ARI NETWORK SERVICES INC /WI
Form 424B3
June 19, 2014
Filed Pursuant to Rule 424(b)(3)

Registration No. 333-188093

PROSPECTUS SUPPLEMENT NO. 7

ARI NETWORK SERVICES, INC.

4,330,667 shares of Common Stock

This prospectus supplement relates to the prospectus dated November 15, 2013, as supplemented by Prospectus Supplement No. 1 dated November 26, 2013, Prospectus Supplement No. 2 dated December 10, 2013, Prospectus Supplement No. 3 dated December 19, 2013, Prospectus Supplement No. 4 dated January 13, 2014, Prospectus Supplement No. 5 dated March 27, 2014 and Prospectus Supplement No. 6 dated June 3, 2014, which covers the sale of an aggregate of up to 4,330,667 shares of our common stock, $0.001 par value per share (the “Common Stock”), by the selling security holders identified in the prospectus (collectively with any such holder’s transferee, pledgee, donee or successor, referred to below as the “Selling Shareholders”). The Common Stock covered by the prospectus consists of (i) 3,200,000 shares of Common Stock which were issued in a private placement pursuant to a Securities Purchase Agreement we entered into on March 12, 2013 with selected accredited investors (the “Securities Purchase Agreement”); (ii) 1,066,667 shares of Common Stock issued or issuable upon exercise of warrants issued pursuant to the Securities Purchase Agreement (the “Purchaser Warrants”); and (iii) 64,000 shares of Common Stock issuable upon exercise of the warrants issued to affiliates of the placement agent in connection with the private placement as consideration for the placement agent’s services (together with the Purchaser Warrants, the “Warrants”).

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

This prospectus supplement is being filed to include the information set forth in our quarterly report on Form 10-Q filed on June 16, 2014, which is set forth below. This prospectus supplement should be read in conjunction with the prospectus, which is to be delivered with this prospectus supplement.

Our Common Stock is traded on the NASDAQ Capital Market under the symbol “ARIS”. The last reported market price of our Common Stock on the NASDAQ Capital Market on June 17, 2014 was $3.06 per share. Our executive offices are located at 10850 West Park Place, Suite 1200, Milwaukee, Wisconsin 53224, and our telephone number is (414) 973-4300.

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

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

The date of this prospectus supplement is June 19, 2014

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended April 30, 2014

( )TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from to

Commission file number 000-19608

ARI Network Services, Inc.

(Exact name of registrant as specified in its charter)

WISCONSIN 39-1388360

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

10850 West Park Place, Suite 1200, Milwaukee, Wisconsin 53224

(Address of principal executive offices)

(414) 973-4300

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

YESüNO

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (S232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

YESüNO

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer”, “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filerAccelerated filer

Non-accelerated filerSmaller reporting companyü

(Do not check if a smaller reporting

reporting company)

1

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

YESNOü

As of June 9, 2014 there were 13,455,203 shares of the registrant’s common stock outstanding.

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ARI Network Services, Inc.

FORM 10-Q

FOR THE THREE MONTHS ENDED APRIL 30, 2014

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Item 1. Financial Statements

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

	(Unaudited) April 30 2014	(Audited) July 31 2013
ASSETS		
Cash and cash equivalents	$ 1,034	$ 2,195
Trade receivables, less allowance for doubtful accounts of $427 and $220 at April 30, 2014 and July 31, 2013, respectively	1,840	945
Work in process	161	154
Prepaid expenses and other	1,080	934
Deferred income taxes	2,896	2,938
Total current assets	7,011	7,166
Equipment and leasehold improvements:		
Computer equipment and software for internal use	2,523	2,641
Leasehold improvements	671	609
Furniture and equipment	3,256	2,561

	6,450	5,811
Less accumulated depreciation and amortization	(4,502)	(3,948)
Net equipment and leasehold improvements	1,948	1,863
Capitalized software product costs:		
Amounts capitalized for software product costs	22,298	20,814
Less accumulated amortization	(18,098)	(16,604)
Net capitalized software product costs	4,200	4,210
Deferred income taxes	3,496	3,451
Other long term assets	78	141
Other intangible assets	3,744	4,099
Goodwill	12,326	12,198
Total assets	$ 32,803	$ 33,128

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

	(Unaudited) April 30 2014	(Audited) July 31 2013
LIABILITIES		
Current borrowings on line of credit	$ -	$ -
Current portion of long-term debt	619	450
Current portion of earn-out payable	301	303
Accounts payable	554	710
Deferred revenue	7,849	8,571
Accrued payroll and related liabilities	1,425	1,434
Accrued sales, use and income taxes	132	147
Other accrued liabilities	504	316
Current portion of capital lease obligations	200	24
Total current liabilities	11,584	11,955
Long-term debt	3,544	4,050
Common stock warrants at fair value	282	254
Long-term portion of earn-out payable	171	418
Capital lease obligations	279	169
Other long term liabilities	217	233
Total non-current liabilities	4,493	5,124
Total liabilities	16,077	17,079
SHAREHOLDERS' EQUITY		

