Item 7. *Management's Discussion and Analysis of Financial Condition and Results of Operations*

The following discussion of our results of operations and financial condition should be read together with our audited consolidated financial statements for fiscal 2013 and fiscal 2012, including the notes thereto, which appear elsewhere in this Annual Report on Form 10-K. This discussion contains forward-looking statements, which as previously identified are subject to the safe harbors created under the Securities Act and Exchange Act.

Overview

Fiscal 2013 was a year of transformation for ARI. As a result of two strategic acquisitions, revenues exceeded $30,000,000 for the first time in the Company's history, we entered two new strategic markets and released a first-of-its-kind aftermarket fitment solution to the powersports industry. To fund these investments, we raised $4,500,000 in a private placement to a number of existing and new shareholders, and established a new banking relationship with a partner that understands the nature of our business and is poised to help us grow.

In August 2012 we acquired the assets of Ready2Ride, the leading and first-to-market provider of electronic aftermarket fitment data for the powersports industry. This acquisition furthered our strategy to differentiate our content from that of our competitors. Since the acquisition, we have leveraged the aftermarket fitment data and introduced a new award-winning solution, AccessorySmart™, an electronic aftermarket parts lookup solution, a first-of-its-kind product in the power sports industry. Ready2Ride generated revenues of $640,000 in fiscal 2013. We expect revenues generated from the Ready2Ride business to increase in fiscal 2014 as revenues from the new product ramp up. We increased our note payable with Fifth Third Bank $1,000,000 to fund this acquisition. This note was subsequently paid in full with the proceeds from the private placement offering and Silicon Valley Bank term note, both of which are discussed below.

In November 2012, we acquired the assets of 50 Below out of bankruptcy. 50 Below was a leading provider of website solutions to dealers in the powersports, ATW and DME industries. This acquisition more than doubled the size of ARI's website business and made websites the Company's largest source of revenue. It also provided entry into two new high growth markets, namely ATW and DME. For the eight months ended July 31, 2013, the 50 Below operation generated revenues of $7,368,000. We anticipate that revenues generated from the acquired 50 Below products will have the highest year over year growth in fiscal 2014.

We funded $1,500,000 of the 50 Below acquisition through a combination of available line of credit and operating cash flows. The remainder was funded through a $3,500,000 term note with a large shareholder. This note was subsequently paid in full with the proceeds from the private placement offering and Silicon Valley Bank term note.

On March 12, 2013, the Company entered into a Securities Purchase Agreement (the "Purchase Agreement") with certain institutional and accredited investors (the "Purchasers") whereby the Company agreed to sell 3,200,000 shares of the Company's common stock for $1.50 per share. In connection with the purchase agreement, the Company issued 1,066,667 shares of common stock warrants at an exercise price of $2.00 per share. In connection with the stock sale and the subsequent exercise of 916,667 common stock warrants at an amended exercise price of $1.80 per share, the Company received gross cash proceeds of $6,150,000 and retirement of $300,000 of indebtedness.

On April 26, 2013, the Company entered into a Loan and Security Agreement (the "Agreement") with Silicon Valley Bank ("SVB"), pursuant to which SVB extended to the Company credit facilities consisting of a $3,000,000 revolving credit facility with a maturity date of April 26, 2015 and a $4,500,000 term loan with a maturity date of April 26, 2018. The Agreement replaced the Company's Loan and Security Agreement with Fifth Third Bank.

As a result of the two acquisitions, total revenues increased 33.8% in fiscal 2013. Furthermore, the percentage of our revenues that are RR increased to nearly 90% for fiscal 2013 and to 93.5% for the fourth quarter ended July 31, 2013. We generated an operating loss of $202,000 in fiscal 2013, versus operating income of $1,295,000 in fiscal 2012. The fiscal 2013 operating loss resulted from $1,200,000 of acquisition-related costs and a $420,000 non-cash loss from the write down of a long-lived asset.

We incurred a net loss in fiscal 2013 of $753,000 or $0.08 per basic and diluted share, versus net income last year of $1,055,000 or $0.13 per basic and diluted share. In addition to the fiscal 2013 net operating loss discussed above, our fiscal 2013 net loss was driven by several non-cash charges that were incurred during the year, including a $682,000 loss on debt extinguishment and a $635,000 loss on the change in fair value of common stock warrants. Each of these items are discussed in further detail in the notes to the financial statements.

