

US ECOLOGY, INC.
Form S-4
March 01, 2013

As filed with the Securities and Exchange Commission on March 1, 2013.

Registration No. 333-

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM S-4

REGISTRATION STATEMENT

UNDER

THE SECURITIES ACT OF 1933

US ECOLOGY, INC.

(Exact name of registrant as specified in its charter)

Delaware	4953	95-3889638
(State or other jurisdiction	(Primary Standard Industrial	(I.R.S. Employer
of incorporation or organization)	Classification Code Number)	Identification No.)

300 E. Mallard Dr.

Suite 300

Boise, ID 83706

(208) 331-8400

(Address, including zip code, and telephone number, including area code, of registrant's principal executive offices)

Jeffrey R. Feeler

President and Chief Operating Officer

US Ecology, Inc.

300 E. Mallard Dr.

Suite 300

Boise, ID 83706

(208) 331-8400

(Name, address, including zip code, and telephone number, including area code, of agent for service)

With a copy to:

Stephen M. Leitzell, Esq.

Dechert LLP

Cira Centre

2929 Arch Street

Philadelphia, PA 19104

(215) 994-4000

Approximate date of commencement of proposed sale to the public: From time to time after the effective date of this registration statement.

If the securities being registered on this Form are being offered in connection with the formation of a holding company and there is compliance with General Instruction G, check the following box.

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

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

Large Accelerated Filer Accelerated Filer

Non-Accelerated Filer Smaller Reporting Company

If applicable, place an X in the box to designate the appropriate rule provision relied upon in conducting this transaction:

Exchange Act Rule 13e-4(i) (Cross-Border Issuer Tender Offer)

Exchange Act Rule 14d-1(d) (Cross-Border Third-Party Tender Offer)

CALCULATION OF REGISTRATION FEE

Title of each class of securities to be registered	Amount to be registered (1)	Proposed maximum offering price per share (1)	Proposed maximum aggregate offering price (1)(2)	Amount of registration fee (3)
Common Stock, \$0.01 par value per share			\$100,000,000	\$13,640

(1) Includes an indeterminate number of shares of common stock that may be issued from time to time at indeterminate prices up to a proposed aggregate offering price not to exceed \$100,000,000. This registration statement shall also cover any additional securities to be offered or issued from stock splits, stock dividends, recapitalizations or similar transactions.

(2) Estimated solely for the purpose of calculating the registration fee pursuant to Rule 457(o) under the Securities Act of 1933, as amended.

(3) Calculated in accordance with Rule 457(o) under the Securities Act of 1933, as amended.

The registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this registration statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933, as amended, or until this registration statement shall become effective on such date as the Commission, acting pursuant to such Section 8(a), may determine.

The information in this prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

Subject to Completion, Dated March 1, 2013

PROSPECTUS

\$100,000,000

US ECOLOGY, INC.

Common Stock

We may from time to time offer at the time of our acquisition of businesses, assets or securities of other companies, whether by purchase, merger, exchange offer or any other form of business combination, shares of our common stock in one or more offerings in amounts and on terms as we may determine at the time of the offering. The aggregate initial offering price of all shares of common stock issued under this prospectus will not exceed \$100,000,000. This prospectus provides a general description of the shares of common stock we may offer. We may add, update or change the information contained in this prospectus by means of one or more prospectus supplements. You should read this prospectus and the applicable prospectus supplement carefully before you invest in any common stock.

The amount and type of consideration we will offer and the other specific terms of each acquisition will be determined by negotiations with the owners or the persons who control the businesses, assets or securities we may acquire. We may structure business acquisitions in a variety of ways, including acquiring stock, other equity interests or assets of the acquired businesses, merging the acquired businesses with us or one of our subsidiaries or acquiring the acquired businesses through one of our subsidiaries. We expect that the price of the common stock we issue will be related to its market price, either when we tentatively or finally agree to the particular terms of the acquisition, when we issue

the common stock, when the acquisition is completed or during some other negotiated period. We may issue common stock at fixed offering prices, which may be changed, or at other negotiated prices. If necessary, we may be required to provide you further information by means of a post-effective amendment to the registration statement or a supplement to this prospectus once we know the actual information concerning a specific acquisition.

We will pay all expenses of this offering. We do not expect to pay any underwriting discounts or commissions in connection with issuing these securities, although we may pay finder's or broker's fees in connection with certain acquisitions and, in some cases, we may issue common stock under this prospectus in full or partial payment of such fees. Any person receiving a finder's or broker's fee may be deemed an underwriter within the meaning of the Securities Act of 1933, as amended (the "Securities Act"). We may also permit individuals or entities who have received or will receive our common stock in connection with the business combinations described above to use this prospectus to cover resales of that common stock. See "Reselling Securities" for information relating to resales of our common stock pursuant to this prospectus. Our common stock is listed on the NASDAQ Global Market under the symbol "ECOL." On February 27, 2013, the closing price of our common stock was \$24.65.

Investing in our common stock involves significant risks. We strongly recommend that you read carefully the risks we describe in this prospectus and in any accompanying prospectus supplement, as well as the risk factors that are incorporated by reference into this prospectus from our filings made with the Securities and Exchange Commission. See "Risk Factors" beginning on page 5 of this prospectus.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed upon the adequacy or accuracy of this prospectus. Any representation to the contrary is a criminal offense.

The date of this prospectus is _____, 2013

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This prospectus incorporates important business and financial information about the company that is not included in or delivered with this prospectus. This information is publicly available at www.sec.gov, as well as from other sources. See “Where You Can Find More Information” on page 9. You may also obtain the documents incorporated by reference into this prospectus at no cost by writing or telephoning us at the following address:

US Ecology, Inc.