Cumulative preferred stock, par value $.001 per share, 1,000,000 shares authorized; 0 shares issued and outstanding at April 30, 2014 and July 31, 2013, respectively	-	-
Junior preferred stock, par value $.001 per share, 100,000 shares authorized; 0 shares issued and outstanding at April 30, 2014 and July 31, 2013, respectively	-	-
Common stock, par value $.001 per share, 25,000,000 shares authorized; 13,440,141 and 12,976,588 shares issued and outstanding at April 30, 2014 and July 31, 2013, respectively	13	13
Additional paid-in capital	105,784	104,816
Accumulated deficit	(89,038)	(88,762)
Other accumulated comprehensive loss	(33)	(18)
Total shareholders' equity	16,726	16,049
Total liabilities and shareholders' equity	$ 32,803	$ 33,128

See accompanying notes

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

	Three months ended April 30		Nine months ended April 30	
	2014	2013	2014	2013
Net revenue	$ 8,176	$ 8,228	$ 24,471	$ 21,648
Cost of revenue	1,560	1,885	4,806	5,014
Gross profit	6,616	6,343	19,665	16,634
Operating expenses:				
Sales and marketing	2,291	2,324	7,190	5,459
Customer operations and support	1,638	1,545	5,029	4,106
Software development and technical support (net of capitalized software product costs)	679	672	2,016	1,995
General and administrative	1,289	1,541	4,490	4,457
Depreciation and amortization (exclusive				

of amortization of software product costs included in cost of revenue)	354	334	1,014	953
Loss on impairment of long-lived assets	-	420	-	420
Net operating expenses	6,251	6,836	19,739	17,390
Operating income (loss)	365	(493)	(74)	(756)
Other income (expense):				
Interest expense	(68)	(197)	(216)	(534)
Loss on debt extinguishment	-	(682)	-	(682)
(Gain) loss on change in fair value of stock warrants	4	-	(28)	-
Gain on change in fair value of earn-out payable	-	-	26	-
Gain on change in fair value	-	64	-	64

of contingent assets				
Other income (expense), net	12	(1)	27	7
Total other income (expense)	(52)	(816)	(191)	(1,145)
Income (loss) before provision for income tax	313	(1,309)	(265)	(1,901)
Income tax benefit (expense)	(153)	738	(11)	1,447
Net income (loss)	$ 160	$ (571)	$ (276)	$ (454)
Weighted average common shares outstanding:				
Basic	13,394	10,548	13,235	9,055
Diluted	13,790	10,548	13,235	9,055
Net income (loss) per common share:				
Basic	$ 0.01	$ (0.05)	$ (0.02)	$ (0.05)
Diluted	$ 0.01	$ (0.05)	$ (0.02)	$ (0.05)

See accompanying notes

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

	Three months ended April 30		Nine months ended April 30	
	2014	2013	2014	2013
Net income (loss)	$ 160	$ (571)	$ (276)	$ (454)

Other comprehensive income (loss), net of tax:				
Foreign currency translation adjustments	(8)	(10)	(15)	(15)
Total other comprehensive loss	(8)	(10)	(15)	(15)
Comprehensive income (loss)	$ 152	$ (581)	$ (291)	$ (469)

See accompanying notes

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

	Nine months ended April 30	
	2014	2013
Operating activities:		
Net income (loss)	$ (276)	$ (454)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Amortization of software products	1,494	1,312
Amortization of discount related to present value of earnout	(12)	(21)
Amortization of bank loan fees	90	265
Stock based interest expense	-	38
Depreciation and other amortization	1,014	953
Loss on impairment of long-lived assets	-	420
	-	(64)

Gain on change in fair value of contingent assets		
Gain on liquidation of split dollar life insurance policy	-	682
Loss on change in fair value of stock warrants	28	-
Gain on change in fair value of contingent liabilities	(26)	-
Provision for bad debt allowance	176	106
Deferred income taxes	(3)	(1,537)
Stock based compensation related to stock options and restricted stock	329	620
Net change in assets and liabilities:		
Trade receivables	(1,068)	(310)
Work in process	(7)	(7)
Prepaid expenses and other	(29)	(72)
Other long term assets	(56)	(207)
Accounts payable	(157)	66
Deferred revenue	(722)	(426)
Accrued payroll and related liabilities	110	284
	(15)	(99)

Accrued sales, use and income taxes		
Other accrued liabilities	172	(45)
Net cash provided by operating activities	$ 1,042	$ 1,504
Investing activities:		
Purchase of equipment, software and leasehold improvements	(592)	(493)
Cash received on earnout from disposition of a component of the business	101	147
Cash paid related to earn-out	(250)	-
Cash paid for assets related to acquisition	(200)	(2,479)
Software developed for internal use	(29)	(9)
Software development costs capitalized	(1,391)	(1,279)
Net cash used in investing activities	$ (2,361)	$ (4,113)
Financing activities:		
Net borrowings under line of credit	-	750
Payments on long-term debt	(337)	(8,172)
Borrowings under long-term debt	-	6,000
Proceeds from capital lease	312	-

obligations incurred		
Payments of capital lease obligations	(44)	(208)
Payment of stock issuance fees	-	(451)
Proceeds from issuance of common stock	237	4,511
Net cash provided by financing activities	$ 168	$ 2,430
Effect of foreign currency exchange rate changes on cash	(10)	(7)
Net change in cash and cash equivalents	(1,161)	(186)
Cash and cash equivalents at beginning of period	2,195	1,350
Cash and cash equivalents at end of period	$ 1,034	$ 1,164
Cash paid for interest	$ 222	$ 544
Cash paid for income taxes	$ 70	$ 50
Noncash investing and financing activities		