Revenue

The following table summarizes our RR and non-recurring revenue by product:

	2013	2012	% Change
Recurring revenue			
eCatalog	$ 13,248	$ 12,553	5.5 %
Websites	12,418	4,685	165.1 %
Lead management	869	841	3.2 %
Other	480	638	(24.7) %
Total recurring revenue	27,016	18,717	44.3 %
Non-recurring revenue			
Lead generation	$ 856	$ 1,294	(33.9) %
Professional services	1,187	1,285	(7.7) %
Usage fees	628	651	(3.6) %
Other	416	547	(23.9) %
Total non-recurring revenue	3,086	3,777	(18.3) %
Total revenues	30,102	22,494	33.8 %
Recurring revenue	89.7%	83.2%	
Non-recurring revenue	10.3%	16.8%	
	100.0%	100.0%	

Total revenues for fiscal 2013 were $30,102,000, an increase of 33.8% over fiscal 2012 revenues of $22,494,000. Recurring revenues ("RR") in fiscal 2013 were $27,016,000, an increase of 44.3% over fiscal 2012. RR represented 89.7% of total revenues in fiscal 2013 versus 83.2% in fiscal 2012. All of the revenues from the 50 Below and Ready2Ride acquisitions are RR and as a result we anticipate that RR will continue to increase as a percentage of total revenues. In fact, RR were 93.5% of total revenues in the fourth quarter ended July 31, 2013.

Recurring Revenue

RR is one of the most important growth drivers of our business. Increasing the percentage of our revenues that are recurring while at the same time reducing the rate of customer churn enhances our ability to generate profitable growth. Our subscription-based SaaS and DaaS products generate higher margins than our non-recurring products and services, and the incremental cost of selling these products to new dealers (we refer to these as new "logos") is relatively low. Reducing the rate of our customer churn, which is the percentage of RR that do not renew, helps drive organic growth as it allows for a greater percentage of our new logos to be incremental to the top line (versus making up for lost logos) and also increases the base upon which we can apply price increases and sell additional products and features.

We generate RR from each of our three primary products. Our eCatalog products generate RR from software license and renewal fees, catalog subscriptions, and software maintenance and support fees. In fiscal 2013, eCatalog RR was $13,248,000, a 5.5% increase over fiscal 2012. eCatalog remained our largest source of RR in fiscal 2013, representing 49.1% of total RR. However, with the acquisition of 50 Below, RR from our web platforms became the Company's largest RR source and is expected to surpass eCatalog in fiscal 2014.

Fiscal 2013 revenues from our August 2012 acquisition of Ready2Ride were $640,000, all of which are included in eCatalog RR. Excluding Ready2Ride, eCatalog RR remained essentially flat year over year. eCatalog has historically maintained the Company's lowest revenue growth rates, primarily attributable to ARI's dominant market position. We expect eCatalog growth rates to accelerate in fiscal 2014 as our new AccessorySmart product gains traction in the market. AccessorySmart is a fitment-powered aftermarket PG&A lookup solution and is a first-of-its-kind in the powersports industry. The product is a result of the Ready2Ride acquisition and won a "Nifty 50 Award" from Powersports Business, a leading industry trade publication, at the powersports industry's largest trade show in February 2013.

Web platform products generate RR from hosting and subscription fees. Web RR increased 165.1% to $12,418,000 in fiscal 2013. RR from web platforms was $4,685,000 in fiscal 2012. Web RR represented 46.0% of total RR in fiscal 2013. As indicated above, we expect web RR to be the Company's largest source of RR in fiscal 2014 as a result of the 50 Below acquisition.

The growth in web RR was largely the result of our acquisition of 50 Below in November 2012. Revenue from 50 Below was $7,368,000 in the eight months since the acquisition, all of which was web RR. Excluding revenues related to 50 Below, web RR increased 8.3% in fiscal 2013 over the same period last year. We anticipate that our web platforms will continue to be the Company's largest source of growth, much of this growth coming in the ATW and DME markets, both which are new to ARI and the result of the 50 Below acquisition.

Lead management RR is generated from subscription fees for the use of our Footsteps™ products. Lead management RR were $869,000 in fiscal 2013, a 3.2% increase over fiscal 2012. The Company is currently reviewing various growth options with respect to the Footsteps™

product, including the possibility of including the core functionality of the product within our web platforms and expects this product to continue to be instrumental in our goal of helping our customers Sell More Stuff!™.

Non-recurring Revenues

Non-recurring revenues are generated from the Company's SearchEngineSmart™ lead generation service, professional services related to software customization and data conversion, usage fees charged on our RR products, and other complementary products and services. Non-recurring revenues were $3,086,000 in fiscal 2013, versus $3,777,000 in fiscal 2012, a decline of 18.3%. As a percentage of total revenues, non-recurring revenues were 10.3%, versus 16.8% in fiscal 2012. Our goal is to maintain non-recurring revenues of less than 10% of total revenues, as the margins on these revenues tend to be lower than our RR products. Furthermore, these revenues must be resold each year. With the acquisition of 50 Below, we expect non-recurring revenues to be less than 10% of total revenues in fiscal 2014.

The fiscal 2013 decline in non-recurring revenues was primarily driven by a change in business model of our lead generation service. The largest cost associated with this service is the purchase of ad words from Internet search providers such as Google. Historically, the revenues recognized on this service included the cost associated with the ad word spend. These costs were then "passed through" directly to the Internet search provider. Under this model, GAAP requires these costs to be recognized as both a revenue and a cost of sale. Not only did this treatment have the impact of reducing gross margins as a percentage of revenue, but also provided negative float to ARI as the ad word costs were at times paid to the Internet search provider prior to receiving the funds from the customer.

