which $102,750 was paid in cash at closing, with notes payable to the former shareholders of T & T ("the sellers") of $115,516, and the issuance of 200,000 shares of ARS common stock valued at $200,000. The notes payable accrued interest at 8% and were paid on August 9, 2001. The acquisition resulted in goodwill of approximately $415,000, including approximately $31,000 of acquisition costs, which is being amortized on a straight-line basis over 7 years.

4. EQUITY LINE OF CREDIT

In March 2001, the Company entered into an equity line of credit agreement ("the equity line") with Cornell Capital Partners, L.P. ("the investor"). Under the equity line, the investor is committed to purchase up to $5,000,000 of the Company's common stock over the course of 24 months commencing on the earlier of (i) effective registration of the shares, or (ii) as mutually agreed in writing. Under the equity line, the Company may request an advance by the investor. The number of shares of common stock that the investor shall receive for each advance shall be determined by dividing the amount of the advance by the purchase price. The purchase price is 90% of the market price. The maximum advance amount shall be equal to 150% of the average daily volume of the Company's common stock multiplied by the purchase price. The average daily volume shall be computed by using the forty (40) trading days prior to the advance notice date. The advance notice date is the date the investor receives a written notice from the Company requesting an advance amount under the equity line. The market price is the average of the lowest closing bid prices of the common stock over the ten (10) trading day period beginning on the first trading day after an advance notice date and ending on the trading day prior to the relevant advance date.

There will be a minimum of eleven (11) trading days between advance notice dates. The Company has the right to withdraw that portion of an advance that does not meet the minimum acceptable price. The minimum acceptable price is defined as 75% of the lowest closing bid price of the Company's common stock for the fifteen (15) trading days prior to a relevant advance notice date.

Upon each advance date, the Company shall pay to the investor's business manager, Yorkville Advisors Management, LLC ("the investment manager") an amount equal to 8.4% of the amount of the advance. Upon the execution of the equity line, the Company issued 450,000 restricted shares of the Company's common stock to the investment manager which were reflected as a cost of raising capital and recorded at par in the accompanying financial statements. Such restricted shares have demand and "piggyback" registration rights.

In connection with the equity line of credit, the Company obtained from certain officers and directors, a lock-up agreement, which limits the ability of the officers and directors to sell securities of the Company.

Additionally, under the covenants of the equity line, the Company shall not effect any merger or consolidation, or transfer substantially all of the assets of the Company into another entity, unless the resulting successor or acquiring entity (if not the Company) assumes the obligation to deliver to the investor such shares as the investor is entitled to pursuant to the equity line.

On July 20, 2001, ARS borrowed $150,000 from the investor. During the three months ended October 31, 2001, ARS repaid $100,000 of the loan, leaving an outstanding balance of $50,000 at October 31, 2001, which was subsequently paid by ARS. The loan accrued interest at an annual rate of 12%. On August 9, 2001, a portion of the proceeds of this were used to satisfy ARS' obligations to the former shareholders of T&T. As such, the 200,000 shares held in escrow for the benefit of the former shareholders of T&T Diesel have been released, as ARS satisfied all conditions to such release. In connection with the loan, ARS issued warrants to purchase 333,000 shares of ARS' common stock at an exercise price of $0.50 per share. The warrants were assigned a value of $136,530 which was recorded as a discount on the related note payable to the investor. The discount was amortized over the term of the note payable (90 days) to interest expense. Such amortization included in interest expense amounted to $119,843 and $136,530 for the three months and nine months ended October 31, 2001, respectively. The president of the company has personally guaranteed the loan and has pledged 3,000,000 shares of common stock to the lender as security for the loan. Unless more money becomes available under the Equity Line of Credit, ARS will need to raise additional capital to satisfy this loan. Such capital, if available at all, would likely come from the sale of securities in private transactions. ARS does not have any commitments for such capital at this time.

5. RELATED PARTY TRANSACTIONS

The note payable - related party of $68,500 bears interest at 8.5% per annum, and is due on demand.

On April 10, 2001, the Board of Directors authorized the issuance of stock options for 750,000 shares to members of the Board of Directors. The exercise price is $0.50 based on the closing price of the Company's stock on the date of issuance of the options.

On October 25, 2001, the Company issued 800,600 shares to certain officers and directors of the Company which was recorded as compensation.