Issuance of common stock in connection with acquisitions	$ 164	$ 101
Debt issued in connection with acquisitions	-	3,000
Accrued liabilities assumed in connection with acquisitions	-	4,728
Issuance of common stock in connection with debt retirement	-	300
Issuance of common stock warrants in connection with a securities purchase agreement	-	2,333
Issuance of common stock in connection with debt issuance and loan fees	-	585
Issuance of common stock related to payment of director compensation	251	176
Issuance of common stock related to payment of employee compensation	172	199
Contingent liabilities incurred in	-	749

connection
with
acquisition

See accompanying notes

Notes to Unaudited Consolidated Financial Statements

1. Description of the Business and Significant Accounting Policies

Description of the Business

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

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

Basis of Presentation

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

administrative expenses. This had no impact on gross profit, total operating expenses or net income (loss). All adjustments that, in the opinion of management, are necessary for a fair presentation for the periods presented have been reflected as required by Regulation S-X, Rule 10-01.

Significant Accounting Policies

Our accounting policies are fully described in the footnotes to our Consolidated Financial Statements for the fiscal year ended July 31, 2013, which appear in our Annual Report on Form 10-K filed with the Securities and Exchange Commission on October 29, 2013. There were no material changes to our accounting policies during the nine months ended April 30, 2014.

Revenue Recognition

In accordance with Financial Accounting Standard 605-25 "Revenue from Multiple Element Arrangements", revenues from subscription fees for use of our software, access to our catalog content, and software maintenance and support fees are all recognized ratably over the contractual term of the arrangement, as vendor specific objective evidence does not exist for these elements. ARI considers all arrangements with payment terms extending beyond 12 months not to be fixed or determinable and evaluates other arrangements with payment terms longer than normal to determine whether the arrangement is fixed or determinable. If the fee is not fixed or determinable, revenue is recognized as payments become due from the customer. Arrangements that include acceptance terms beyond the standard terms are not recognized until acceptance has occurred. If collectability is not considered probable, revenue is recognized when the fee is collected.

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 subscription arrangements include customizing complex features and functionality in a product's base software code or developing complex interfaces within a customer's environment. When professional services are considered essential to software license arrangements, the professional service revenue is recognized pursuant to contract accounting using the percentage-of-completion method with progress-to-completion measured based upon labor hours incurred. Professional services revenue for set-up and integration of hosted websites, or other services considered essential to the functionality of other elements of this

type of arrangement, is amortized over the term of the contract. When professional services are not considered essential, the revenue allocable to the professional services is recognized as the services are performed. When the current estimates of total contract revenue and contract cost indicate a loss, a provision for the entire loss on the contract is made in the period the amount is determined.

Revenue for variable transaction fees, primarily for use of the shopping cart feature of our websites, is recognized as it is earned. Amounts received for shipping and handling fees are reflected in revenue. Costs incurred for shipping and handling are reported in cost of revenue.

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

Trade Receivables, Credit Policy and Allowance for Doubtful Accounts

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

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

Capitalized and Purchased Software Product Costs

Certain software development and acquisition costs are capitalized when incurred. Capitalization of these costs begins upon the establishment of technological feasibility. The establishment of technological feasibility and the on-going assessment of recoverability of software costs require considerable judgment by management with respect to certain external factors, including, but not limited to, the determination of technological feasibility, anticipated future gross revenue, estimated economic life and changes in software and hardware technologies.

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

Fair Value Assets and Liabilities

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

Common Stock Warrants

ARI has periodically issued common stock warrants in connection with debt and equity financing arrangements. The terms of the agreements are assessed to determine whether the instrument qualifies as an equity arrangement or a debt arrangement. Arrangements determined to be derivatives are recorded at fair value as liabilities on the balance sheet, with periodic gains and losses related to the change in fair value recorded to earnings on the Statements of Operations. The Company recorded a gain related to the change in fair value of common stock warrants of $4,000 for the three months ended April 30, 2014 and a loss of $28,000 for the nine months ended April 30, 2014, compared to $0 for the three and nine months ended April 30, 2013.

Legal Provisions

ARI may be periodically involved in legal proceedings arising from contracts, patents or other matters in the normal course of business. We reserve for any material estimated losses if the outcome is probable and can be reasonably estimated. We had no legal provisions for the three or nine months ended April 30, 2014 or 2013, respectively.

Deferred Loan Fees and Debt Discounts

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

Deferred Income Taxes

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

2. Basic and Diluted Net Income per Share

Basic net income per common share is computed by dividing net income by the basic weighted average number of common shares outstanding during the period. Diluted net income per common share is computed by dividing net income by the weighted average number of common shares outstanding during the period and reflects the potential dilution using the treasury stock method, which calculates the number of common shares that could be purchased at market price with the proceeds that would occur if all of the Company’s outstanding stock options and warrants that have a strike price below the market price were exercised.