During fiscal 2013, we made a change to this business model whereby the customer is now responsible for paying the cost of the ad words directly to the Internet search provider. ARI now simply charges the customer a fee for the service provided. This change had the impact of reducing GAAP revenues associated with this service, as discussed above. However, the change had no net impact on the gross profit or net cash receipts associated with the service.

Non-recurring revenues from our professional services business declined 7.7% to $1,187,000 in fiscal 2013 from $1,285,000 in fiscal 2012. This decline is due to a large software customization project that occurred in fiscal 2012 that did not reoccur in fiscal 2013. Although revenues from non-recurring professional services will fluctuate from period to period based on the timing of custom projects, we expect these revenues to decline over time as we focus our sales efforts on our core, RR higher gross margin products.

Cost of Revenue and Gross Margin

We classify as cost of revenue those costs directly attributable to the provision of services. These costs include (i) software amortization, which represents the periodic amortization of costs for internally developed or purchased software sold to customers; (ii) direct labor for the provision of catalog production, product implementations and professional services revenue; and (iii) other direct costs, which represent amounts paid to third party vendors directly attributable to the services we provide our customers. The table below breaks out cost of revenue into each of these three categories:

	2013	% of Revenue	2012	% of Revenue
Net revenues	$ 30,102		$ 22,494	
Cost of revenues:				
Amortization of capitalized software costs	1,741	5.8 %	1,420	6.3 %
Direct labor	2,406	8.0 %	1,560	6.9 %
Other direct costs	2,489	8.3 %	2,286	10.2 %
Total cost of revenues	6,636	22.0 %	5,266	23.4 %
Gross profit	$ 23,466	78.0 %	$ 17,228	76.6 %

Gross profit was $23,466,000 or 78.0% of revenue in fiscal 2013, compared to $17,228,000 or 76.6% of revenue for the same period last year. The gross profit margin improvement was due to several factors. First, our core RR products typically have a higher gross margin than our non-recurring products and services. As RR continues to increase as a percentage of total revenues, so will gross margin. In fiscal 2013, RR represented 89.7% of total revenues, compared to 83.2% in fiscal 2012. Additionally, as a result of the change in our lead generation service business model, other direct costs, as a percentage of revenue, declined from 10.2% to 8.3%. Finally, as RR grows, the relatively fixed cost of software amortization becomes a smaller percentage of revenue.

Operating Expenses

The following table summarizes our operating expenses by category:

	2013	% of Revenue	2012	% of Revenue	% Change
Sales and marketing	$ 7,480	24.8 %	$ 4,585	20.4 %	63.1 %
Customer operations and support	5,834	19.4 %	3,213	14.3 %	81.6 %
Software development and technical support	2,648	8.8 %	2,267	10.1 %	16.8 %
General and administrative	6,005	19.9 %	4,454	19.8 %	34.8 %
Depreciation and amortization [(1)]	1,281	4.3 %	1,414	6.3 %	(9.4) %
Loss on impairment of long-lived assets	420	5.0 %	-	- %	- %
Net operating expenses	$ 23,668	78.6 %	$ 15,933	70.8 %	48.5 %

(1) Exclusive of amortization of software products of $1,741 and $1,420 for the twelve months ended July 31, 2013 and 2012, respectively, which are included in cost of revenue.

We categorize net operating expenses as follows:

- Sales and marketing expenses consist primarily of personnel and related costs, including commissions for our sales and marketing employees, and the cost of marketing programs and trade show attendance;

- Customer operations and support expenses are composed of our customer hosting operations, software maintenance agreements for our core network, and personnel and related costs for operations and support employees;

- Software development and technical support expenses are composed primarily of personnel and related costs; we capitalize certain of these costs in accordance with GAAP, which is discussed below, while the remaining costs are primarily related to technical support and research and development;

- General and administrative expenses primarily consist of personnel and related costs for executive, finance, human resources and administrative personnel, legal and other professional fees and other corporate expenses and overhead;

- Depreciation and amortization expenses consist of depreciation on fixed assets, which are composed of leasehold improvements and information technology assets, and the amortization of acquisition-related intangible assets. Costs associated with the amortization of software products are a component of cost of revenue; and

- We allocate certain shared costs among the various net operating expense classifications. Allocated costs include facilities, insurance, and telecommunications. These costs are generally allocated based on headcount, unless circumstances dictate otherwise. Note that all public company costs, including legal and accounting fees, investor relations costs, board fees and directors and officers liability insurance, remain in general and administrative.

Net operating expenses were $23,668,000 in fiscal 2013, a $7,735,000 or 48.5% increase over fiscal 2012. With the exception of depreciation and amortization, expenses across all classifications increased in fiscal 2013 over the same period last year due to the operating costs of our two acquisitions, Ready2Ride and 50 Below. Depreciation and amortization declined as certain intangible assets related to a previous acquisition became fully depreciated. Management expects net operating expenses to decline, as a percentage of total revenues, over time as we leverage the growth of our core RR products, for which the incremental costs related to these products decrease for every dollar of new revenue.