300 E. Mallard Dr.

Suite 300

Boise, ID 83706

Attention: Corporate Secretary

(208) 331-8400

To obtain timely delivery, you must request information no later than five business days before the date you must make your investment decision.

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ABOUT THIS PROSPECTUS

This prospectus is part of a registration statement that we filed with the Securities and Exchange Commission, or the SEC, using a “shelf” registration process. Under this shelf registration process, we may from time to time offer shares of our common stock with an aggregate initial offering price of up to \$100,000,000 in connection with our acquisition of businesses, assets or securities of other companies, whether by purchase, merger, exchange offer or any other form of business combination. The amount and type of consideration we will offer and the other specific terms of each acquisition will be determined by negotiations with the owners or persons who control the businesses, assets or securities we may acquire. We expect that the price of the common stock we issue will be related to its market price, either when we tentatively or finally agree to the particular terms of the acquisition, when we issue the common stock, when the acquisition is completed or during some other negotiated period. We may issue common stock at fixed offering prices, which may be changed, or at other negotiated prices. If necessary, we may be required to provide you further information by means of a post-effective amendment to the registration statement or a supplement to this prospectus once we know the actual information concerning a specific acquisition.

This prospectus provides you with a general description of our common stock. We may add, update or change the information contained in this prospectus by means of one or more prospectus supplements. Before making an investment decision, you should read carefully both this prospectus and any prospectus supplement together with the documents incorporated by reference into this prospectus as described below under the heading “Information Incorporated by Reference.”

The registration statement that contains this prospectus, including the exhibits to the registration statement and the information incorporated by reference, provides additional information about us and our common stock. That registration statement can be read at the SEC website (www.sec.gov) or at the SEC public reference room, as discussed below under the heading “Where You Can Find More Information.”

With our consent, certain persons who have received or will receive common stock under this prospectus in connection with acquisitions may use this prospectus to sell such common stock at a later date. We refer to these persons in the prospectus as selling security holders. Please see the information described under the heading “Reselling Securities” to find out more information about resales of common stock by selling security holders.

You should rely only on the information provided in the registration statement, this prospectus and in any prospectus supplement, including the information incorporated by reference. We have not authorized anyone to provide you with different information. You should not assume that the information in this prospectus or any supplement to this prospectus is accurate at any date other than the date indicated on the cover page of these documents or the filing date of any document incorporated by reference, regardless of its time of delivery. We are not making an offer to sell the common stock in any jurisdiction where the offer or sale is not permitted.

The terms “US Ecology, Inc.,” “US Ecology,” the “Company,” “our,” “us” and “we,” as used in this prospectus, refer to US Ecology, Inc. and its wholly-owned subsidiaries, except where it is clear that the term refers only to US Ecology, Inc.

US ECOLOGY, INC.

US Ecology, through our subsidiaries, provides radioactive, hazardous, PCB and non-hazardous industrial waste management and recycling services to commercial and government entities, such as refineries and chemical production facilities, manufacturers, electric utilities, steel mills, medical and academic institutions and waste brokers/aggregators. Headquartered in Boise, Idaho, we are one of the oldest providers of such services in North America. US Ecology and its predecessor companies have been in business for nearly 60 years. We operate within North America and employed 428 people as of February 25, 2013.

Our filings with the SEC are posted on our website at www.usecology.com. The information found on our website is not part of this or any other report we file with or furnish to the SEC. The public can also obtain copies of these filings by visiting the SEC's Public Reference Room at 100 F Street NE, Washington DC 20549, or by calling the SEC at 1-800-SEC-0330 or by accessing the SEC's website at www.sec.gov.

US Ecology was most recently incorporated as a Delaware corporation in May 1987 as American Ecology Corporation. Our principal executive offices are located at 300 E. Mallard Dr., Suite 300, Boise, ID 83706 and our telephone number is (208) 331-8400. More information about us is available through our website at www.usecology.com. The information on our website is not incorporated by reference into this prospectus or any accompanying prospectus supplement. On February 22, 2010, the Company changed its name from American Ecology Corporation to US Ecology, Inc. Our wholly-owned primary operating subsidiaries are US Ecology Nevada, Inc., a Delaware corporation (“USEN”); US Ecology Washington, Inc., a Delaware corporation (“USEW”); US Ecology Texas, Inc., a Delaware corporation (“USET”); US Ecology Idaho, Inc., a Delaware corporation (“USEI”); US Ecology Michigan, Inc., a Michigan corporation (“USEM”); US Ecology Field Services, Inc., a Delaware corporation (“USEFS”), US Ecology Stablex Holdings, Inc., a Delaware corporation (“USES”), Stablex Canada Inc., a Canadian Federal Corporation (“Stablex”); and Gulfstream TLC Inc., a Delaware corporation (“GI”). US Ecology Illinois, Inc., a California corporation (“USE”), operates our closed property in Sheffield, Illinois. American Ecology Environmental Services Corporation, a Texas corporation (“AEESC”), operates our closed property in Winona, Texas.

FORWARD-LOOKING STATEMENTS

This registration statement on Form S-4 contains forward-looking statements within the meaning of the federal securities laws. Statements that are not historical facts, including statements about the Company’s beliefs and expectations, are forward-looking statements. Forward-looking statements include statements preceded by, followed by or that include the words “may,” “could,” “would,” “should,” “believe,” “expect,” “anticipate,” “plan,” “estimate,” “target,” “intend” and similar expressions. These statements include, among others, statements regarding our financial and operating results, strategic objectives and means to achieve those objectives, the amount and timing of capital expenditures, repurchases of its stock under approved stock repurchase plans, the amount and timing of interest expense, the likelihood of our success in expanding our business, financing plans, budgets, working capital needs and sources of liquidity.

