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 2014 and fiscal 2013, 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 2014 was a record year for ARI, with revenues of over $33 million. Total revenue increased 9.7% or $2,917,000 during fiscal 2014, over the same period last year. Recurring revenue increased 14.4% in fiscal 2014, compared to the same period last year, and constituted over 90% of our total revenue for fiscal 2014. The growth in revenue is largely attributable to revenue from the 50 Below acquisition in November 2012.

Our operating income increased 276.2% or $558,000 from a loss of $202,000 during fiscal 2013 to income of $356,000 fiscal 2014. Operating expenses increased 11.1% or $2,617,000 during fiscal 2014, compared to the same period last year, primarily due to the additional costs of the 50 Below operation, an increase in our sales and marketing resources, and termination benefits incurred in connection with a workforce reduction in January 2014.

During January 2014, the Company implemented a 14% reduction in workforce, primarily in the catalog conversion and website implementation and support areas, as a result of consolidating operations and other operational efficiencies achieved as we have continued to integrate the 50 Below operation, thereby eliminating duplicate efforts. The Company expensed approximately $300,000 fiscal 2014 in severance and related costs as a result of this workforce reduction.

The Company had a net loss of $102,000 or $0.01 per share during fiscal 2014, compared to a net loss of $753,000 or $0.08 per share during fiscal 2013. The decrease in net loss is primarily due to (i) the increase in operating income; (ii) a loss on debt extinguishment and higher interest expense in fiscal 2013; offset in part by (iii) an increase in income tax expense, primarily as a result of a benefit related to a change in valuation allowance against deferred tax assets recorded in fiscal 2013.

Cash flow from operations was $2,383,000 during fiscal 2014, compared to $2,404,000 during fiscal 2013. We expect an increase in cash from operations in fiscal 2015 due to the cost savings from the operational efficiency improvements made in the second quarter of fiscal 2014 and an increase in cash receipts as a result of RR growth.

Subsequent Event

On September 30, 2014, we completed the acquisition of TCS, a leading provider of software, websites and marketing services designed exclusively for the automotive tire and wheel vertical. We believe the TCS business will allow us to consolidate our leadership position and provide additional solution offerings in the automotive tire and wheel industry. See Note 15 Subsequent Events for a description of the TCS acquisition and the related transactions.

Revenue

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

		2014	% of Total		2013	% of Total	% Change
Website	$	16,826	51.0 %	$	13,140	43.7 %	28.1 %
Catalog		14,042	42.5 %		13,882	46.1 %	1.2 %
Lead management		969	2.9 %		1,039	3.5 %	(6.7)%
Digital marketing		449	1.4 %		856	2.8 %	(47.5)%
Other		733	2.2 %		1,185	3.9 %	(38.1)%
Total Revenue	$	33,019	100.0 %	$	30,102	100.0 %	9.7 %
Recurring revenue		30,896	93.6		27,016	89.7	14.4 %
Non-recurring revenue		2,123	6.4		3,086	10.3	(31.2)%
Total Revenue	$	33,019	100.0 %	$	30,102	100.0 %	9.7 %

Total revenue increased 9.7% or $2,917,000 during fiscal 2014, compared to the same period last year. Recurring revenue increased 14.4% or $3,880,000 during fiscal 2014, compared to fiscal 2013. RR represented 93.6% of total revenues during fiscal 2014 versus 89.7% during fiscal 2013.

Website Revenue

Our Website solutions generate revenue from one-time set-up and customization fees to develop new dealer websites, which is recognized ratably over the term of the contract, monthly recurring subscription fees and variable transaction fees. Our website

solutions are typically sold as one year, renewable contracts with monthly payment terms. We estimate that we currently host and maintain more than 6,100 websites for dealers in all of our vertical markets. Websites have become ARI's largest source of revenue and accounted for 51% of total revenue during fiscal 2014. Website revenue increased 28.1% to $16,826,000 in fiscal 2014, compared to $13,140,000 during fiscal 2013. The growth in Website revenue was largely the result of our acquisition of 50 Below in November 2012. Since the acquisition, we have integrated our sales, support and implementation teams related to our website products. As part of the 50 Below acquisition, the Company assumed a significant recurring revenue service obligation and has had a high success rate in renewing those contracts. 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 HME markets, both of which are new to ARI.