Software Development and Technical Support

Our software development and technical support staff have three essential responsibilities for which the accounting treatment varies depending upon the work performed: (i) costs associated with internal software development efforts (after technological feasibility is established) are typically capitalized as software product costs and amortized over the estimated useful lives of the product; (ii) professional services performed for customers related to software customization projects are classified as cost of revenue; and (iii) all other activities, including research and development, are considered operating expenses and included within the software development and technical support operating expense category.

The table below summarizes our internal software development and technical support costs:

	2013	2012	% Change
Total software development and technical support costs	$ 6,785	$ 5,517	23.0 %
Less: amount capitalized as software development	(1,731)	(1,690)	2.4 %
Less: direct labor classified as cost of revenues	(2,406)	(1,560)	54.2 %
Net software development and technical support costs classified as operating expenses	$ 2,648	$ 2,267	16.8 %

Total software development and technical support costs increased $1,268,000 or 23.0% in fiscal 2013 versus the same period last year. The increase was primarily driven by the development costs associated with our two acquisitions.

During fiscal 2013, we capitalized $1,731,000 of software development labor and overhead, versus $1,690,000 during fiscal 2012. We recently deployed several new editions of our lead management product FootSteps™, which enable customers to add feature upgrades and grow with the product over time. Other upgrades released during fiscal 2013 include a lightweight edition of PartStream™, our OEM parts eCommerce solution, expansion of our WebSiteSmart™ social media sharing tools, mobile unit brochures, SEO tool enhancements and a new PartStream Mobile™ product. We have also completed a new order integration between WebSiteSmart™ and a leading provider of business management systems to OPE, powersports and agricultural equipment industries. We are working on several new enhancements expected to be released in the upcoming quarters, which we anticipate will increase future revenue for the Company.

Management expects total spending for software development and technical support to continue to increase in fiscal 2014, as we focus on our strategy of product enhancement and innovation. We expect fluctuations in the percentage of software development and technical support costs classified as operating expenses from period to period, based on the mix of research and prototype work versus capitalized software development and professional services activities.

Loss on Impairment of Long Lived Assets

During the quarter ended April 30, 2013 we recorded a loss of $420,000 on the impairment of long-lived assets related to the development of an internal ERP system. The Company is currently in the process of evaluating alternative solutions and intends to invest in a new solution in fiscal 2014.

Other Income and Expense

The table below summarizes the components of other income and expenses for fiscal 2013 and fiscal 2012.

	Twelve months ended July 31	
	2013	2012
Interest expense	$ (626)	$ (235)
Loss on debt etinguishment	(682)	-
Loss on change in fair value of stock warrants	(635)	-
Gain on change in fair value of contingent liabilities	180	-
Gain on change in fair value of contingent assets	64	70
Other, net	15	152
Total other income (expense)	$ (1,684)	$ (13)

Interest Expense

Interest expense was $626,000, an increase of $391,000 or 166.4% over fiscal 2012. The increase relates to the additional debt incurred during the fiscal year in order to fund the two acquisitions. $3,500,000 of this debt was a term note bearing interest at a rate of 10% per year. The additional debt was ultimately paid in full with the proceeds from both our term note with Silicon Valley Bank, which bears interest at prime plus the applicable LIBOR rate described below, and from our private placement. The terms of each of these financing activities are more fully described in the notes to the financial statements. Management expects interest expense to decrease significantly in fiscal 2014.

Loss on Debt Extinguishment

In April, 2013, we refinanced our debt under more favorable interest and payment terms. This refinancing is discussed in detail in the notes to our financial statements. As a result of the early extinguishment of debt, we recorded a loss of $682,000 related to an unamortized debt discount for stock issued as a cost of acquiring the debt and unamortized deferred loan fees.

Loss on Change in Fair Value of Stock Warrants

In March 2013, we executed a private placement with certain institutional and accredited investors. As part of the transaction, the Company issued warrants to purchase an aggregate of 1,130,667 shares of common stock at an exercise price of $2.00 per share. The warrants contain a down-round protection feature which reduces the strike price of the warrants from $2.00 to $1.50 if there is a private placement for less than the $2.00 strike price. This feature resulted in the warrants being treated as a derivative instrument. Accordingly, the warrants are recorded as a liability on the balance sheet at fair market value and changes in the fair market value are recorded to gain or loss on fair market value of stock warrants on the statement of operations. The down-round protection feature expires on March 12, 2014, at which time any remaining balance of warrants outstanding would no longer have a derivative feature and would be reclassified to equity.

In fiscal 2013 we incurred a non-cash loss of $682,000 related to the warrants, primarily as a result of an increase in the market value of the Company's common stock. On July 26 and July 29, 2013, the Company entered into individually negotiated agreements with the holders of 916,667 of the warrants were amended to temporarily reduce the exercise price of the warrants from $2.00 per share to $1.80 per share through the close of business on July 30, 2013. All 916,667 of the amended warrants were exercised at $1.80 per share on July 30, 2013. As a result, 214,000 warrants remain outstanding and will require fair value accounting treatment until the earlier of their exercise or expiration of the down-round protection feature. Changes in the market price of the Company's common stock will have the most significant impact on the fair value of the warrants.