Forward-looking statements are only predictions and are not guarantees of performance. These statements are based on management’s beliefs and assumptions, which in turn are based on currently available information. Important assumptions include, among others, those regarding demand for Company services, expansion of service offerings geographically or through new or expanded service lines, the timing and cost of planned capital expenditures, competitive conditions and general economic conditions. These assumptions could prove inaccurate. Forward-looking statements also involve known and unknown risks and uncertainties, which could cause actual results to differ materially from those contained in any forward-looking statement. Many of these factors are beyond our ability to control or predict. Such factors include the replacement of non-recurring event clean-up projects, a loss of a major customer, our ability to permit and contract for timely construction of new or expanded disposal cells, our ability to renew our operating permits or lease agreements with regulatory bodies, loss of key personnel, compliance with and changes to applicable laws, rules, or regulations, fluctuations in foreign currency markets, access to insurance, surety bonds and other financial assurances, a deterioration in our labor relations or labor disputes, our ability to perform under required contracts, failure to realize anticipated benefits and operational performance from acquired operations, adverse economic conditions, government funding or competitive pressures, incidents or adverse weather conditions that could limit or suspend specific operations, access to cost effective transportation services, lawsuits, market conditions, our willingness or ability to pay dividends, implementation of new technologies and our ability to

effectively close and integrate future acquisitions.

Except as required by applicable law, including the securities laws of the United States and the rules and regulations of the Securities and Exchange Commission (the "SEC"), we are under no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. You should not place undue reliance on our forward-looking statements. Although we believe that the expectations reflected in forward-looking statements are reasonable, we cannot guarantee future results or performance. Before you invest in our common stock, you should be aware that the occurrence of the events described in the "Risk Factors" included in our Annual Report on Form 10-K for the year ended December 31, 2012, and in subsequent filings, which are incorporated by reference into this prospectus, could harm our business, prospects, operating results, and financial condition.

Investors should also be aware that while we do, from time to time, communicate with securities analysts, it is against our policy to disclose to them any material non-public information or other confidential commercial information. Accordingly, stockholders should not assume that we agree with any statement or report issued by any analyst irrespective of the content of the statement or report. Furthermore, we have a policy against issuing or confirming financial forecasts or projections issued by others. Thus, to the extent that reports issued by securities analysts contain any projections, forecasts or opinions, such reports are not the responsibility of US Ecology, Inc.

RISK FACTORS

Investing in our securities involves risk. You should carefully consider the specific risks discussed or incorporated by reference into the applicable prospectus supplement, together with all the other information contained in the prospectus supplement or incorporated by reference into this prospectus and the applicable prospectus supplement. You should also consider the risks, uncertainties and assumptions discussed under the caption “Risk Factors” included in our Annual Report on Form 10-K for the year ended December 31, 2012 and in subsequent filings, which are incorporated by reference into this prospectus. These risk factors may be amended, supplemented or superseded from time to time by other reports we file with the SEC in the future or by a prospectus supplement relating to a particular offering of our securities. These risks and uncertainties are not the only risks and uncertainties we face. Additional risks and uncertainties not presently known to us, or that we currently view as immaterial, may also impair our business. If any of the risks or uncertainties described in our SEC filings or any prospectus supplement or any additional risks and uncertainties actually occur, our business, financial condition and results of operations could be materially and adversely affected. In that case, the trading price of our securities could decline and you might lose all or part of your investment.

USE OF PROCEEDS

Unless otherwise indicated in the applicable prospectus supplement, we do not expect to receive proceeds from the offering of any common stock pursuant to this prospectus other than the businesses, assets or securities acquired in business combination transactions. When this prospectus is used by a selling security holder in a public reoffering or resale of common stock acquired pursuant to this prospectus, we will usually not receive any proceeds from such sale by the selling security holder.

PLAN OF DISTRIBUTION

This prospectus relates to common stock that we may issue from time to time in connection with our acquisition of businesses, assets or securities of other companies. The amount and type of consideration we will offer and the other specific terms of each acquisition will be determined by negotiations with the owners or the persons who control the businesses, assets or securities we may acquire. In addition to the common stock offered by this prospectus, we may offer other consideration, including stock options, cash, notes or other evidences of debt, assumption of liabilities or a combination of these types of consideration. We may structure business acquisitions in a variety of ways, including acquiring stock, other equity interests or assets of the acquired business, merging the acquired business with us or one of our subsidiaries or acquiring the acquired business through one of our subsidiaries.

We expect that the price of the common stock we issue will be related to its market price, either when we tentatively or finally agree to the particular terms of the acquisition, when we issue the common stock, when the acquisition is completed or during some other negotiated period. If necessary, we may be required to provide you further information by means of a post-effective amendment to the registration statement or a supplement to this prospectus once we know the actual information concerning a specific acquisition.

We will pay all expenses of this offering. We do not expect to pay any underwriting discounts or commissions in connection with issuing these shares, although we may pay broker's fees or finder's fees in connection with certain acquisitions and, in some cases, we may issue common stock under this prospectus in full or partial payment of such fees. Any person receiving a finder's and broker's fee may be deemed an underwriter within the meaning of the Securities Act.

DESCRIPTION OF COMMON STOCK

The following is a brief description of the terms governing our common stock. This summary does not purport to be complete in all respects. This description is subject to and qualified in its entirety by reference to our restated certificate of incorporation, as amended, and our amended and restated by-laws, copies of which have been filed with the SEC and are also available upon request from us.

General

Our Restated Certificate of Incorporation, as amended, provides the authority to issue 50,000,000 shares of common stock, par value \$.01 per share. At February 27, 2013, there were 18,398,970 shares of common stock outstanding. Each share of our common stock has the same relative rights and is identical in all respects to each other share of our common stock. The rights, preferences and privileges of holders of our common stock are subject to the rights, preferences and privileges of the holders of shares of any series of preferred stock that we have issued or may issue in the future.