eCatalog Revenue

Our eCatalog solutions generate revenue from renewable subscription fees for our software, data content, software maintenance and support fees and software customization fees. eCatalog is our second largest source of RR, representing 42.5% of total revenue during fiscal 2014. eCatalog revenue increased 1.2% or $160,000 during fiscal 2014, compared to fiscal 2013. eCatalog revenues have historically had the Company's lowest revenue growth rates, primarily attributable to ARI's already strong market position. We saw a small increase in eCatalog revenue as a result of our new AccessorySmart product, which is a fitment-powered aftermarket PG&A lookup solution and is a first-of-its-kind in the powersports industry. The product won a "Nifty 50 Award" from Powersports Business, a leading industry trade publication, at the powersports industry's largest trade show in February 2014.

Lead Management Revenue

Lead management revenue is primarily generated from renewable subscription fees and variable transaction fees for the use of our Footsteps™ products. Lead management revenue decreased 6.7% to $969,000 in fiscal 2014 from $1,039,000 during fiscal 2013. Management is currently reviewing various 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!™

Digital Marketing Revenue

Revenues from our digital marketing solutions are generated from set-up fees and subscription fees for our lead generation tools through search engine optimization, social media marketing and website enhancements. We derived approximately 1% of our revenues from digital marketing services during fiscal 2014. Digital marketing services is a relatively new service offering by ARI and in the third quarter of fiscal 2014, we went to market with a more robust offering in the space, which included RR offerings, as a result of our integration of the DUO business we acquired in November 2013. Digital marketing revenue decreased 47.5% from $856,000 during fiscal 2013 to $449,000 during fiscal 2014. The decline in digital marketing revenues was primarily driven by a change in business model for 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 the latter part of 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 little or no net impact on the gross profit or net cash receipts associated with the service.

Other Revenue

We also offer a suite of complementary solutions, which include software and website customization services and hosting services. Other revenue, which is primarily non-recurring in nature, declined 38.1% from $1,185,000 during fiscal 2013 to $733,000 during fiscal 2014. The decline in other revenue is primarily due to a decrease in our professional services revenue as a result of our goal of focusing on RR, which generates higher gross profits. Revenues from non-recurring professional services will fluctuate from period to period based on the timing of custom projects.

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 product 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 product churn, which is the percentage of RR that does 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 primary product categories from monthly license, subscription, maintenance and support fees. RR increased 14.4% from $27,016,000 during fiscal 2013 to $30,896,000 during fiscal 2014. The growth in RR was primarily attributable to our Website products. We expect Website RR to continue to be our largest contributor to RR growth in fiscal 2015.

Non-recurring Revenue

Non-recurring revenue is generated from certain offerings within the Company's digital marketing services, including its lead management tool SearchEngineSmart™, professional services related to software customization and data conversion, usage fees charged on our RR products, and other complementary products and services. Total non-recurring revenue declined 31.2% from $3,086,000 during fiscal 2013 to $2,123,000 during fiscal 2014. The decrease in non-recurring revenue was primarily due to the change in our lead generation business model and a decline in professional services revenue. 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. We expect non-recurring revenues to be less than 10% of total revenues during fiscal 2015.

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 for data royalties, as well as data conversion and replication fees directly attributable to the services we provide our customers.

The table below breaks out cost of revenue into each of these three categories:

	2014	% of Revenue	2013	% of Revenue	% Change
Net revenues	$ 33,019		$ 30,102		9.7 %
Cost of revenues:					
Amortization of capitalized software costs	2,052	6.2 %	1,741	5.8 %	17.9 %
Direct labor	2,151	6.5 %	2,406	8.0 %	(10.6) %
Other direct costs	2,175	6.6 %	2,489	8.3 %	(12.6) %
Total cost of revenues	6,378	19.3 %	6,636	22.0 %	(3.9) %
Gross profit	$ 26,641	80.7 %	$ 23,466	78.0 %	13.5 %

Gross profit was $26,641,000 or 80.7% of revenue in fiscal 2014, compared to $23,466,000 or 78.0% of revenue for the same period last year. The gross profit margin improvement was due to several factors resulting from our strategy to focus on recurring SaaS and DaaS services, which have a much higher gross margin than our non-recurring services: (i) we made a change to our lead generation service business model, eliminating the pass-through cost of purchased ad words from search engine providers on behalf of our customers; (ii) we had a reduction in direct labor costs as a result of the decline in professional service revenue; and (iii) we had a decrease in direct labor costs associated with the reduction of workforce in January 2014. The Company expects fluctuations in gross margin from quarter to quarter and year over year based on the mix of products sold.