Gain on Change in Fair Value of Contingent Liabilities

During fiscal 2013, we had a change in the estimated fair value of our contingent liabilities related to consideration for the Ready2Ride acquisition due to an evaluation of the estimated future revenues resulting from that operation. The amount of this change in estimated fair value was income of $180,000, or $0.02 per basic and diluted common share in fiscal 2013. Subsequent to July 31, 2013, the Company amended the contingent liability arrangement to provide for fixed payment terms consistent with the fair value inputs recorded at July 31, 2013.

Gain on Change in Fair Value of Contingent Assets

In fiscal 2011 the Company divested the assets related to our electronic data interchange business for the agricultural chemicals industry. Part of the sale price consisted of an earn-out to be paid over a four-year period based on the collections received by the acquirer. Proceeds received from the earn-out have exceeded our initial estimates, and in fiscal 2013 and fiscal 2012 we recorded gains of $64,000 and $70,000, respectively, from the change in estimate of future earn-out payments to be received.

Other, Net

In fiscal 2012 we recorded a book gain of $123,000 related to the surrender of a split-dollar life insurance policy on the Company's founder. This gain did not recur in fiscal 2013. Foreign currency translation adjustments comprise the remainder of other, net.

Acquisitions

On November 28, 2012, the Company, through a wholly-owned subsidiary, completed the acquisition of the assets of the Retail Services Division of Fifty Below Sales & Marketing, Inc. ("50 Below"), a leading provider of eCommerce websites in the powersports, ATW and DME industries for a purchase price of $5,000,000 and the assumption of contracts having deferred revenue originally valued in the amount of $4,601,000. The Company funded $1,500,000 of the purchase price through a combination of the Company's operating cash flows and availability under its existing credit facilities. The balance of the purchase price was funded through a term note with a significant shareholder.

On August 17, 2012, the Company acquired substantially all of the assets of Ready2Ride, Incorporated ("Ready2Ride") pursuant to the terms of an Asset Purchase Agreement dated August 17, 2012. Ready2Ride markets aftermarket fitment data to the powersports industry, which furthers ARI's differentiated content strategy and expands ARI's product offerings into aftermarket PG&A. Consideration for the acquisition included $500,000 in cash, 100,000 shares of the Company's common stock and assumed liabilities totaling approximately $419,000. In addition, the Company will be required to pay certain contingency payments of up to $250,000 and earn-out payments of up

to $1,500,000 dependent on certain events and revenue targets. The Company recorded a gain on change in fair value of the estimated contingent earn-out payable of approximately $180,000 or $0.02 per basic and diluted share as a result of a weighted average of three revenue projections for the remainder of the earn-out period. The agreement was amended in October 2013 in relation to the earn-out payments resulting in three fixed payments of $125,000 and an aggregate of 40,000 shares of common stock. Each of these acquisitions is discussed in further detail in the notes to the financial statements.

Income Taxes

The Company has net deferred tax assets of $6,389,000, primarily consisting of net operating loss carryforwards and book to tax timing differences. Income tax expense is provided for at the applicable statutory tax rate applied to current U.S. income before taxes, plus or minus any adjustments to the deferred tax assets and to the estimated valuation allowance against deferred tax assets. This does not represent a significant current cash obligation, as we continue to have net operating loss carryforwards to offset substantially all of the taxable income.

We recorded an income tax benefit of $1,133,000 during fiscal 2013, compared to a tax expense of $227,000 last year. In fiscal 2013, we recognized a tax gain of $1,341,000 for a change in our estimated valuation allowance as a result of higher than estimated revenue growth and the 50 Below acquisition, which we estimate will increase our taxable income over the period of forecasted NOL utilization. In fiscal 2012 we recognized a tax gain of $415,000 for a change in our estimated valuation allowance as a result of the split dollar life insurance proceeds, the forecasted earnings of the Ready 2 Ride acquisition and improved revenue growth. Income tax expense may vary from period to period as we continue to evaluate the valuation allowance against net deferred tax assets on a semi-annual basis.

Liquidity and Capital Resources

The following table sets forth, for the periods indicated, certain cash flow information derived from our financial statements:

`	Twelve months ended July 31	
	2013	2012
Net cash provided by operating activities	$ 2,404	$ 3,507
Net cash used in investing activities	(4,800)	(1,941)
Net cash provided by (used in) financing activities	3,249	(1,369)
Effect of foreign currency exchange rate changes on cash	(8)	19
Net change in cash	$ 845	$ 216
Cash at end of period	$ 2,195	$ 1,350

We generated $845,000 of cash during fiscal 2013, compared to $216,000 in fiscal 2012. Net cash provided by operating activities decreased 31.4% or $1,103,000 over the same period, primarily due to costs associated with the acquisition and integration of the 50 Below and Ready2Ride operations. We expect cash from operations to improve in fiscal 2014 as the acquisitions become fully integrated.