6. SEGMENT INFORMATION

The Company has two reportable segments: (i) ARS which is designing and developing advanced railway communication and data management systems and (ii) T & T which manufactures custom diesel power generating equipment. The Company operates these segments as separate strategic business units. All of the Company's sales and equipment relate to T & T and are in Canada. The majority of T & T's customers are located in Eastern Canada. T & T was acquired on July 31, 2000 and its operations are included in the Company's financial statements from the acquisition date. Management does not consider goodwill and its amortization to be part of the T & T or ARS segments for purposes of allocating resources or assessing performance. The following tables set forth certain performance and other information by reportable segment.

Nine Months Ended October 31, 2001	ARS	T&T	Goodwill	Total
Sales	$ -	$ 849,591	$ -	$ 849,591
Segment income (loss)	(1,296,480)	36,314	(41,588)	(1,301,754)
Total assets	46,302	313,223	345,140	704,665

Nine Months Ended October 31, 2000	ARS	T&T	Goodwill	Total
Sales	$ -	$ 131,795	$ -	$ 131,795
Segment income (loss)	(1,115,920)	(23,576)	(13,978)	(1,153,474)
Total assets	72,296	310,309	398,514	781,119

7. SUPPLEMENTAL CASH FLOW INFORMATION

Noncash activities consist of the following:

	Nine Months Ended October 31, 2000	Nine Months Ended October 31, 2001
Common stock issued to settle accounts payable (346,000 common shares)	$ -	$ 93,041
	=======	=======
200,000 shares of common stock issued to former shareholders of T&T	$ 200,000	$ -
	=======	=======
Notes payable issued to former shareholders of T&T	$ 115,516	$ -
	=======	=======

MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

The following information should be read in conjunction with the consolidated financial statements of ARS and the notes thereto appearing elsewhere in this filing. Statements in this Management's Discussion and Analysis or Plan of Operation that are not statements of historical or current fact constitute "forward-looking statements."

Overview

ARS was formed in 1998 to design and develop advanced railway communications and data management systems and as such has a limited operating history. However, in July 2000, ARS completed the purchase of T & T Diesel Power, Ltd., which has been in business for 20 years. In spite of this acquisition, ARS faces significant obstacles with regard to customer acceptance of ARS' products.

Since the end of our last fiscal year, ARS has been successful in raising approximately $512,000 through December 13, 2001 from the sale of $300,000 of common stock under ARS' Equity Line of Credit and a $150,000 loan. Under the Equity Line of Credit, ARS may sell to Cornell Capital Partners up to $5.0 million of common stock over the two-year period following the effective date of a registration statement relating to the sale of the common stock purchased by Cornell Capital Partners under the Equity Line of Credit. On July 20, 2001, ARS borrowed $150,000 from Cornell Capital Partners. Subsequently, this loan was repaid.

Results of Operations

Nine Months Ended October 31, 2001 Compared To Nine Months Ended October 31, 2000

Sales. ARS had sales of $849,591 and $131,795 in the nine months ended October 31, 2001 and 2000, respectively. All of these sales relate to ARS' wholly owned subsidiary, T&T Diesel Power, Ltd. ARS acquired T&T Diesel on July 31, 2000. As a result, ARS' results of operations for the corresponding period in the prior year only included three month of T&T Diesel's results of operations. This accounts for the increase in sales for the nine months ended October 31, 2001 compared to the comparable period in the prior year.

Cost of Sales. ARS had cost of sales of $700,940, or 83% of sales, for the nine months ended October 31, 2001 compared to $109,117, or 83% of sales, in the corresponding period in the prior year. Such cost of sales relate to the sale of products from our wholly owned subsidiary, T&T Diesel.

Total Operating Expenses. ARS' total operating expenses increased $102,271, or 9% of sales, from $1,172,386 in the nine months ended October 31, 2000 to $1,274,657 in the comparable period in the current period. The increase in operating expenses is due to increases in advertising and promotional, development, office rent and telecommunications, travel expense and interest expense. The increase was partially offset by a decrease in officers' compensation recognized for the extension of the expiration date of stock options issued to certain officers in the amount of $375,922 in the prior period.

Net Loss. ARS had a net loss of $1,301,754, or $0.10 per share, in the nine months ended October 31, 2001 compared to a net loss of $1,153,474, or $0.11 per share, in the comparable period in the prior year. This increase in net loss is primarily due to the increase in operating expenses.