Voting Rights

The holders of our common stock are entitled to one vote per share on any matter to be voted upon by our stockholders. Our Restated Certificate of Incorporation, as amended, provides for cumulative voting in connection with the election of directors.

Dividends

The holders of our common stock are entitled to dividends, if any, as our Board of Directors may declare from time to time from funds legally available for that purpose, subject to the holders of other classes of stock, if any, at the time outstanding having prior rights as to dividends, if any.

Liquidation Rights

Upon any voluntary or involuntary liquidation, dissolution, or winding up of our affairs, the holders of our common stock are entitled to share ratably in all assets remaining after the payment of creditors, subject to any prior liquidation distribution rights of holders of other classes of stock, if any, at the time outstanding.

Miscellaneous

Holders of our common stock have no preemptive, conversion, redemption or sinking fund rights. The outstanding shares of our common stock are, and the shares of common stock to be offered hereby when issued will be, validly issued, fully paid and non-assessable.

NASDAQ Listing

Our common stock is listed on the NASDAQ Global Market under the symbol "ECOL."

Transfer Agent and Registrar

The transfer agent and registrar for our common stock is American Stock Transfer and Trust Co. and its address and telephone number are 59 Maiden Lane Plaza Level, New York, NY 10038 and (800) 937-5449, respectively.

Delaware Law and Certain Restated Certificate of Incorporation and Amended and Restated Bylaws Provisions

The provisions of Delaware law and of our Restated Certificate of Incorporation, as amended, and Amended and Restated Bylaws discussed below could discourage or make it more difficult to acquire control of the Company by means of a tender offer, open market purchases, a proxy contest or otherwise. Our Board of Directors believes that these charter provisions are appropriate to protect our interests and the interests of our stockholders. A summary of these provisions is set forth below. This summary does not purport to be complete and is qualified in its entirety by reference to the Delaware General Corporation Law and our Restated Certificate of Incorporation, as amended, and our Amended and Restated Bylaws.

Section 203 of the Delaware General Corporation Law

We are subject to the provisions of Section 203 of the General Corporation Law of Delaware. Section 203 prohibits a publicly held Delaware corporation from engaging in a “business combination” with an “interested stockholder” for a period of three years after the date of the transaction in which the person became an interested stockholder, unless the business combination is approved in a prescribed manner. A “business combination” includes mergers, asset sales and other transactions resulting in a financial benefit to the interested stockholder. Subject to specified exceptions, an “interested stockholder” is a person who, together with affiliates and associates, owns, or within three years did own, 15% or more of the corporation’s voting stock.

Preferred Stock. Our Restated Certificate of Incorporation, as amended, provides that our Board of Directors may by resolution establish one or more classes or series of preferred stock having such number of shares and relative voting rights, designation, dividend rates, liquidation, and other rights, preferences, and limitations as may be fixed by them without further stockholder approval. Our preferred stock may entitle its holders to preferences senior to those of the holders of our common stock with respect to dividends, liquidation, dissolution, or our winding up in such amounts as are established by our Board of Director resolutions issuing such shares. The issuance of our preferred stock may have the effect of delaying, deferring or preventing a change in control of US Ecology, Inc. without further action by the stockholders and may adversely affect voting and other rights of holders of our common stock. In addition, the issuance of preferred stock, while providing desirable flexibility in connection with possible acquisitions and other corporate purposes, could make it more difficult for a third party to acquire a majority of the outstanding shares of our voting stock. At present, we have no plans to issue any shares of preferred stock.

Stockholders Rights Plan Policy

Stockholder rights plans can protect stockholders against abusive takeover tactics and ensure that each stockholder is treated fairly in an acquisition. Such plans have been effective in connection with bids for control of other companies in giving boards of directors' time to evaluate offers, investigate alternatives and take steps necessary to maximize value to stockholders. In lieu of adopting a stockholder rights plan, our Board has instead adopted a policy with respect to the adoption of any stockholder rights plan for us in the future. Our policy, adopted in July 2012 is that we will adopt a stockholder rights plan only if, in the exercise of their fiduciary duties, a majority of the independent directors conclude that it would be in our best interests and those of the holders of the majority of the shares of our common stock. Our Board believes that this policy addresses the legitimate concerns that stockholders have with the use of stockholder rights plans while maintaining its ability to act in the stockholders' best interests and preserving our flexibility to react to unanticipated situations which may arise without notice.

Number of Directors; Removal; Filling Vacancies

Our Restated Certificate of Incorporation, as amended, and Amended and Restated Bylaws provide that our Board of Directors will consist of not less than five and not more than nine directors, the exact number to be fixed from time to time by resolution adopted by our directors. Further, subject to the rights of the holders of any series of our preferred stock, if any, our Amended and Restated Bylaws authorize our Board of Directors to elect additional directors under specified circumstances and fill any vacancies that occur in our Board of Directors by reason of death, resignation, removal, or otherwise. A director so elected by our Board of Directors to fill a vacancy or a newly created directorship holds office until the next election and until his successor is elected and qualified. Subject to the rights of the holders of any series of our preferred stock, if any, our Amended and Restated Bylaws also provide that directors may be removed with or without cause by the affirmative vote of holders of a majority of the combined voting power of the then outstanding stock of US Ecology, Inc.

Indemnification

We have included in our Restated Certificate of Incorporation, as amended, and Amended and Restated Bylaws provisions to eliminate the personal liability of our directors for monetary damages resulting from breaches of their fiduciary duty to the extent permitted by the Delaware General Corporation Law, and to indemnify our directors and officers to the fullest extent permitted by Section 145 of the Delaware General Corporation Law, including circumstances in which indemnification is otherwise discretionary. These provisions may have the effect of reducing the likelihood of derivative litigation against our directors and may discourage or deter stockholders or management from bringing a lawsuit against our directors for breach of their duty of care, even though such an action, if successful, might otherwise have benefited the Company and our stockholders. We believe that these provisions are necessary to attract and retain qualified persons as directors and officers.