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

	Three months ended April 30		Nine months ended April 30	
	2014	2013	2014	2013
Net income (loss)	$ 160	$ (571)	$ (276)	$ (454)
Weighted-average common shares outstanding	13,394	10,548	13,235	9,055
Effect of dilutive stock options and warrants	396	-	-	-
Diluted weighted-average common shares outstanding	13,790	10,548	13,235	9,055
Earnings per share				
Basic	$ 0.01	$ (0.05)	$ (0.02)	$ (0.05)
Diluted	$ 0.01	$ (0.05)	$ (0.02)	$ (0.05)
Options and warrants that could potentially dilute net income per share in the future that are not included in the computation of diluted net income per share, as their impact is anti-dilutive	200	2,531	1,520	2,531

3. Stock-based Compensation Plans

Stock Option Plans

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

As recognizing stock-based compensation expense is based on awards ultimately expected to vest, the amount of recognized expense has been reduced for estimated forfeitures based on the Company's historical experience. Total stock compensation expense recognized by the Company was approximately $63,000 and $112,000 for the three and nine month periods ended April 30, 2014, respectively, and $42,000 and $127,000 for the same periods last year. There was approximately $389,000 and $194,000 of total unrecognized compensation costs related to non-vested options granted under the Company's stock option plans as of April 30, 2014 and 2013, respectively. There were no capitalized stock-based compensation costs at April 30, 2014 or July 31, 2013.

The fair value of each option granted was estimated in the period of issuance using the assumptions in the following table for the three and nine months ended April 30, 2014 and 2013:

	Three months ended April 30		Nine months ended April 30	
	2014	2013	2014	2013
Expected life (years)	5.07 years	n/a	5.07 years	10 years
Risk-free interest rate	1.5 %	n/a	1.4 %	1.7 %
Expected volatility	70.6 %	n/a	72.0 %	130.5 %
Expected forfeiture rate	27.2 %	n/a	14.2 %	- %
Expected dividend yield	- %	n/a	- %	- %
Weighted-average estimated fair value of options granted during the period	$ 1.94	$ n/a	$ 1.96	$ 1.25
Cash received from the exercise of stock options	$ 95,755	$ 570	$ 244,792	$ 9,453

2000 Stock Option Plan

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

Changes in option shares under the 2000 Plan during the three and nine months ended April 30, 2014 and 2013 were as follows:

	Number of Options	Wtd. Avg. Exercise Price	Wtd. Avg. Remaining Contractual Period (Years)	Aggregate Intrinsic Value
Outstanding at 1/31/13	997,961	$ 1.41	4.72	$ 459,617
Granted	-	n/a	n/a	n/a
Exercised	(3,800)	0.15	n/a	n/a
Forfeited	(687)	0.92	n/a	n/a
Outstanding at 4/30/13	993,474	$ 1.41	4.49	$ 1,074,015
Exercisable at 4/30/13	918,074	$ 1.47	4.49	$ 937,800
Outstanding at 1/31/14	822,074	$ 1.55	3.21	$ 1,514,709
Granted	-	n/a	n/a	n/a
Exercised	(65,111)	1.44	n/a	n/a
Forfeited	(1,313)	1.40	n/a	n/a
Outstanding at 4/30/14	755,650	$ 1.56	3.12	$ 1,148,668
Exercisable at 4/30/14	754,276	$ 1.56	3.12	$ 1,145,224

	Number of Options	Wtd. Avg. Exercise Price	Wtd. Avg. Remaining Contractual Period (Years)	Aggregate Intrinsic Value
Outstanding at 7/31/12	1,099,769	$ 1.41	5.06	$ 105,849
Granted	-	n/a	n/a	n/a
Exercised	(16,600)	0.45	n/a	n/a
Forfeited	(89,695)	1.55	n/a	n/a
Outstanding at 4/30/13	993,474	$ 1.41	4.49	$ 1,074,015
Exercisable at 4/30/13	918,074	$ 1.47	4.49	$ 937,800
Outstanding at 7/31/13	986,786	$ 1.41	4.22	$ 1,564,296
Granted	-	n/a	n/a	n/a
Exercised	(212,611)	0.96	n/a	n/a
Forfeited	(18,525)	0.79	n/a	n/a
Outstanding at 4/30/14	755,650	$ 1.56	3.12	$ 1,148,668
Exercisable at 4/30/14	754,276	$ 1.56	3.12	$ 1,145,224

The range of exercise prices for options outstanding under the 2000 Plan was $0.49 to $2.74 at April 30, 2014 and 2013.

Changes in the 2000 Plan's non-vested option shares included in the outstanding shares above during the three and nine months ended April 30, 2014 and 2013 were as follows:

	Number of Options	Wtd. Avg. Exercise Price
Non-vested at 1/31/13	75,587	$ 0.68
Granted	-	n/a
Vested	-	n/a
Forfeited	(187)	0.92
Non-vested at 4/30/13	75,400	$ 0.68
Non-vested at 1/31/14	1,374	$ 0.57
Granted	-	n/a
Vested	-	n/a
Forfeited	-	n/a
Non-vested at 4/30/14	1,374	$ 0.57

	Number of Options	Wtd. Avg. Exercise Price
Non-vested at 7/31/12	78,087	$ 0.69
Granted	-	n/a
Vested	-	n/a
Forfeited	(2,687)	0.73
Non-vested at 4/30/13	75,400	$ 0.68
Non-vested at 7/31/13	27,461	$ 0.64
Granted	-	n/a
Vested	(12,500)	0.67
Forfeited	(13,587)	0.63
Non-vested at 4/30/14	1,374	$ 0.57

The weighted average remaining vesting period was .25 and .63 years at April 30, 2014 and 2013, respectively.