Plan Of Operation

ARS was formed in 1998 to design and develop advanced railway communications and data management systems and as such has a limited operating history. However, in July 2000, ARS completed the purchase of T&T Diesel Power, Ltd., which has been in business for 20 years. In spite of this acquisition, ARS faces significant obstacles with regard to customer acceptance of ARS' products.

The prime focus of ARS' Crosslogix ™ private wireless network is management of railway traffic and public safety. While the ARS system and its component parts were developed to improve safety at rail crossings, the ARS system supports many applications in real time data collection, processing, monitoring and information analysis. The system has evolved into Crosslogix™, an integrated service information system, the foundation of the ARS wireless private network.

ARS' objective is to build and design state of the art communications systems that meet customer demands, that are cost competitive, and that are capable of standing up to the tough conditions of continuous use in the railway industry.

The Advance Warning System for railway level crossings is the first commercial application to be offered by ARS on its integrated service information system. ARS' Crosslogix™ technology provides a portal for the integration of an extensive family of wayside warning and wayside to train communications applications. The ability to integrate other applications to ARS' system adds considerable value for the railways and yet is relatively inexpensive to implement. ARS' development effort with respect to the Crosslogix™ technology consists of:

- Completion of the Battelle Research vital system audit of the crossing control feature. Phase one of the audit was completed in November 2001 with positive results and recommendations. Phase 2 is now under way and is anticipated to be completed in the second quarter of 2002.

- Creation of the wide area network application in parallel to the completion of the Battelle audit. The wide area network application will be used to collect data from the deployed crossing control product and distribute it to users.

- Creating the software to interface the crossing control feature to be used in connection with other commercially available applications such as:

    - *Hotbox detector*. This is a non-contact temperature measurement system, which we will integrate as an application onto our information network. These sensors on the track will allow the bearing journal temperatures to be accurately monitored as the train rolls by at high speed. This is a major safety issue for the railway since the detection of a hot bearing can prevent a derailment.

    - *Flat wheel detector.* A vibration impact sensor can be used to detect wheels with flat spots. The detection of flat spots will allow the offending cars to be decommissioned and repaired before additional damage to the rail occurs.

    - *Wide area networking.* ARS Crosslogix™ technology can be linked together to provide a higher speed communications capability to monitor locomotive and work equipment in dark territories. Dark territories are sections of railway track where there are currently no communication systems in place.

    - *Hazardous Materials Monitoring*. Constant monitoring of tank cars or other vessels transporting hazardous materials (e.g., measures of temperature, pressure, evaporation, volatility, decomposition, and so forth).

    - *Inter-modal Reefer Monitoring Systems*. This is a wireless monitoring application for refrigerated railway cars (Reefers), which communicate with each ARS service information system via wireless radio. This allows the Reefers to report such things as cooling temperature, fuel levels and the condition of the engine generators that run the refrigerator cars, etc., allowing the railway to determine where the cars are located, define the problem with the refrigerated unit and take the appropriate action to correct problems before the goods being transported are damaged.

Many of the above applications are currently available in the market place while others will need to be developed. For those commercially available, ARS will need to develop software to integrate the functionality into the Crosslogix system. Other applications such as inter-modal reefer monitoring will need to be adapted from currently available products so that the information obtained can be easily communicated over the ARS network. These applications will be phased in over the next 24-36 months. ARS has provided for development costs in excess of $2,000,000 to provide for the integration of these products as well as the continued improvement of our system.

Railway crossing systems are one of the most important safety systems used by railroads. Canadian Pacific Railroad (CPR) has cooperated in the installation of the ARS Advance Crossing System application on its main line in Mississauga, Ontario, Canada. ARS has entered into a contract with Battelle Organization to conduct an independent audit of the system. Once the audit is completed, ARS expects the system to meet Federal Railway Administration specifications. The first phase of this audit has been completed with the second phase is expected to be completed by the end of the second quarter in 2002. CN Rail shares signaling information and test results with CPR under an agreement signed by both railways March 26, 1998. In ARS management's opinion both Canadian railways and their U.S. subsidiaries' railroads will agree to put the system through their own internal audit procedures, which will take 3 to 6 months. ARS intends to offer to sell/lease/rent crossing systems to each of its customers on a money back guarantee basis in an effort to install test systems at all targeted railways as soon as possible. Certification of the ARS Advance Warning System by selected Class I railways may lead to opportunities for installations at Class II and Class III railways. Many Class II and III railways traditionally forego testing if Class I railways have certified a technology. However, certification does not guarantee market acceptance of ARS' technology. The Surface Transportation Board (STB) defines Class I railroads as those with an average annual operating revenue of $256.4 million or more; Class II railroads are those with average operating revenues between $20.5 million and $256.4 million; and Class III railroads are those with average operating revenues of less than $20.5 million.