RESELLING SECURITIES

In general, the persons to whom we issue common stock under this prospectus, and any transferees or successors-in-interest of such persons, will be able to resell our common stock in the public market without further registration and without being required to deliver a prospectus. However, certain persons who receive large blocks of our common stock may want to resell those securities in distributions that would require the delivery of a prospectus. With our consent, this prospectus may be used by selling security holders who may wish to sell common stock offered hereby. As used in this prospectus, "selling security holders" may include donees and pledgees selling common stock received from a named selling security holder. However, no person who receives the common stock covered by this prospectus will be authorized to use this prospectus for an offer of such common stock without first obtaining our consent. We may limit our consent to a specified time period and subject to certain limitations and conditions, which may vary by agreement.

Selling security holders may agree that:

- an offering of common stock under this prospectus be effected in an orderly manner through securities dealers, acting as broker or dealer, selected by us;
- they will enter into custody agreements with one or more banks with respect to such common stock; and
- that they make sales only by one or more of the methods described in this prospectus, as appropriately supplemented or amended when required.

Usually, we will not receive any of the proceeds from any sale of common stock offered by a selling security holder. If we do receive any proceeds, the arrangements and amount will be disclosed in the relevant prospectus supplement.

Selling security holders may sell common stock:

- through any national securities exchange or automated quotation system on which our securities have been approved for listing or trading in the future or otherwise;
- in the over-the-counter market;
- in special offerings;
- directly to purchasers in privately negotiated transactions;
- by or through brokers or dealers, in ordinary brokerage transactions or transactions in which the broker solicits purchasers;
- in block trades in which the broker or dealer will attempt to sell common stock as an agent but may position and resell a portion of the block as principal;
- in transactions in which a broker or dealer purchases as principal for resale for its own account;
- through underwriters or agents; or

- in any combination of these methods.

Common stock may be sold at a fixed offering price, at the prevailing market price at the time of sale, at prices related to such prevailing market price or at negotiated prices. Any brokers, dealers, underwriters or agents may arrange for others to participate in any such transaction and may receive compensation in the form of discounts, commissions or concessions from selling security holders and/or the purchasers of common stock. The proceeds to a selling security holder from any sale of common stock will be reduced by any compensation and any expenses to be borne by the selling security holder.

If required by the Securities Act and the rules of the SEC, at the time a particular offer of common stock is made a supplement to this prospectus will be delivered that identifies any persons reselling common stock acquired under this prospectus and will provide information about them and describe any material arrangements for the distribution of common stock and the terms of the offering, including the names of any underwriters, brokers, dealers or agents and any discounts, commissions or concessions and other items constituting compensation from the selling security holder. We may agree to keep the registration statement relating to the offering and sale by the selling security holders continuously effective until a fixed date or the date on which the shares may be resold without registration under the Securities Act.

Selling security holders and any brokers, dealers, underwriters or agents that participate with a selling security holder in the distribution of common stock may be deemed to be “underwriters” within the meaning of the Securities Act, in which event any discounts, commissions or concessions received by any such brokers, dealers, underwriters or agents and any profit on the resale of the common stock purchased by them may be deemed to be underwriting commissions or discounts under the Securities Act.

We may agree to indemnify selling security holders and/or any such brokers, dealers, underwriters or agents against certain civil liabilities, including liabilities under the Securities Act, and to reimburse them for certain expenses in connection with the offering and sale of common stock.

Selling security holders may also offer common stock acquired pursuant to this prospectus under exemptions from the registration requirements of the Securities Act, including sales which meet the requirements of Rule 144 or Rule 145(d) under the Securities Act. Selling security holders should seek the advice of their own counsel about the legal requirements for such sales.

LEGAL MATTERS

The validity of our common stock offered hereby will be passed upon for us by Dechert LLP, Philadelphia, Pennsylvania.

EXPERTS

The consolidated financial statements incorporated in this Prospectus by reference from US Ecology, Inc.'s Annual Report on Form 10-K and the effectiveness of US Ecology Inc.'s internal control over financial reporting have been audited by Deloitte & Touche LLP, an independent registered public accounting firm, as stated in their report, which is incorporated herein by reference and which (1) expresses an unqualified opinion on the financial statements and includes an emphasis of a matter paragraph referring to a change in method of presenting comprehensive income in 2012 and (2) expresses an unqualified opinion on the effectiveness of internal control over financial reporting. Such consolidated financial statements have been so incorporated in reliance upon the report of such firm given upon their authority as experts in accounting and auditing.

WHERE YOU CAN FIND MORE INFORMATION

We file annual, quarterly and other reports, proxy and information statements and other information with the Securities and Exchange Commission. Copies of these materials may be inspected and copied at the public reference facilities maintained by the SEC at 100 F Street, N.E., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the operation of its public reference room. The SEC maintains a website that contains reports, proxy statements and other information regarding us. The address of the SEC website is <http://www.sec.gov>. We maintain a website at www.usecology.com. Information contained on our website is not incorporated into this prospectus and you should not consider information contained on our website to be part of this prospectus or any prospectus supplement.