Operating Expenses

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 computer 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. 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.

The following table summarizes our unaudited operating expenses by expense category (in thousands):

	2014	% of Revenue	2013	% of Revenue	% Change
Sales and marketing	$ 9,344	28.3 %	$ 7,480	24.8 %	24.9%
Customer operations and support	6,645	20.1 %	5,834	19.4 %	13.9%
Software development and technical support	2,717	8.2 %	2,648	8.8 %	2.6%
General and administrative	6,222	18.8 %	6,005	19.9 %	3.6%
Depreciation and amortization (1)	1,322	4.0 %	1,281	4.3 %	3.2%
Loss on impairment of long-lived assets	35	0.1 %	420	1.4 %	(91.7)%
Net operating expenses	$ 26,285	79.6 %	$ 23,668	78.6 %	11.1%

Net operating expenses increased 11.1% or $2,617,000 during fiscal 2014, compared to fiscal 2013. The increase in net operating expenses was largely due to the costs necessary to operate the 50 Below business for a full year in fiscal 2014 versus 8 months in fiscal 2013, primarily in the sales and marketing and general and administrative categories. During January 2014, the Company implemented a 14% reduction in workforce as a result of consolidating operations and other operational efficiencies achieved as we have continued to integrate the 50 Below operation, primarily in the catalog conversion and website implementation and support areas, thereby eliminating duplicate efforts. The Company expensed approximately $300,000 during fiscal 2014 in severance and related costs as a result of this workforce reduction. To the extent the Company can leverage growth in its core RR products, management expects net operating expenses to decline as a percentage of total revenues, as incremental costs related to these products decrease for every dollar of new revenue.

Sales and Marketing

Sales and marketing expense increased 24.9% or $1,864,000 during fiscal 2014, compared to fiscal 2013. The increase was primarily a result of a full year of sales staff for the 50 Below operation and an increase in trade show attendance and variable selling expense on increased new sales. Sales and marketing expense as a percentage of revenue increased from 24.8% of revenue in fiscal 2013 to 28.3% for the same period in fiscal 2014. The Company has focused its resources in the sales and marketing area designed to drive revenue growth, increasing staff in both sales and marketing, and has increased involvement in trade shows and online publications. Management expects sales and marketing expense as a percentage of revenue to fluctuate, based upon the timing of the Company's marketing events and trade show schedule and its decision to add additional sales and marketing resources to drive organic revenue growth.

Customer Operations and Support

Customer operations and support expense increased 13.9% or $811,000 during fiscal 2014, compared to the same period last year. Customer operations and support expense as a percentage of revenue increased from 19.4% of revenue during fiscal 2013 to 20.1% during fiscal 2014. The increase in customer operations and support expense is primarily related to the additional costs necessary to operate the 50 Below business for a full year. Management expects customer operations and support expenses to decline, as a percentage of total revenues, over time as we realize the cost savings related to the efficiencies implemented in the catalog conversion and customer implementation and support areas, while RR continues to grow.

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 capitalized as software product costs and amortized over the estimated useful lives of the product; (ii) costs for 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:

	2014	2013	% Change
Total software development and technical support costs	$ 6,369	$ 6,785	(6.1) %
Less: amount capitalized as software development	(1,501)	(1,731)	(13.3) %
Less: direct labor classified as cost of revenues	(2,151)	(2,406)	(10.6) %
Net software development and technical support costs classified as operating expenses	$ 2,717	$ 2,648	2.6 %

**Does not include outside vendor costs or capitalized interest costs*

Total software development and technical support costs decreased 6.1% or $416,000 during fiscal 2014 versus fiscal 2013. The decrease was primarily a result of the workforce reduction in January 2014.

During fiscal 2014, we capitalized $1,501,000 of software development labor and overhead, versus $1,731,000 during the same period last year. In addition to internal capitalized software costs, we had outsourced development costs of $284,000 during fiscal 2014 and $0 during fiscal 2013. During fiscal 2014, we have devoted resources to several enhancements of our newly acquired website product, including integration with our lead management and lead optimization tools. In addition to this, we added a new online application update process to PartSmart, which expands the scalability and international capabilities of the product. During fiscal 2013, we devoted resources to upgrading the 50 Below product with new functionality and design similar to ARI's product suite.