2010 Equity Incentive Plan

The Board of Directors adopted the ARI Network Services, Inc. 2010 Equity Incentive Plan (as amended, the "2010 Plan") on November 9, 2010, and the plan was approved by the Company's shareholders in December 2010, and amendments to the 2010 Plan were approved by the Company's shareholders in January 2014. The 2010 Plan is the successor to the Company's 2000 Plan. There are 1,850,000 shares of Company common stock authorized for issuance under the 2010 Plan. Potential awards under the 2010 Plan include incentive stock options ("ISOs'') and non-statutory stock options ("NSOs"), shares of restricted stock or restricted stock units, stock appreciation rights ("SARs), and shares of common stock. Up to 1,525,000 of the shares authorized for issuance under the 2010 Plan may be used for common stock restricted stock or restricted stock unit awards.

The exercise price for options and stock appreciation rights under the 2010 Plan cannot be less than 100% of the fair market value of the Company's common stock on the date of grant, and the exercise prices for options and stock appreciation rights cannot be repriced without shareholder approval, except to reflect changes to the capital structure of the Company as described in the 2010 Plan. The maximum term of options and stock appreciation rights under the 2010 Plan is ten (10) years. The 2010 Plan does not have liberal share counting provisions (such as provisions that would permit shares withheld for payment of taxes or the exercise price of stock options to be re-granted under the plan.

Changes in option shares under the 2010 Plan during the three and nine months ended April 30, 2014 and 2013 were as follows:

	Number of Options	Wtd. Avg. Exercise Price	Wtd. Avg. Remaining Contractual Period (Years)	Aggregate Intrinsic Value
Outstanding at 1/31/13	449,335	$ 1.17	9.11	$ 284,393
Granted	-	n/a	n/a	n/a
Exercised	-	n/a	n/a	n/a
Forfeited	(42,000)	0.80	n/a	n/a
Outstanding at 4/30/13	407,335	$ 1.20	8.91	$ 523,647
Exercisable at 4/30/13	111,210	$ 1.09	8.91	$ 156,031
Outstanding at 1/31/14	426,085	$ 1.76	8.67	$ 693,641
Granted	106,666	3.29	n/a	n/a
Exercised	(1,750)	1.11	n/a	n/a
Forfeited	(375)	0.66	n/a	n/a
Outstanding at 4/30/14	530,626	$ 2.07	8.72	$ 573,095
Exercisable at 4/30/14	176,690	$ 1.29	7.83	$ 315,654

	Number of Options	Wtd. Avg. Exercise Price	Wtd. Avg. Remaining Contractual Period (Years)	Aggregate Intrinsic Value
Outstanding at 7/31/12	310,667	$ 1.10	9.28	$ 41,962
Granted	145,668	1.29	n/a	n/a
Exercised	(3,000)	0.66	n/a	n/a
Forfeited	(46,000)	0.79	n/a	n/a
Outstanding at 4/30/13	407,335	$ 1.20	8.91	$ 523,647
Exercisable at 4/30/13	111,210	$ 1.09	8.91	$ 156,031
Outstanding at 7/31/13	394,460	$ 1.25	8.70	$ 691,485
Granted	206,666	3.27	n/a	n/a
Exercised	(46,750)	0.89	n/a	n/a
Forfeited	(23,750)	1.09	n/a	n/a
Outstanding at 4/30/14	530,626	$ 2.07	8.72	$ 573,095
Exercisable at 4/30/14	176,690	$ 1.29	7.83	$ 315,654

The range of exercise prices for options outstanding under the 2010 Plan was $.58 to $3.30 and $0.58 to $1.75 at April 30, 2014 and 2013, respectively.

Changes in the 2010 Plan's non-vested option shares included in the outstanding shares above during the three and nine months ended April 30, 2014 and 2013 were as follows:

	Number of Options	Wtd. Avg. Exercise Price
Non-vested at 1/31/13	337,875	$ 1.19
Granted	-	n/a
Vested	-	n/a
Forfeited	(41,750)	0.81
Non-vested at 4/30/13	296,125	$ 1.25
Non-vested at 1/31/14	247,645	$ 2.10
Granted	106,666	3.29
Vested	-	n/a
Forfeited	(375)	0.66
Non-vested at 4/30/14	353,936	$ 2.46

	Number of Options	Wtd. Avg. Exercise Price
Non-vested at 7/31/12	192,707	$ 1.12
Granted	145,668	1.29
Vested	-	-
Forfeited	(42,250)	0.80
Non-vested at 4/30/13	296,125	$ 1.25
Non-vested at 7/31/13	177,145	$ 1.25
Granted	206,666	3.27
Vested	(15,000)	0.84
Forfeited	(14,875)	0.84
Non-vested at 4/30/14	353,936	$ 2.46

The weighted average remaining vesting period was 1.43 and 1.31 years at April 30, 2014 and 2013, respectively.

Employee Stock Purchase Plan

The Company's 2000 Employee Stock Purchase Plan, as amended, ("ESPP") has 575,000 shares of common stock reserved for issuance, of which 224,955 and 200,311 of the shares have been issued as of April 30, 2014 and July 31, 2013, respectively. All employees with at least six months of service are eligible to participate. Shares may be purchased at the end of a specified period at the lower of 85% of the market value at the beginning or end of the specified period through accumulation of payroll deductions, not to exceed 5,000 shares per employee per year.