INFORMATION INCORPORATED BY REFERENCE

The SEC allows us to “incorporate by reference” into this prospectus the information contained in documents that we file with them, which means that we can disclose important information to you by referring you to those documents. The information incorporated by reference is considered to be part of this prospectus. Information in this prospectus supersedes information incorporated by reference that we filed with the SEC before the date of this prospectus, while information that we file later with the SEC will automatically update and supersede prior information. Any

information so updated and superseded shall not be deemed, except as so updated and superseded, to constitute a part of this prospectus. We incorporate by reference the documents listed below and any future filings we will make with the SEC under Sections 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934, as amended, prior to the termination of the offering. Notwithstanding the foregoing, unless specifically stated to the contrary, none of the information that is not deemed “filed” with the SEC, including information furnished under Items 2.02 or 7.01 of any Current Report on Form 8-K, will be incorporated by reference into, or otherwise included in, this prospectus:

1. our Annual Report on Form 10-K for the fiscal year ended December 31, 2012 filed with the SEC on March 1, 2013; and
2. our description of our common stock contained in the registration statement filed under Section 12 of the Exchange Act, including any amendment or report filed for the purpose of updating such description.

We make available, free of charge, through our website our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a), 13(c), 14 or 15(d) of the Exchange Act as soon as reasonably practicable after we electronically file such material with, or furnish it to, the SEC. You may also obtain, free of charge, a copy of any of these documents (other than exhibits to these documents unless the exhibits are specifically incorporated by reference into these documents or referred to in this prospectus) by writing or calling us at the following address and telephone number:

US Ecology, Inc.

300 E. Mallard Dr.

Suite 300

Boise, ID 83706

Attention: Corporate Secretary

(208) 331-8400

\$100,000,000

US ECOLOGY, INC.

Common Stock

PROSPECTUS

, 2013

PART II

INFORMATION NOT REQUIRED IN PROSPECTUS

Item 20. Indemnification of Directors and Officers

Section 145 of the Delaware General Corporation Law permits a corporation to indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative, by reason of the fact that he is or was a director, officer, employee or agent of the corporation or another enterprise if serving at the request of the corporation. Depending on the character of the proceeding, a corporation may indemnify against expenses (including attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred in connection with such action, suit or proceeding if the person indemnified acted in good faith and in a manner reasonably believed to be in or not opposed to the best interests of the corporation and, with respect to any criminal action or proceeding, had no reasonable cause to believe his conduct was unlawful. In the case of an action by or in the right of the corporation, no indemnification may be made with respect to any claim, issue or matter as to which such person shall have been adjudged to be liable to the corporation unless and only to the extent that the Delaware Court of Chancery or the court in which such action or suit was brought shall determine that, despite the adjudication of liability, such person is fairly and reasonably entitled to indemnity for such expenses which the court shall deem proper. Section 145 further provides that to the extent a director, officer, employee or agent of a corporation has been successful in the defense of any action, suit or proceeding referred to above, or in the defense of any claim, issue or matter therein, he or she shall be indemnified against expenses (including attorneys' fees) actually and reasonably incurred by him or her in connection therewith.

Delaware law authorizes a corporation to limit or eliminate the personal liability of its directors for monetary damages for breach of a director's fiduciary duty of care. Delaware law further enables corporations to limit available relief to equitable remedies such as injunction or rescission. Absent the limitations authorized by Delaware law, directors are accountable for monetary damages for conduct constituting gross negligence in the exercise of their duty of care. Our Restated Certificate of Incorporation requires us to indemnify to the fullest extent permitted by Delaware law any person who is a party or is threatened to be made a party to any action, suit or proceeding by reason of the fact that such person is or was our director or officer or is serving, during their tenure as a director or officer, another enterprise at our request. Our Restated Certificate of Incorporation limits the liability of our directors to the fullest extent permitted by Delaware law. Accordingly, our directors will not be personally liable to us or our stockholders for monetary damages for breach of a fiduciary duty as a director, except for liability for breach of the duty of loyalty, for acts or omissions not in good faith or that involve intentional misconduct or a knowing violation of law, for the unlawful payments of dividends or unlawful stock repurchases or redemptions as provided in Section 174 of the General Corporation Law of the State of Delaware, or for any transaction in which a director has derived an improper personal benefit. The indemnification provided by the Restated Certificate of Incorporation is not exclusive of any other rights to which those seeking indemnification may be otherwise entitled.

We have obtained a policy of directors' and officers' liability insurance that insures our directors and officers against the cost of defense.

We believe that the foregoing policies and provisions of our Restated Certificate of Incorporation, as amended, are necessary to attract and retain qualified officers and directors. Insofar as indemnification for liabilities arising under the Securities Act may be permitted or required with respect to our directors, officers or control persons, in the opinion of the SEC, such indemnification is against public policy as expressed in the Securities Act and is therefore unenforceable.

Item 21. Exhibits and Financial Statement Schedules.

The following documents are filed as exhibits to this registration statement, including those exhibits incorporated herein by reference to one of our prior filing under the Securities Act or the Exchange Act as indicated in parentheses:

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Exhibit Number	Document
2.1	Share Purchase Agreement dated September 13, 2010 between Marsulex Inc. and US Ecology, Inc. (incorporated by reference from US Ecology, Inc.'s 3 ^d Quarter Form 10-Q filed on October 28, 2010).
3.1(i)	Restated Certificate of Incorporation (incorporated by reference from US Ecology, Inc.'s 2009 Form 10-K filed on March 4, 2010).
3.2(ii)	Amended and Restated By-Laws (incorporated by reference from US Ecology, Inc.'s Form 8-K filed on December 11, 2007).
4.3	Specimen Certificate representing shares of US Ecology, Inc.'s \$.01 par value Common Stock (incorporated by reference from US Ecology, Inc.'s Form S-3 filed on September 9, 1997).
5.1	Opinion of Dechert LLP.
23.1	Consent of Deloitte & Touche LLP.
23.2	Consent of Dechert LLP (included in its Opinion filed as Exhibit 5.1 hereto).
24.1	Powers of Attorney (included on signature page).