ARS is currently looking for distribution channels related to the signaling and communications business in order to market the Crosslogix system. ARS expects to build a field support group to service the railways directly, which is expected to provide further brand recognition to ARS and its products. It is anticipated that the railways will demand a strong technical service group to support systems sold. ARS believes growth in this area will be ongoing and dependent on future sales.

Liquidity And Equity Line Of Credit

ARS is dependent on external cash to fund its operations. We need to raise capital to continue operations, including the development of our railway communications and data management systems business, marketing efforts and potential acquisitions.

As discussed above, in March 2001, ARS entered into the Equity Line of Credit with Cornell Capital Partners, L.P. To date, ARS has raised gross proceeds of $300,000 under the Equity Line of Credit. ARS believes that this Equity Line of Credit will provide it with sufficient capital to fund at least one-half of its operations for the next twelve months. This belief is based on the assumption that the Equity Line of Credit will provide ARS with approximately $20,000 per month. ARS is permitted to make an advance every eleven trading days and therefore ARS expects to have access to two advances per month or approximately $20,000. As such, ARS believes the Equity Line of Credit will be sufficient to fund approximately one-half of its operations, although over time ARS expects its average trading volume to increase due to the trading volume created by prior advances under the Equity Line of Credit. During this time, ARS will need additional capital to fund its operations. A discussion of the terms of the loan with Cornell Capital Partners is contained below. Thereafter, such funding would come from sales of ARS' products, increased availability under the Equity Line of Credit or the sale of securities in private transactions.

In March 2001, ARS entered into the Equity Line of Credit Agreement with Cornell Capital Partners, L.P. Under the equity line, Cornell Capital Partners is committed to purchase up to $5,000,000 of ARS' common stock over the course of 24 months from the effective date of ARS's registration statement registering the sale of the shares by Cornell Capital Partners. Under the equity line, ARS may request an advance by Cornell Capital Partners. The number of shares of common stock that Cornell Capital Partners shall receive for each advance shall be determined by dividing the amount of the advance by the purchase price. The purchase price is 90% of the market price. The maximum advance amount shall be equal to 150% of the average daily volume of ARS' common stock multiplied by the purchase price. The average daily volume shall be computed by using the forty trading days prior to the advance notice date. The advance notice date is the date Cornell Capital Partners receives a written notice from ARS requesting an advance amount under the equity line. The market price is the average of the lowest closing bid prices of the common stock over the ten trading day period beginning on the first trading day after an advance notice date and ending on the trading day prior to the relevant advance date.

There will be a minimum of eleven trading days between advance notice dates. The Company has the right to withdraw that portion of an advance that does not meet the minimum acceptable price. The minimum acceptable price is defined as 75% of the lowest closing bid price of ARS' common stock for the fifteen trading days prior to a relevant advance notice date.

Upon each advance date, ARS will pay to Yorkville Advisors Management, LLC an amount equal to 8.4% of the amount of the advance. Upon the execution of the equity line, ARS issued 450,000 restricted shares of ARS' common stock to Yorkville Advisors Management which were reflected as a cost of raising capital and recorded at par in the accompanying financial statements. Such restricted shares have demand and "piggyback" registration rights.

On July 20, 2001, ARS borrowed $150,000 from Cornell Capital Partners, L.P. During the three months ended October 31, 2001, ARS repaid $100,000 of the loan, leaving an outstanding balance of $50,000 at October 31, 2001, which was subsequently paid by ARS. The loan accrued interest at an annual rate of 12%. A portion of the proceeds of this loan have been used to satisfy ARS' obligations to the former shareholders of T&T Diesel Power. As such, the 200,000 shares held in escrow for the benefit of the former shareholders of T&T Diesel have been released, as ARS satisfied all conditions to such release. These shares are saleable under Rule 144, which all parties agreed satisfied the conditions of the escrow. ARS granted the lender, Cornell Capital Partners, warrants to purchase 333,000 shares of ARS' common stock at an exercise price of $0.50 per share.

Purchase Or Sale Of Plant And Significant Equipment

During the current fiscal year, ARS does not anticipate purchasing or selling any plant or significant equipment.