Long-Term Executive Bonus Plan

The Compensation Committee adopted the Long-Term Executive Bonus Plan ("LTEB") for eligible executive officers of the Company effective beginning in fiscal 2013. The amount of the awards will be determined after the close of the fiscal year based on subjective and performance criteria. Except as otherwise provided by the Compensation Committee, awards will consist of (i) restricted stock based on a percentage of base salary and the number of shares granted will be based upon the closing price of the shares at the time the Committee determines the amount of the Award, which will be the same as the grant date of the restricted stock and (ii) cash, to cover the minimum withholding taxes on the Award. The restricted stock is granted under the 2010 Plan and vests in four installments, beginning on the date of grant and the next three anniversaries of the date of grant. Awards under the LTEB are expensed over the requisite service period plus the vesting period. The Company expensed approximately $23,000 and $123,000 for the three and nine months, respectively, ended April 30, 2014 and $0 for the three and nine months ended April 30, 2013 related to the LTEB. A portion of this expense relates to the amortization of restricted shares issued and expensed over their vesting period (described below) and a portion relates to bonus expense accrued, but unissued, recognized over the requisite service period.

Restricted Stock

Pursuant to the 2010 Plan, there are 1,525,000 shares authorized for issuance in the form of shares of common stock, restricted stock or restricted stock units. The Company grants restricted stock to its directors as an annual retainer, its officers under the LTEB and from time to time to directors, officers or employees as discretionary compensation in place of cash. The Company recognized compensation expense of $104,000 and $217,000 for the three and nine months ended April 30, 2014 and $67,000 and $316,000 for the three and nine months ended April 30, 2013, respectively, related to restricted stock expensed over the vesting period.

The Compensation Committee has the ability, at its discretion, to grant restricted stock based on subjective factors as the Compensation Committee may deem appropriate, and granted 18,000 of restricted shares with a market price of $1.25 on the date of grant, valued at $22,000, in October 2012 as a discretionary bonus. 9,000 shares vested in October 2013 and the remaining 9,000 shares vest equally in October 2014 and October 2015. In connection with this grant, the Company expensed $2,000 and $6,000 during the three and nine months ended April 30, 2014 and $2,000 and $6,000 during the three and nine months ended April 30, 2013.

Changes in restricted shares of common stock under the 2010 Plan were as follows:

	Three months ended April 30		Nine months ended April 30	
	2014	2013	2014	2013
Beginning balance	133,260	85,500	85,500	-
Granted	5,288	50,525	129,548	229,609
Vested	-	(50,525)	(76,500)	(144,109)
Forfeited	-	-	-	-
Ending balance	138,548	85,500	138,548	85,500

4. Business Combinations

On November 1, 2013, the Company acquired substantially all of the assets of DUO Web Solutions (“DUO”) pursuant to an Asset Purchase Agreement dated November 1, 2013. DUO was a leading provider of social media and online marketing services for the powersports industry, which is in line with the Company’s strategy to grow the digital marketing services side of the business. The Company determined that the DUO assets acquired did not constitute a

business that is “significant” as defined in the applicable SEC regulations, nor did it have a material impact on 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. (“50 Below”), 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 (ongoing service requirements for which ARI will not receive payment) valued in the amount of $4,601,000.

The following tables show the allocation of the purchase price (in thousands):

	Purchase Price
Cash	$ 1,500
Financed by note payable	3,500
Assumed liabilities	4,601
Purchase Price	$ 9,601

	Purchase Allocation
Prepaid expenses	$ 9
Furniture and equipment	106
Developed technology	950
Tradenames	130
Customer Relationships	2,180
Goodwill	6,226
Purchase Price Allocation	$ 9,601

Intangible assets include the fair value of tradenames with a useful life of 2 years and customer relationships with a useful life of 15 years. Goodwill of $6,226,000 represents the additional benefits provided to the Company by the acquisition of 50 Below through operational synergies. The acquisition of 50 Below increased the Company's portfolio of equipment dealer websites by 230% and is expected to accelerate ARI's opportunity to drive organic growth through the cross selling of new products. It also provided entry into new, potentially high growth markets, including ATW and HME. The combined customer benefits and operational efficiencies are expected to result in a stronger organization that can create more value for its customers, employees and shareholders than the sum of the stand alone business units. The Company acquired approximately $7 million of tax deductible goodwill related to the 50 Below acquisition.

The following unaudited results of operations for the three and nine months ended April 30, 2014 and the three months ended April 30, 2013 reflect the actual results of the Company, which include the results of the 50 Below operation for the entire period. The unaudited pro forma information for the nine months ended April 30, 2013 reflects the historical results of operations of both companies, with pro forma adjustments as if the acquisition had occurred on August 1, 2012. The unaudited pro forma financial information presented is for information purposes only and does not purport to represent what the Company's and 50 Below's financial position or results of operations would have been had the acquisition in fact occurred on such date or at the beginning of the period indicated, nor does it project the Company's and 50 Below's financial position or results of operations for any future date or period.