Item 22. Undertakings

The undersigned registrant hereby undertakes:

(1) To file, during any period in which offers or sales are being made, a post-effective amendment to this registration statement:

(i) To include any prospectus required by Section 10(a)(3) of the Securities Act;

(ii) To reflect in the prospectus any facts or events arising after the effective date of this registration statement (or the most recent post-effective amendment thereof) which, individually or in the aggregate, represent a fundamental change in the information set forth in the registration statement. Notwithstanding the foregoing, any increase or decrease in volume of securities offered (if the total dollar value of securities offered would not exceed that which was registered) and any deviation from the low or high and of the estimated maximum offering range may be reflected in the form of prospectus filed with the Commission pursuant to Rule 424(b) if, in the aggregate, the changes in volume and price represent no more than 20 percent change in the maximum aggregate offering price set forth in the "Calculation of Registration Fee" table in the effective registration statement; and

(iii) To include any material information with respect to the plan of distribution not previously disclosed in this registration statement or any material change to such information in this registration statement;

(2) That, for the purpose of determining any liability under the Securities Act, each such post-effective amendment shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial *bona fide* offering thereof.

(3) To remove from registration by means of a post-effective amendment any of the securities being registered which remain unsold at the termination of the offering.

(4) That, for purposes of determining liability under the Securities Act of 1933, as amended, to any purchaser, each prospectus filed pursuant to Rule 424(b) as part of a registration statement relating to an offering, other than registration statements relying on Rule 430B or other than prospectuses filed in reliance on Rule 430A, shall be deemed to be a part of and included in the registration statement as of the date it is first used after effectiveness. *Provided, however*, that no statement made in a registration statement or prospectus that is part of the registration statement or made in a document incorporated or deemed incorporated by reference into the registration statement or prospectus that is part of the registration statement will, as to a purchaser with a time of contract of sale prior to such first use, supersede or modify any statement that was made in the registration statement or prospectus that was part of the registration statement or made in any such document immediately prior to such date of first use.

(5) That, for the purpose of determining liability of the registrant under the Securities Act of 1933 to any purchaser in the initial distribution of the securities, in a primary offering of securities of the undersigned registrant pursuant to this registration statement, regardless of the underwriting method used to sell the securities to the purchaser, if the securities are offered or sold to such purchaser by means of any of the following communications, the undersigned registrant will be a seller to the purchaser and will be considered to offer or sell such securities to such purchaser:

(i) Any preliminary prospectus or prospectus of the undersigned registrant relating to the offering required to be filed pursuant to Rule 424;

(ii) Any free writing prospectus relating to the offering prepared by or on behalf of the undersigned registrant or used or referred to by the undersigned registrant;

(iii) The portion of any other free writing prospectus relating to the offering containing material information about the undersigned registrant or its securities provided by or on behalf of the undersigned registrant; and

(iv) Any other communication that is an offer in the offering made by the undersigned registrant to the purchaser.

(6) That, for purposes of determining any liability under the Securities Act of 1933, each filing of the registrant's annual report pursuant to Section 13(a) or 15(d) of the Exchange Act (and, where applicable, each filing of an employee benefit plan's annual report pursuant to Section 15(d) of the Exchange Act) that is incorporated by reference in the registration statement shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial *bona fide* offering thereof.

(7) The undersigned Registrant hereby undertakes to deliver or cause to be delivered with the prospectus, to each person to whom the prospectus is sent or given, the latest annual report to security holders that is incorporated by reference in the prospectus and furnished pursuant to and meeting the requirements of Rule 14a-3 or Rule 14c-3 under the Securities Exchange Act of 1934; and, where interim financial information required to be presented by Article 3 of Regulation S-X is not set forth in the prospectus, to deliver, or cause to be delivered to each person to whom the prospectus is sent or given, the latest quarterly report that is specifically incorporated by reference in the prospectus to provide such interim financial information.

(8) The undersigned registrant hereby undertakes as follows:

(i) that prior to any public reoffering of the securities registered hereunder through use of a prospectus which is a part of this registration statement, by any person or party who is deemed to be an underwriter within the meaning of Rule 145(c), the issuer undertakes that such reoffering prospectus will contain the information called for by the applicable registration form with respect to reofferings by persons who may be deemed underwriters, in addition to the information called for by the other items of the applicable form; and

(ii) that every prospectus: (a) that is filed pursuant to paragraph (i) immediately preceding, or (b) that purports to meet the requirements of Section 10(a)(3) of the Act and is used in connection with an offering of securities subject to Rule 415, will be filed as a part of an amendment to the registration statement and will not be used until such amendment is effective, and that, for purposes of determining any liability under the Securities Act of 1933, as amended, each such post-effective amendment shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial *bona fide* offering thereof.

(9) Insofar as indemnification for liabilities arising under the Securities Act may be permitted to directors, officers and controlling persons of the registrant pursuant to the foregoing provisions, or otherwise, the registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the registrant of expenses incurred or paid by a director, officer or controlling person of the registrant in the successful defense of any action, suit or proceeding) is asserted against the registrant by such director, officer or controlling person in connection with the securities being registered, the registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question of whether such indemnification by it is against public policy as expressed in the Securities Act and will be governed by the final adjudication of such issue.

(10) The undersigned registrant hereby undertakes to respond to requests for information that is incorporated by reference into the prospectus pursuant to Items 4, 10(b), 11, or 13 of this Form, within one business day of receipt of such request, and to send the incorporated documents by first class mail or other equally prompt means. This includes information contained in documents filed subsequent to the effective date of the registration statement through the date of responding to the request.