On July 31, 2000, ARS completed the purchase of the outstanding shares of T&T Diesel Power, Ltd. The acquisition was accounted for as a purchase. The purchase price was $418,266, of which $102,750 was paid in cash at closing, with notes payable to the former shareholders of T&T of $115,516, and the issuance of 200,000 shares of common stock valued at $200,000.

The notes payable accrued interest at 8% and were paid on August 9, 2001. The acquisition resulted in goodwill of approximately $415,000, including approximately $31,000 of acquisition costs which is being amortized on a straight-line basis over 7 years.

The purchase of T&T Diesel Power, Ltd. is expected to provide readily available electrical power to service standby and dark territories applications which ARS believes will greatly enhance ARS' ability to supply turnkey systems to the railway industry. Dark territories encompass thousands of miles of railway track where there is no available power to run signaling or safety systems.

T&T's fiscal year-end was changed to January 31 from July 31 to correspond with that of ARS'. The purchase of T&T Diesel was ARS' first step in implementing its strategy of acquiring profitable companies, which can be integrated into its core business -- the design and marketing of safe, cost-effective and reliable systems for the railway industry. T&T supplies stand-by and prime power generators primarily to Bell Canada, as well as Rogers Communications, Clearnet Communications, EIT, Marconi, CI Communications, Gateway Telephone and others.

ARS' consolidated financial statements include the operations of T&T Diesel from July 31, 2000, the date of acquisition. As described above in the "Results of Operations" section, all of our sales, cost of sales and gross profit for the nine months ended October 31, 2001 relate to T&T diesel. Please see "Results of Operations" for a detailed description of the effect that T&T Diesel had on ARS' financial statements.

Change in Directors

On October 15, 2001 Patrick Shea who has been a director of ARS since 1998, resigned from the Board of Directors because other business interests were limiting his availability to ARS. As ARS had one vacant Board seat prior to Mr. Shea's resignation, the Board appointed two new directors on October 15, 2001. Dale F. Sisel and Senator Michael J.L. Kirby accepted appointments to the ARS' Board bringing the number of Directors to six.

Mr. Sisel spent the better part of his professional career with R.J. Reynolds Tobacco International, advancing through a series of successively more senior positions to President and CEO, retiring in 1995. He is currently a principal in Madison Investments LLC, a property development and management firm. He is a member (former Chairman) of the Board of Visitors of the Babcock Graduate School of Management at Wake Forest University. Mr. Sisel served as an officer in the U.S. Air Force and attended the University of Texas (Arlington), graduating in 1969 with an undergraduate degree in Business and a Master of Arts degree in Economics.

Senator Kirby was appointed to the Canadian Senate in 1994 and is currently the Chairman of the Standing Senate Committee on Social Affairs, Science and Technology. He also serves as a member of the Board of Directors of several companies. Prior to first entering government in 1970, Senator Kirby was a professor in the Schools of Business Administration and Public Administration at Dalhousie University. He was also a faculty member at the Business Schools of the University of Chicago and the University of Kent, in England. He has served in various Provincial and Federal government capacities throughout his career and has held senior executive positions in private industry including Senior Corporate Vice-President of Canadian National Railway and Vice-President of Goldfarb Consultants, an international market research firm headquartered in Toronto.

Significant Changes in the Number of Employees

ARS currently has seven employees, of which two are full-time. ARS expects to hire 5 additional employees in the current fiscal year.

Effect Of Recent Accounting Pronouncements

Statement of Financial Accounting Standards (SFAS) No. 133, "Accounting for Derivative Instruments and Hedging Activities" establishes accounting and reporting requirements for derivative instruments. We have not in the past nor does it anticipate that it will engage in transactions involving derivative instruments, and therefore, this pronouncement did not and is not expected to have any effect on the financial statements. SFAS No. 133, as amended by SFAS No. 137, is effective for fiscal years beginning after June 15, 2000.

In June 2001, the Financial Accounting Standards Board finalized FASB Statements No. 141, *Business Combinations* (SFAS 141), and No. 142, *Goodwill and Other Intangible Assets* (SFAS 142). SFAS 141 requires the use of the purchase method of accounting and prohibits the use of the pooling-of-interests method of accounting for business combinations initiated after June 30, 2001. SFAS 141 also requires that we recognize acquired intangible assets apart from goodwill if the acquired intangible assets meet certain criteria. SFAS 141 applies to all business combinations initiated after June 30, 2001 and for purchase business combinations completed on or after July 1, 2001. It also requires, upon adoption of SFAS 142, that we reclassify the carrying amounts of intangible assets and goodwill based on the criteria in SFAS 141.