	Three months ended April 30		Nine months ended April 30	
	2014	2013	2014	2013
Revenue	$ 8,176	$ 8,228	$ 24,471	$ 24,850
Net income (loss)	$ 160	$ (571)	$ (276)	$ (323)
Net income (loss) per common share:				
Basic	$ 0.01	$ (0.05)	$ (0.02)	$ (0.04)
Diluted	$ 0.01	$ (0.05)	$ (0.02)	$ (0.04)

Pro forma adjustments to net income include amortization costs related to internally developed technology and intangible assets, acquisition-related professional fees, interest expense on the debt incurred to acquire the assets of 50 Below and the related debt discount, and the tax effect of the historical 50 Below results of operations and the pro forma adjustments at an estimated tax rate of 40% as follows:

	Three months ended April 30		Nine months ended April 30	
	2014	2013	2014	2013
Amortization of internally developed technology	$ -	$ -	$ -	$ 35
Amortization of intangible assets	-	-	-	68
Acquisition-related professional fees	-	-	-	(790)
Interest expense	-	-	-	172
Income tax benefit	-	-	-	(439)

On August 17, 2012, the Company acquired substantially all of the assets of Ready2Ride, Incorporated ("Ready2Ride") pursuant to an Asset Purchase Agreement dated August 17, 2012. Ready2Ride was a marketer of aftermarket fitment data to the powersports industry, which furthered ARI's differentiated content strategy and expanded 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, assumed liabilities totaling approximately $419,000, a contingent hold-back purchase price of up to $250,000 and a contingent earn-out purchase price ranging from, in aggregate, $0 to $1,500,000.

On October 22, 2013, the Company amended the Asset Purchase Agreement in relation to the earn-out payments as follows: (i) the first earn-out payment was composed of $125,000 paid in October 2013 and 10,000 shares of common stock issued in November 2013; (ii) the second earn-out payment is composed of $125,000 and 15,000 shares of common stock payable in September 2014; and (iii) the third earn-out payment is composed of $125,000 and 15,000 shares of common stock payable in September 2015.

The contingent earn-out payable was initially measured at fair value on a recurring basis calculated using the present value of future estimated revenue over the next three years, which was originally estimated at $500,000. Prior to the amendment, because the contingent earn-out payable had no comparable market data or significant observable inputs to determine fair value, it was classified as a Level 3 measurement. Because the amended Asset Purchase Agreement defines the future

payments based on cash and Company stock actively traded, and the payments are no longer contingent on future events, the earn-out is now classified as a Level 1 fair value measurement. Unrealized gains and losses for changes in fair value are recognized in earnings.

The following table shows changes in the estimated holdback and earn-out payable (in thousands):

	Three months ended April 30		Nine months ended April 30	
	2014	2013	2014	2013
Beginning balance	$ 455	$ 825	$ 721	$ -
Original fair value of holdback and earn-out payable	-	-	-	749
Payments made	-	-	(283)	-
Imputed interest recognized	17	37	60	113
Gain on change in fair market value	-	-	(26)	-
Ending Balance	$ 472	$ 862	$ 472	$ 862

The balance of the holdback and the earn-out payable includes $301,000 and $303,000 in current portion of earn-out payable and $171,000 and $418,000 in long-term portion of earn-out payable on the unaudited balance sheet at April 30, 2014 and July 31, 2013, respectively, with estimated payments as follows (in thousands):

Year Ending July 31,	Holdback and Earn-out Payable
2014	$ -
2015	315
2016	190
Total estimated payments	505
Less imputed interest	(33)
Present value of holdback and earn-out	$ 472

payable

The following tables show the estimated fair value and the allocation of the purchase price (in thousands):

	Purchase Price
Cash- net	$ 478
Assumed liabilities	419
Holdback	250
Earnout	500
Common Stock	101
Purchase Price	$ 1,748

	Purchase Price Allocation
Accounts receivable	$ 43
Furniture and equipment	12
Unearned revenue	(86)
Developed technology	366
Customer Relationships	880
Goodwill	533
Purchase Price Allocation	$ 1,748

Intangible assets consist primarily of customer contracts and relationships with an estimated useful life of 16 years. Goodwill consists of operating synergies, vendor relationships, new sales territories and industries. The Company determined that the Ready2Ride assets acquired as described above did not constitute a business that is “significant” as defined in the applicable SEC regulations.

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The results of operations related to the 50 Below, Ready2Ride and DUO acquisitions since the date of acquisition are included in the consolidated statements of income for the periods presented. It is impracticable to segregate this information as the acquired businesses have been integrated into the operations of ARI and are no longer readily identifiable.

5. Disposition of a Component of an Entity

On March 1, 2011, the Company entered into an Asset Purchase Agreement (the "Agreement") with Globalrange Corporation ("Globalrange"). Under the terms of the Agreement, the Company sold to Globalrange certain rights and assets relating to our electronic data interchange business for the agricultural chemicals industry (the "AgChem EDI Business"). Because the AgChem EDI Business was not a separate entity or reportable segment, the transaction was recorded as a disposition of a component of an entity.

As part of the purchase price for the AgChem EDI Business, Globalrange agreed to assume certain liabilities of ARI relating to the AgChem EDI Business, primarily consisting of unearned revenue (as defined in the Agreement). Globalrange will make earn-out payments to ARI annually over a four-year period following the closing date, with an initial pre-payment of $80,000. The amounts of such earn-out payments are determined based on collections received by Globalrange relating to the AgChem EDI Business during such period, and will be subject to a floor and cap, in accordance with the terms of the Agreement.

The contingent earn-out receivable is measured at fair value on a recurring basis calculated using the present value of future estimated revenue over the next three years. Unrealized gains and losses for changes in fair value are recognized in earnings. Because the contingent earn-out receivable has no comparable market data or significant observable inputs to determine fair value, it is classified as a Level 3 measurement. The primary factors used to determine the fair value include: (i) the estimated future revenue related to the business recognized by the buyer over the next three years; and (ii) the estimated risk free interest rate of a market participant. Increases in the estimated future revenue related to the business sold, which has the most impact on the fair value of the contingent earn-out receivable, would cause the fair value of the earn-out to increase.