Cash used in investing activities increased 147.3% or $2,859,000 in fiscal 2013, compared to the same period last year. We paid net cash of $2,479,000 for the acquisitions of Ready2Ride and 50 Below, capitalized $1,746,000 of software development costs, and acquired technology equipment of $722,000. We will continue to invest cash in the business to further our growth strategies previously discussed.

Cash provided by financing activities was $3,249,000 in fiscal 2013 as the Company borrowed an additional $1,000,000 of debt from Fifth Third, under its previous credit facilities, to fund its acquisition of Ready2Ride in August 2012 and borrowed an additional $3,500,000 from an affiliate of a shareholder for its acquisition of 50 below in November 2012. The Company paid off $4,300,000 of debt with the proceeds from the March 2013 equity offering and the remaining debt was refinanced in April 2013 under more favorable payment terms.

Management believes that current cash balances and its ability to generate cash from operations, as well as the existing availability under our line of credit are sufficient to fund our needs over the next twelve months, although additional financing may be necessary if the Company were to complete a material acquisition or to make a large investment in its business.

Debt

Silicon Valley Bank

On April 26, 2013, the Company entered into a Loan and Security Agreement (the "Agreement") with Silicon Valley Bank ("SVB"), pursuant to which SVB extended to the Company credit facilities consisting of a $3,000,000 revolving credit facility with a maturity date of April 26, 2015 and a $4,500,000 term loan with a maturity date of April 26, 2018. The Agreement replaced the Company's Loan and Security Agreement with Fifth Third Bank, which is described below.

The term loan and any loans made under the SVB revolving credit facility accrue interest at a per annum rate equal to one or more of the following as may be selected by the Company: (a) the one, two or three-month LIBOR Rate (as defined in the Agreement, subject to a floor of 1.00%), plus the Applicable Margin for LIBOR Loans set forth in the chart below, determined based on the most recent senior leverage ratio, total senior indebtedness to earnings before interest, taxes, depreciation and amortization ("EBITDA"), calculated by SVB on a quarterly basis (the "Senior Leverage Ratio"); or (b) the Prime rate plus the Applicable Margin for Prime Rate Loans set forth in the chart below determined based on the Senior Leverage Ratio (effective rate of 3.75% at July 31, 2013).

Senior Leverage Ratio	Applicable Margin for Libor Loans	Applicable Margin for Prime Rate Loans
>= 1.75 to 1.00:	3.25 %	1.00 %
> 1.25 to 1.00 but <1.75 to 1.00:	3.00 %	0.75 %
<= 1.25 to 1.00:	2.75 %	0.50 %

Principal in respect of any loans made under the revolving facility is required to be paid in its entirety on or before April 26, 2015. Principal in respect of the term loan is required to be paid in quarterly installments on the first day of each fiscal quarter of the Company as follows: $112,500 commencing on August 1, 2013 through May 1, 2014; $168,750 commencing on August 1, 2014 through May 1, 2015; and $281,250 commencing on August 1, 2015 through February 1, 2018. All remaining principal in respect of the term loan is due and payable on April 26, 2018. The Company is permitted to prepay all of, but not less than all of, the outstanding principal amount of the term loan upon certain notice to SVB and, in certain circumstances, the payment of a prepayment penalty of up to $90,000.

The Agreement contains covenants that restrict, among other things and subject to certain conditions, the ability of the Company to permit a change of control, incur debt, create liens on its assets, make certain investments, enter into merger or acquisition transactions and make distributions to its shareholders. Financial covenants include the maintenance of a minimum Senior Leverage Ratio equal to or less than 2.00 to 1.00, and the maintenance of a Fixed Charge Coverage Ratio (as defined in the Agreement) equal to or greater than 1.25 to 1.00. The Agreement also contains customary events of default that, if triggered, could result in an acceleration of the Company's obligations under the Agreement. The loans are secured by a first priority security interest in substantially all assets of the Company. The Company was in compliance with its debt covenants at July 31, 2013.

Fifth Third Bank

On July 27, 2011, the Company entered into a Loan and Security Agreement (the "Loan and Security Agreement") with Fifth Third Bank ("Fifth Third"). Pursuant to the terms of the Loan and Security Agreement, Fifth Third extended to the Company credit facilities consisting of a $1,500,000 revolving credit facility (the "Revolving Loan") and a $5,000,000 term loan facility (the "Term Loan" and, together with the Revolving Loan, the "Credit Facilities").

On August 17, 2012, the Credit Facilities were amended to increase the principal amount of the Term Loan by $1,000,000, and extend the maturity date to December 15, 2014. Each of the Credit Facilities bore interest at a rate based on the one, two, three or six month LIBOR (as selected by the Company on the last business day of each month) plus 4.0%.