SFAS 142 requires, among other things, that companies no longer amortize goodwill, but instead test goodwill for impairment at least annually. In addition, SFAS 142 requires that we identify reporting units for the purposes of assessing potential future impairments of goodwill, reassess the useful lives of other existing recognized intangible assets, and cease amortization of intangible assets with an indefinite useful life. An intangible asset with an indefinite useful life should be tested for impairment in accordance with the guidance in SFAS 142. SFAS 142 is required to be applied in fiscal years beginning after December 15, 2001 to all goodwill and other intangible assets recognized at the date, regardless of when those assets were initially recognized. SFAS 142 requires us to complete a transitional goodwill impairment test six months from the date of adoption. We are also required to reassess the useful lives of other intangible assets within the first interim quarter after adoption of SFAS 142.

Our previous business combination was accounted for using the purchase method. As of October 31, 2001, the net carrying amount of goodwill is $345,140. Amortization expense during the nine month period ended October 31, 2001 was $41,588. Currently, we are assessing but have not yet determined how the adoption of SFAS 141 and SFAS 142 will impact our financial position and results of operations.

Part II
Other Information

Item 1. Legal Proceedings.

ARS has commenced litigation against certain individuals (the "Respondents"). The case involves a claim by ARS for shares issued in error to the respondents. The shares were to be issued upon the completion of certain consulting work to be performed by the Respondents. ARS claims that by not completing the work, the Respondents breached the contract. The Respondents claim that there is no breach of contract and that the shares have been earned. ARS has obtained a preliminary injunction preventing the Respondents from transferring the shares. The Respondents claim damages of an unknown amount. ARS intends to vigorously pursue its position in this matter, and management believes that it will be resolved without a material effect on the Company's financial position or results of operations.

Item 2. Changes in Securities and Use of Proceeds.

(a), (b) and (d). None.

(c) Sale of Unregistered Securities.

In November 2001, ARS sold 10,000 shares for consideration of $1,710.

In October 2001, ARS sold 213,675 shares for $0.117 per share for aggregate proceeds of $25,000. Also in October 2001, ARS issued 135,000 shares of common stock for future services, all of which are subject to vesting schedules. In addition, ARS issued 800,600 shares of common stock to officers and directors as a bonus. These shares were valued at $80,060.

In August 2001, ARS issued 48,049 of common stock for services valued at $40,000 in aggregate.

In June 2001, ARS issued 135,000 shares of common stock for future services. Of the total number of shares issued for services, 111,000 shares are subject to vesting schedules. If these services are terminated, then any unvested shares will be forfeited. The 24,000 shares of common stock that have vested had a value of $5,923.

In May 2001, ARS sold 50,000 shares of common stock for $0.77 per share or aggregate consideration of $38,500. Also in May 2001, ARS issued 275,740 shares of common stock for future services. Of the total number of shares issued for services, 191,740 shares are subject to vesting schedules. If these services are terminated, then any unvested shares will be forfeited.

In April 2001, ARS sold 200,000 shares of common stock for $0.60 per share or aggregate consideration of $120,000. Also in April 2001, ARS issued 13,973 shares of common stock for services valued at $10,044. ARS also issued 12,000 shares of common stock for services valued at $8,626.

In March 2001, ARS sold 2,500 shares of common stock for $1.12 per share, or aggregate consideration of $2,800. Also in March 2001, ARS issued 54,330 shares of common stock for services valued at $57,726. ARS issued 140,000 shares of common stock to National Financial Communications Corp. for services valued at $131,250. ARS also issued 450,000 shares of common stock to Yorkville Advisors Management, LLC for services value at $365,625 in connection with the Equity Line of Credit.