Direct labor classified as cost of sales declined 10.6% or $255,000 during fiscal 2014 versus fiscal 2013 due to the decline in professional service revenue and the workforce reduction, which was a result of efficiencies implemented in the catalog conversion and customer implementation and support areas.

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 fiscal 2014, we recorded a loss of $35,000 on the impairment of long-lived assets primarily as a result of the closing of the Virginia Beach office. During fiscal 2013, we recorded a loss of $420,000 on the impairment of long-lived assets related to the development of an internal ERP system.

Other Income and Expense

The table below summarizes the components of other income and expenses for fiscal 2014 and fiscal 2013.

	2014	2013	% Change
Interest expense	$ (286)	$ (626)	(54.3)%
Loss on debt extinguishment	—	(682)	(100.0)%
Loss on change in fair value of stock warrants	(28)	(635)	(95.6)%
Gain on change in fair value of contingent liabilities	67	180	(62.8)%
Gain on change in fair value of contingent assets	—	64	(100.0)%
Other, net	30	15	100.0%
Total other income (expense)	$ (217)	$ (1,684)	(87.1)%

Interest Expense

Interest expense is composed of both interest paid on the Company's debt financing arrangements and amortization of non-cash interest charges related to deferred finance costs. Interest expense decreased 54.3% or $340,000 during fiscal 2014, compared to fiscal 2013. The decrease in interest expense is a result of the April 2013 restructuring of debt.

Loss on Debt Extinguishment

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

Gain (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 contained a down-round protection feature which reduced the strike price of the warrants from $2.00 to $1.50 if there was 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 were recorded as a liability on the balance sheet at fair market value and changes in the fair market value were recorded to gain or loss on change in fair market value of stock warrants on the statement of operations.

We incurred a non-cash loss of $28,000 in fiscal 2014 and $635,000 in fiscal 2013 related to the warrants, primarily as a result of changes in the market value of the Company's common stock. We have 214,000 warrants outstanding at July 31, 2014, which were reclassified to equity in June 2014, due to the expiration of the down-round protection feature.

Gain on Change in Fair Value of Contingent Liabilities

The Company incurred a liability as part of the consideration for the Ready2Ride acquisition in August 2012, contingent on future revenues earned related to the acquired business. During fiscal 2013, we had a change in the estimated fair value of the contingent liabilities 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. On October 22, 2013, the Company amended the Purchase Agreement in relation to the earn-out payments resulting in three fixed payments of $125,000 and the issuance of an aggregate of 40,000 shares of common stock. We recorded a gain on change in fair value of earn-out payable of $67,000, or $0.01 per basic and diluted common share during fiscal 2014 related to this amendment.

Gain on Change in Fair Value of Contingent Assets

The Company recorded a benefit of approximately $64,000 during fiscal 2013, related to an assessment of the expected future cash flows of the Globalrange Earn-out Receivable. The assessment performed in fiscal 2014 resulted in no change in fair market value.

Gain on Change in Fair Value of Contingent Assets

In fiscal 2011 the Company sold 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 we recorded a gain of $64,000 or $0.01 per basic and diluted share as a result of the change in estimate of future earn-out payments expected to be received.

Acquisitions

On September 30, 2014, we completed the acquisition of TCS, a leading provider of software, websites and marketing services designed exclusively for the automotive tire and wheel vertical. See Note 15 Subsequent Events for a description of the TCS acquisition and the related transactions.

On November 5, 2013, the Company acquired the assets of DUO Web Solutions, a leading provider of social media and online marketing services for the powersports industry. The transaction was not material to the Company's financial statements.

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., a leading provider of eCommerce websites in the powersports, ATW and HME 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 marketed 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 and contingent liabilities with an estimated fair market value of approximately $600,000.

Income Taxes

The Company has net deferred tax assets of $6,162,000 as of July 31, 2014, primarily consisting of net operating loss carryforwards ("NOLs") and book to tax temporary 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. Income tax expense, if any, does not represent a significant current cash obligation, as we continue to have NOLs to offset substantially all of the taxable income.

We had income tax expense of $241,000 during fiscal 2014, compared to an income tax benefit of $1,133,000 during fiscal 2013. We recorded a tax benefit related to a change in estimate of the valuation allowance against future NOLs of $32,000 during fiscal 2014 and $1,341,000 during fiscal 2013, because of expected increases in future taxable income. We paid income taxes of $106,000 and $91,000 during fiscal 2014 and 2013, respectively, primarily related to statutory alternative minimum taxes. Income tax expense may vary from period to period as we continue to evaluate the valuation allowance against net deferred tax assets.