On November 28, 2012 the Credit Facilities were further amended to waive the provisions of the Agreement that would prohibit ARI's acquisition of 50 Below and the financing of $3,500,000 of the acquisition with a secured subordinated promissory note in the same amount. Under the amendment, Fifth Third consented to the acquisition of the 50 Below assets and the related transactions and provided waivers of certain provisions of the Credit Facilities, subject to certain terms and conditions. Such terms and conditions included, among others: (i) amendments to the fixed charge coverage ratio and senior leverage (maximum senior funded debt to EBITDA) ratio financial covenants; (ii) the addition of a maximum total funded debt to EBITDA ratio financial covenant; (iii) amendment of the revolving loan and term loan maturity dates from July 27, 2014 to December 15, 2013; and (iv) other customary terms and conditions.

On March 8, 2013, the Company entered into the Third Amendment to the Loan and Security Agreement. The Third Amendment was intended for the following purposes: (i) to amend the definition of EBITDA to permit adjustments for certain non-recurring transaction expenses and certain other non-cash expenses; (ii) to amend the required fixed charge coverage ratio for the rolling four fiscal quarter periods ending January 31, 2013 and April 30, 2013 to 0.90x and 1.00x, respectively; (iii) to restrict the Company's ability to enter into certain transactions without the prior written consent of Fifth Third, including, without limitation, certain change in control transactions, reclassifications, reorganizations and recapitalizations of the Company's Common Stock; and (iv) to permit the Company to use the net

cash proceeds from an equity raise transaction in excess of $1,500,000 for working capital or to prepay the outstanding principal balance under other debt obligations described below. The Loan Agreement Amendment also contained Fifth Third Bank's consent to the Company raising additional capital by selling and issuing additional equity securities, and waivers by Fifth Third of the provisions of the Loan and Security Agreement that would otherwise have prohibited such a transaction, subject to certain terms and conditions. All amounts owed under the Loan and Security Agreement were paid in full as of April 26, 2013 in connection with the Company's entry into the Agreement with SVB, as described above.

Sifen Note

On November 28, 2012, the Company issued a Secured Non-Negotiable Subordinated Promissory Note (the "Sifen Note") to Michael D. Sifen, Inc. (the "Holder"), an affiliate of an existing shareholder of the Company, in aggregate principal amount of $3,500,000, the proceeds of which were used to partially fund the 50 Below acquisition. Interest accrued on the outstanding unpaid principal under the Sifen Note at a rate of 10.0% per annum. Accrued interest only was payable quarterly commencing on February 28, 2013 and continuing until May 28, 2016, at which time all accrued interest and outstanding principal would be due and payable in full. As partial consideration for the Sifen Note, the Company issued 440,000 shares of the Company's common stock to the Holder valued at approximately $585,000, which was recorded as a reduction to long-term debt and was being amortized to interest expense over the life of the note. A portion of the outstanding balance on the Sifen Note was retired in March 2013 in connection with the Holder's acquisition of Company common stock under the Securities Purchase Agreement, described in Note 9 to the consolidated financial statements, and the remaining balance on the Sifen Note was paid in full as of April 26, 2013.

During fiscal 2013, the Company recognized a loss on the early extinguishment of the Sifen Note and Fifth Third Bank debt totaling $682,000 related to unamortized deferred loan fees and debt discount.

The following table sets forth certain information related to the Company's long-term debt, derived from our audited balance sheet as of July 31, 2013 and 2012 (in thousands):

	July 31 2013	July 31 2012
Notes payable principal	$ 4,500	$ 3,972
Less current maturities	(450)	(1,084)
Notes payable - non-current	$ 4,050	$ 2,888

Minimum principal payments due on the Term Loan are as follows for the fiscal years ending July 31, (in thousands):

2014	$ 450
2015	675
2016	1,125
2017	1,125
2018	1,125
	$ 4,500

Leases

We lease office space and certain office equipment under capital and operating lease arrangements expiring through 2021. The following table shows our remaining obligations under these arrangements as of July 31, 2013 (in thousands):

Fiscal Year Ending July 31:	Capital Leases	Operating Leases
2014	$ 36	$ 590
2015	49	472
2016	49	323
2017	49	328
2018	49	334
Thereafter	8	1,036
Total minimum lease payments	240	3,083
Less amounts related to interest	47	-
Net minimum lease payments	$ 193	$ 3,083

Critical Accounting Policies

The Company's discussion and analysis of its financial condition and results of operations are based upon its financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States ("GAAP"). The preparation of financial statements in conformance with GAAP requires estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. The SEC has defined a company's critical accounting policies as the ones that are most important to the portrayal of a company's financial condition and results of operations, and which require us to make our most difficult and subjective judgments, often as a result of the need to make estimates of matters that are inherently uncertain. Based on this definition, we have identified as the most critical accounting policies and judgments those addressed below. We also have other key accounting policies, which involve the use of estimates, judgments, and assumptions that are significant to understanding our results. For additional information, refer to Note 1 of the consolidated financial statements, which appear elsewhere within this report on Form 10-K. Although we believe that our estimates, assumptions, and judgments are reasonable, they are based upon information currently available. Actual results may differ significantly from these estimates under different assumptions, judgments, or conditions.

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.

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

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 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 using the effective interest method.