Also in March 2001, ARS entered into the Equity Line of Credit Agreement with Cornell Capital Partners, L.P. To date, ARS received gross proceeds of $300,000 under the Equity Line of Credit upon the issuance of 2,780,617. Under the equity line, Cornell Capital Partners is committed to purchase up to $5,000,000 of ARS' common stock over the course of 24 months from the effective date of ARS's registration statement registering the sale of the shares by Cornell Capital Partners. Under the equity line, ARS may request an advance by Cornell Capital Partners. The number of shares of common stock that Cornell Capital Partners shall receive for each advance shall be determined by dividing the amount of the advance by the purchase price. The purchase price is 90% of the market price. The maximum advance amount shall be equal to 150% of the average daily volume of ARS' common stock multiplied by the purchase price. The average daily volume shall be computed by using the forty trading days prior to the advance notice date. The advance notice date is the date Cornell Capital Partners receives a written notice from ARS requesting an advance amount under the equity line. The market price is the average of the lowest closing bid prices of the common stock over the ten trading day period beginning on the first trading day after an advance notice date and ending on the trading day prior to the relevant advance date.

There will be a minimum of eleven trading days between advance notice dates. The Company has the right to withdraw that portion of an advance that does not meet the minimum acceptable price. The minimum acceptable price is defined as 75% of the lowest closing bid price of ARS' common stock for the fifteen trading days prior to a relevant advance notice date.

Upon each advance date, ARS will pay to Yorkville Advisors Management, LLC an amount equal to 8.4% of the amount of the advance. Upon the execution of the equity line, ARS issued 450,000 restricted shares of ARS' common stock to Yorkville Advisors Management that were reflected as a cost of raising capital and recorded at par in the accompanying financial statements. Such restricted shares have demand and "piggyback" registration rights.

In February 2001, ARS sold 22,000 shares of common stock for $1.15 per share, or aggregate consideration of $25,300. ARS also issued 41,300 shares of common stock to settle accounts payable of $10,325. Also in February 2001, ARS issued 152,700 shares of common stock in lieu of management compensation valued at $33,400.

With respect to the sale of unregistered securities referenced above, all transactions were exempt from registration pursuant to Section 4(2) of the Securities Act of 1933 (the "1933 Act"), and Regulation D promulgated under the 1933 Act. In each instance, the purchaser had access to sufficient information regarding ARS so as to make an informed investment decision. More specifically, ARS had a reasonable basis to believe that each purchaser was an "accredited investor" as defined in Regulation D of the 1933 Act and otherwise had the requisite sophistication to make an investment in ARS's common stock.

Item 3. Defaults upon Senior Securities.

None.

Item 4. Submission of Matters to a Vote of Security Holders.

None.

Item 5. Other Information.

None.

Item 6. Exhibits and Reports on Form 8-K.

(a) Exhibits.

Exhibit No.	**Description**	**Location**
2.1	Share Purchase Agreement dated as of July 31, 2000 among the former shareholders of T & T Diesel Power, Ltd. and the Company	Incorporated by reference to the Company's Annual Report on Form 10-KSB filed with the Securities and Exchange Commission on April 30, 2001.
2.2	Escrow Agreement dated as of July 31, 2000 among the Pallet Valo, the former shareholders of T & T Diesel Power, Ltd. and the Company	Incorporated by reference to the Company's Annual Report on Form 10-KSB filed with the Securities and Exchange Commission on April 30, 2001.
2.3	Promissory Note dated as of July 31, 2000 given by the Company to the former shareholders of T & T Diesel Power, Ltd.	Incorporated by reference to the Company's Annual Report on Form 10-KSB filed with the Securities and Exchange Commission on April 30, 2001.
3.1	Certificate of Incorporation	Incorporated by reference to Amendment No. 5 to the Company's Registration Statement on Form 10-SB filed with the Securities and Exchange Commission on September 7, 1999.
3.2	Articles of Amendment to the Articles of Incorporation	Incorporated by reference to the Company's Annual Report on Form 10-KSB filed with the Securities and Exchange Commission on April 30, 2001.
3.3	Bylaws	Incorporated by reference to Amendment No. 5 to the Company's Registration Statement on Form 10-SB filed with the Securities and Exchange Commission on September 7, 1999.
4.1	Lockup Agreement with Sydney Harland	Incorporated by reference to the Company's Annual Report on Form 10-KSB filed with the Securities and Exchange Commission on April 30, 2001.
4.2	Lockup Agreement with Donald Hathaway	Incorporated by reference to the Company's Annual Report on Form 10-KSB filed with the Securities and Exchange Commission on April 30, 2001.
4.3	Lockup Agreement with Robert Esecson	Incorporated by reference to the Company's Annual Report on Form 10-KSB filed with the Securities and Exchange Commission on April 30, 2001.
4.4	Lockup Agreement with Peter Hoult	Incorporated by reference to the Company's Annual Report on Form 10-KSB filed with the Securities and Exchange Commission on April 30, 2001.