We also have NOLs related to tax losses incurred by our Netherlands operation. We have determined that, consistent with prior periods, it is not likely that the net operating losses will be utilized and therefore, a full valuation allowance is recorded, resulting in $0 net deferred tax assets related to the Netherlands operation at July 31, 2014 and 2013, respectively.

Liquidity and Capital Resources

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

	2014	2013
Net cash provided by operating activities	$ 2,383	$ 2,404
Net cash used in investing activities	(2,818)	(4,800)
Net cash provided by (used in) financing activities	51	3,249
Effect of foreign currency exchange rate changes on cash	(3)	(8)
Net change in cash	$ (387)	$ 845
Cash at end of period	$ 1,808	$ 2,195

We utilized $387,000 of net cash during fiscal 2014, compared to generation of $845,000 in fiscal 2013. We generated net cash provided by operating activities of $2,383,000 during fiscal 2014 compared to $2,404,000 during fiscal 2013.

Cash used in investing activities decreased 40.7% or $1,955,000 in fiscal 2014, compared to the same period last year. We paid net cash of $490,000 in acquisition related investments, capitalized $1,798,000 of software development costs, and acquired technology equipment of $658,000 during fiscal 2014. 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 during fiscal 2013. We will continue to invest cash in the business to further our growth strategies previously discussed.

Net cash provided from financing activities was $45,000 during fiscal 2014, as the Company received cash proceeds of $312,000 related to capital leases and $283,000 from the issuance of common stock, offset in part by debt payments of $550,000. Net 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.

The Company borrowed an additional $2.1 million on the Silicon Valley Bank ("SVB") term note and $1.5 million on the SVB revolving credit line (each as described below) to partially fund its acquisition of TCS on September 30, 2014. The Company also issued two promissory notes in the aggregate principal amount of $3,000,000 in connection with the TCS acquisition to the former owners of TCS (see Note 15 Subsequent Events for additional information).

Management believes that current cash balances and its ability to generate cash from operations 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 following is a description of the terms of the Agreement as of July 31, 2014. On September 30, 2014, in connection with the Company's acquisition of TCS, the Company entered into the First Loan Modification Agreement (the "Modification Agreement") with SVB, which contained substantial amendments to the terms of the Agreement. See Note 15 Subsequent Events for a description of the TCS acquisition and the terms of the Agreement as amended by the Modification Agreement.

At July 31, 2014, the term loan and any loans made under the SVB revolving credit facility accrued interest at a per annum rate equal to one or more of the following, as selected by SVB: (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, 2014).

Senior Leverage Ratio	Applicable Margin for Libor Loans	Applicable Margin for Prime Rate Loans
>= 1.75 to 1.0:	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, which were as follows as of July 31, 2014: $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 was 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 as of July 31, 2014.

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. As of July 31, 2014, financial covenants included 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, 2014.

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, 2014 and 2013 (in thousands):

	July 31 2014	July 31 2013
Notes payable principal	$ 4,050	$ 4,500
Less current maturities	(675)	(450)
Notes payable - non-current	$ 3,375	$ 4,050

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

2015	$ 675
2016	1,125
2017	1,125
2018	1,125
	$ 4,050

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, 2014 (in thousands):

Fiscal Year Ending July 31:	Capital Leases	Operating Leases
2015	$ 213	$ 667
2016	141	514
2017	54	510
2018	58	413
2019	27	349
Thereafter	—	715
Total minimum lease payments	493	3,168
Less amounts related to interest	(66)	—
Net minimum lease payments	$ 428	$ 3,168

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 are all recognized ratably over the contractual term of the arrangement. 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.

Revenues for professional services to customize complex features and functionality in a product's base software code or develop complex interfaces within a customer's environment are recognized as the services are performed. When the current estimates of total contract revenue for professional services and the total related costs indicate a loss, a provision for the entire loss on the contract is made in the period the amount is determined. 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.

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 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 consolidated balance sheet. Stock issued in connection with securing debt is recorded to debt discount, reducing the carrying amount of the debt on the consolidated 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 consolidated balance sheet, with periodic gains and losses related to the change in fair value recorded to earnings on the consolidated 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 consolidated 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 and 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 2014 or fiscal 2013.

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.