The amount of the earn-out receivable was originally estimated at $580,000 less an imputed discount of $97,000, based on the present value of the estimated earn-out payments, discounted at 14%, which was the prevailing rate of interest charged on the Company's debt at the time of the sale. The discount is amortized to interest income, which is included in other income on the consolidated statements of income, over the life of the earn-out.

An assessment of the expected future cash flows of the earn-out receivable is performed annually in the third fiscal quarter based on historical receipts over the previous twelve-month period. Changes in estimate and cash received in excess of expected cash receipts are recorded as a gain or loss in other expense (income). The Company assessed the fair value of the expected future cash flows of the earn-out receivable and had no change in estimated fair value for the three and nine months ended April 30, 2014, and recorded a gain related to the change in estimated fair value of the earn-out receivable of $26,000 for the three and nine months ended April 30, 2013.

The remaining earn-out receivable is composed of $70,000 included in prepaid expenses and other on the unaudited balance sheet at April 30, 2014, with estimated receivables as follows (in thousands):

Year Ending July 31,		
2014	$	26
2015		51
Total estimated payments		77
Less imputed interest		(7)
Present value of earn-out receivable	$	70

The following table shows changes in the earn-out receivable during the three and nine months ended April 30, 2014 and 2013 respectively (in thousands):

	Three months ended April 30		Nine months ended April 30	
	2014	2013	2014	2013
Beginning balance	$ 131	$ 132	$ 160	$ 218
Net receipts	(65)	(45)	(102)	(147)
Imputed interest recognized	4	5	12	21
Change in estimate	-	64	-	64
Ending balance	$ 70	$ 156	$ 70	$ 156

6. Other Intangible Assets

Amortizable intangible assets include customer relationships, trade names and employee non-compete agreements associated with the Company's acquisitions.

Amortizable intangible assets are composed of the following at April 30, 2014 and 2013 (in thousands):

	Three months ended April 30, 2013			Nine months ended April 30, 2013			Wgtd avg
Customer Relationships	Cost Basis	Accumulated Amortization	Net Value	Cost Basis	Accumulated Amortization	Net Value	remaining life
Beginning Balance	$ 7,064	$ (2,853)	$ 4,211	$ 4,004	$ (2,654)	$ 1,350	
Activity	-	(115)	(115)	3,060	(314)	2,746	
Ending Balance	$ 7,064	$ (2,968)	$ 4,096	$ 7,064	$ (2,968)	$ 4,096	11.79
Trade Names							
Beginning Balance	$ 383	$ (200)	$ 183	$ 253	$ (164)	$ 89	
Activity	-	(30)	(30)	130	(66)	64	
Ending Balance	$ 383	$ (230)	$ 153	$ 383	$ (230)	$ 153	1.4
Total Intangibles							
Beginning Balance	$ 7,447	$ (3,053)	$ 4,394	$ 4,257	$ (2,818)	$ 1,439	
Activity	-	(145)	(145)	3,190	(380)	2,810	

Ending Balance	$ 7,447	$ (3,198)	$ 4,249	$ 7,447	$ (3,198)	$ 4,249	11.42

	Three months ended April 30, 2014			Nine months ended April 30, 2014			Wgtd avg
Customer Relationships	Cost Basis	Accumulated Amortization	Net Value	Cost Basis	Accumulated Amortization	Net Value	remaining life
Beginning Balance	$ 7,174	$ (3,340)	$ 3,834	$ 7,064	$ (3,090)	$ 3,974	
Activity	-	(128)	(128)	110	(378)	(268)	
Ending Balance	$ 7,174	$ (3,468)	$ 3,706	$ 7,174	$ (3,468)	$ 3,706	11.05
Trade Names							
Beginning Balance	$ 383	$ (316)	$ 67	$ 383	$ (258)	$ 125	
Activity	-	(29)	(29)	-	(87)	(87)	
Ending Balance	$ 383	$ (345)	$ 38	$ 383	$ (345)	$ 38	0.48
Total Intangibles							
Beginning Balance	$ 7,557	$ (3,656)	$ 3,901	$ 7,447	$ (3,348)	$ 4,099	
Activity	-	(157)	(157)	110	(465)	(355)	
Ending Balance	$ 7,557	$ (3,813)	$ 3,744	$ 7,557	$ (3,813)	$ 3,744	10.87

The estimated amortization expense related to intangible assets by fiscal year at April 30, 2014 is as follows (in thousands):

2014	$ 132
2015	518
2016	497
2017	426
2018	213
Thereafter	1,958
	$ 3,744

7. 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 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, defined as 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 April 30, 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 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 April 30, 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 period ending April 30, 2013 to 0.90 x and 1.00 x, 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, and the remaining balance on the Sifen Note was paid in full as of April 26, 2013.

In the third quarter of fiscal 2013, the Company recognized a loss on the early extinguishment of primarily 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 unaudited balance sheet as of April 30, 2014 and audited balance sheet as of July 31, 2013 (in thousands):

	April 30 2014	July 31 2013
Long-term debt	$ 4,163	$ 4,500
Less current maturities	(619)	(450)
Long-term debt, non-current	$ 3,544	$ 4,050

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

2014	$ 113
2015	675
2016	1,125
2017	1,125
2018	1,125
	$ 4,163