4.5	Lockup Agreement with Mark Miziolek	Incorporated by reference to the Company's Annual Report on Form 10-KSB filed with the Securities and Exchange Commission on April 30, 2001.
4.6	Lockup Agreement with Patrick Shea	Incorporated by reference to the Company's Annual Report on Form 10-KSB filed with the Securities and Exchange Commission on April 30, 2001.
10.1	Consulting Agreement dated as of February 9, 2001 between National Financial Communications Corp. and the Company	Incorporated by reference to the Company's Annual Report on Form 10-KSB filed with the Securities and Exchange Commission on April 30, 2001.
10.2	Equity Line of Credit Agreement dated as of March 22, 2001 between Cornell Capital Partners, L.P. and the Company	Incorporated by reference to the Company's Annual Report on Form 10-KSB filed with the Securities and Exchange Commission on April 30, 2001.
10.3	Escrow Agreement dated as of March 22, 2001 among Butler Gonzalez LLP, First Union National Bank and the Company	Incorporated by reference to the Company's Annual Report on Form 10-KSB filed with the Securities and Exchange Commission on April 30, 2001.
10.4	Registration Rights Agreement dated as of March 22, 2001 between Cornell Capital Partners LP and the Company	Incorporated by reference to the Company's Annual Report on Form 10-KSB filed with the Securities and Exchange Commission on April 30, 2001.
10.5	Consulting Services Agreement dated as of March 22, 2001 between Yorkville Advisors Management, LLC and the Company	Incorporated by reference to the Company's Annual Report on Form 10-KSB filed with the Securities and Exchange Commission on April 30, 2001.
10.6	Management Agreement for Vice President Finance and Chief Financial Officer dated as of January 1, 2001 between Mark P. Miziolek and the Company	Incorporated by reference to the Company's Annual Report on Form 10-KSB filed with the Securities and Exchange Commission on April 30, 2001.
10.7	Management Agreement for President and Chief Executive Officer dated as of January 1, 2001 between Sydney Harland and the Company	Incorporated by reference to the Company's Annual Report on Form 10-KSB filed with the Securities and Exchange Commission on April 30, 2001.
10.8	License Agreement dated as of May 20, 1998 between Sydney Harland and the Company	Incorporated by reference to the Company's Annual Report on Form 10-KSB filed with the Securities and Exchange Commission on April 30, 2001.
10.9	Promissory Note dated as of July 31, 2001 in the original principal amount of $100,000 Canadian Dollars given by the Company to Betty Harland	Incorporated by reference to the Company's Annual Report on Form 10-KSB filed with the Securities and Exchange Commission on April 30, 2001.

10.10	Independent Consulting Services Agreement dated as of October 18, 2000 between ARS and LevCap Communications Inc.	Incorporated by reference to Exhibit 10.10 to Amendment No. 1 to the Company's Registration Statement on Form SB-2 filed with the Securities and Exchange Commission on August 22, 2001.
10.11	Non-Negotiable Promissory Note dated as of July 20, 2001 given by the Company to Cornell Capital Partners, L.P.	Incorporated by reference to Exhibit 10.11 to Amendment No. 1 to the Company's Registration Statement on Form SB-2 filed with the Securities and Exchange Commission on August 22, 2001.
10.12	Warrant Agreement dated as of July 20, 2001 between the Company and Cornell Capital Partners, L.P.	Incorporated by reference to Exhibit 10.12 to Amendment No. 1 to the Company's Registration Statement on Form SB-2 filed with the Securities and Exchange Commission on August 22, 2001.
11.1	Statement re: Computation of Per Share Earnings	Not applicable.
21.1	Subsidiaries of the Registrant	Provided herewith.

(b) Reports on Form 8-K.

On August 13, 2001, ARS filed a Form 8-K disclosing that it had consummated the purchase of T&T Diesel Power Limited, satisfying all terms of the Purchase Agreement and Promissory Note. In completing this transaction, ARS Networks, Incorporated paid in full the promissory note in the amount of $125,000 plus accrued interest and all items under escrow were released.

Signatures

In accordance with the requirements of the Exchange Act, the Registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

December 17, 2001	**ARS NETWORKS, INCORPORATED**
	By: /s/ Sydney Harland Name: Sydney Harland Title: President