Common Stock Warrants

ARI issued common stock warrants in connection with equity financing arrangements in fiscal 2013. The terms of the agreements were assessed to determine whether the instruments qualified as an equity arrangement or a debt arrangement. Arrangements determined to be derivatives are recorded at fair value on the balance sheet, with periodic gains and losses related to the change in fair value recorded to earnings on the statement of operations. Because the Company's warrants have no comparable market data to determine fair value, the Company hired an independent valuation firm to value the warrants using Level 3 inputs at the estimated price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date using an open form simulation model. The primary factors used to determine the fair value include: (i) the fair value of the Company's common stock; (ii) the volatility of the Company's common stock; (iii) the risk free interest rate; (iv) the estimated likelihood and timing of exercise; and (v) the estimated likelihood and timing of a future financing arrangement. Increases in the market value of the Company's common stock and volatility, which have the most impact on the fair value of the warrants, would cause the fair value of the warrants to increase.

Deferred Income Taxes

The tax effect of the temporary differences between the book and tax basis of assets and liabilities and the estimated tax benefit from tax net operating losses 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. 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 tax provision in the statement of income. Future events that could have a material impact on the valuation allowance include, but are not limited to, acquisitions, changes in payment terms of obligations, changes in use of equity instruments, changes in tax legislation.

Stock-Based Compensation

We use 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 U.S. Treasury yields in effect at the time of grant. As stock-based compensation expense recognized in our results of operations is based on awards ultimately expected to vest, the amount has been reduced for estimated forfeitures, which were estimated based on our historical experience. Management reviews the critical assumptions used in the Black-Scholes model each quarter and adjusts those assumptions when necessary.

Goodwill and Other Intangible Assets

As fully described in Note 1 to the consolidated financial statements, we annually review the carrying value of goodwill to determine whether an impairment may exist. We determined that there is a single reporting unit for the purpose of goodwill impairment testing. We estimate the fair value of the reporting unit using various valuation techniques, with our primary techniques being a discounted cash flow valuation and control premium adjusted market capitalization. There are many estimates and assumptions involved in preparing a discounted cash flow analysis, including estimating future operating results, selecting a weighted average cost of capital to discount estimated future cash flows, anticipated long-term growth rates, and future profit margins.

Estimating the fair value of a reporting unit is an inherently subjective process. Changes in assumptions, estimates, and other inputs could result in the indication of potential impairment of a portion of the recorded goodwill. Management believes the assumptions, estimates, and other inputs used reflect our best efforts and are appropriate for valuing the reporting unit. Our goodwill impairment test indicated that goodwill was not impaired in fiscal 2013 or fiscal 2012.

Impairment tests are also performed for those intangible assets with estimable useful lives if circumstances warrant a review.

Earn-out Receivable

As part of the purchase price for the disposition of our AgChem EDI business, we recorded an earn-out receivable with anticipated payments to ARI annually over a four-year period following the closing date. The earn-out was recorded at fair value, which was the estimated future receipts less an imputed discount, based on the present value of the estimated earn-out payments, discounted at an imputed interest rate at the time the note is issued and any subsequent changes in prevailing interest rates shall be ignored. Imputed interest is amortized to interest income over the life of the earn-out. Actual earn-out receipts may vary from the estimated earn-out if the buyer's revenues are higher or lower than estimated. Historical receipts to date have been 29% higher than originally estimated.

Quarterly Financial Data

The following table sets forth the unaudited results of operations for each of the eight quarterly periods ended July 31, 2013, prepared on a basis consistent with the audited financial statements, reflecting all normal recurring adjustments that are considered necessary. The quarterly information is as follows (in thousands, except per share data):

	1st Quarter		2nd Quarter		3rd Quarter		4th Quarter	
	2013	2012	2013	2012	2013	2012	2013	2012
Net revenues	$ 5,942	$ 5,410	$ 7,478	$ 5,501	$ 8,228	$ 5,712	$ 8,454	$ 5,871
Gross margin	$ 4,534	$ 4,274	$ 5,757	$ 4,250	$ 6,343	$ 4,334	$ 6,832	$ 4,370
Net income (loss)	$ 112	$ 272	$ 4	$ 61	$ (571)	$ 210	$ (298)	$ 512
Basic and diluted net income per common share:								
Basic	$ $0.01	$ 0.03	$ $0.00	$ 0.01	$ ($0.05)	$ 0.03	$ ($0.02)	$ 0.06
Diluted	$ $0.01	$ 0.03	$ $0.00	$ 0.01	$ ($0.05)	$ 0.03	$ ($0.02)	$ 0.06

Off-Balance Sheet Arrangements

ARI has no significant off-balance sheet arrangements that have or are reasonably likely to have a material current or future effect on its financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

We are a smaller reporting company as defined by Rule 12b-2 of the Securities Exchange Act of 1934, and are not required to provide the information under this item.

Item 8. *Financial Statements and Supplementary Data*

Reference is made to the consolidated financial statements, the reports thereon and the notes thereto commencing after the signature page of this Report, which are incorporated herein by reference.

Item 9. *Changes in and Disagreements with Accountants on Accounting and Financial Disclosure*

None.