(11) The undersigned registrant hereby undertakes to supply by means of a post-effective amendment all information concerning a transaction, and the company being acquired involved therein, that was not the subject of and included in the registration statement when it became effective. Three months ended Six months ended January 31, 2007 January 31,

2007	Wt-Avg	Wt-Avg	Wt-Avg	Remaining Aggregate	Wt-Avg	Remaining Aggregate	Exercise Contract
Outstanding at beginning of period							
1,044,374	\$1.39	7.18	\$710,480	1,054,350	\$1.35	7.27	\$814,975
Granted							
60,250	\$1.95		110,250	\$2.02			
Exercised							
(14,500)	\$0.31		(20,376)	\$0.30			
Forfeited							
(7,500)	\$2.00		(61,374)	\$1.45			
Outstanding at end of period							
1,082,850	\$1.43	7.10	\$688,028	1,082,850	\$1.43	7.10	\$688,028
Exercisable at end of period							
817,612	\$1.33	6.57	\$605,278	817,612	\$1.33	6.57	\$605,278
Changes in non-vested option shares under the 2000 Plan during the:							

	Three months ended January 31, 2007			Six months ended January 31, 2007	
	Options	Wt-Avg Grant Date Fair Value		Options	Wt-Avg Grant Date Fair Value
Non-vested at beginning of period	226,549	\$ 1.72		188,799	\$ 1.59
Granted	60,250	\$ 1.95		110,250	\$ 2.02

Vested				
Forfeited	(21,561)	\$ 2.12	(33,811)	\$ 1.82
Non-vested at end of period	265,238	\$ 1.74	265,238	\$ 1.74

The range of exercise prices for options outstanding at January 31, 2007, was \$0.15 to \$2.735.

4. ACQUISITIONS

On January 26, 2007, the Company purchased all of the outstanding stock of OC-NET, Inc. (OC-NET). OC-NET, a privately held corporation in Cypress, CA, provides website development and hosting services to the Power Sports market (which includes motorcycles, All Terrain Vehicles, snowmobiles and personal watercraft), as well as certain customers outside the Power Sports market. Consideration for the acquisition included approximately \$1.1 million in cash, 350,000 shares of the Company's common stock, \$700,000 in debt to the sellers and future contingent payments totaling up to \$400,000.

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The purchase price of this acquisition has been allocated to specific assets and liabilities acquired based on the fair value of those identified assets and liabilities. The Company is in the process of having an independent valuation performed in order to allocate the purchase price to specific identified intangible assets. Until that valuation is complete, the Company has included a significant portion of the purchase price in Other Assets on the accompanying January 31, 2007 balance sheet. In addition, the final purchase price will be determined upon the settlement of the contingencies outlined in the Stock Purchase Agreement. As noted above, a total of \$400,000 of the total purchase price is subject to contingencies. Of this amount, the Company has included \$150,000 of the contingent payments in the preliminary purchase price based on the likelihood of the contingencies being met. The remaining \$250,000 of contingent payments have not been included in the preliminary purchase price, as they relate to meeting sales targets to a specified customer over the twelve month period following the date of acquisition. The Company will continually evaluate the likelihood of realization on this portion of the contingent payments and make the necessary adjustments to the purchase price and the ultimate allocation to the identified intangible assets.

In connection with the Acquisition, the Company entered into an employment agreement with Robert Hipp (the Employment Agreement) to serve as a Marketing/Business Development Manager for the Company. The term of the Employment Agreement is two years.

The foregoing description of the Purchase Agreement and the transactions contemplated thereby is qualified in its entirety by reference to the Purchase Agreement, attached as Exhibit 2.1 of Form 8-K, dated January 29, 2007, and incorporated herein by reference. A final adjustment to the purchase allocation will be made when the Company files audited financial statements for OC-Net for the year ended December 31, 2006, final interim statement from January 1, 2007 through the closing date and proforma financial statements in an amendment to Form 8-K, dated January 29, 2007 on or before April 13, 2007. Because the audited financial statements are not completed as of the date of this Form 10-QSB and the accounting method previously used by OC-Net, Inc. was on the cash basis, proforma financial information disclosures required under SFAS No. 141 are not presented herein. The acquisition will be accounted for under the purchase method; accordingly, its results will be included in the financial statements of the Company from the date of acquisition.

5. NOTES PAYABLE

On April 24, 2003, the Company restructured its debt. In exchange for previously outstanding securities, the Company issued to a group of investors (collectively, the New Holders), in aggregate, \$500,000 in cash, new unsecured notes in the amount of \$3.9 million (the New Notes) and new warrants for 250,000 common shares, exercisable at \$1.00 per share (the New Warrants). The interest rate on the New Notes is prime plus 2%, adjusted quarterly (effective rate of 10.25% as of January 31, 2007). The New Notes are payable in \$200,000 quarterly installments commencing March 31, 2004 through December 31, 2005 and \$300,000 quarterly installments commencing March 31, 2006 until paid in full. The New Notes do not contain any financial covenants, but the Company is restricted from permitting certain liens on its assets. In addition, in the event of payment default that is not cured within ninety (90) days, Taglich Brothers, Inc., one of the New Holders, has the right to appoint one designee to the Company's Board of Directors. The New Warrants were estimated to have a value of \$36,000, of which the unamortized amount reduces the carrying amount of the debt.

In accordance with SFAS No. 15, Accounting by Debtors and Creditors for Troubled Debt Restructurings, the exchange of the previously outstanding securities for \$500,000 in cash, the New Notes and the New Warrants was accounted for as a troubled debt restructuring and no gain was recorded. Instead the liability in excess of the future cash flows to the New Holders, which was originally approximately \$322,000, remains on the balance sheet as a long term debt and is being amortized as a reduction of interest expense over the life of the New Notes.

On August 7, 2003, the Company purchased from WITECH Corporation 1,025,308 shares of the Company's common stock, 30,000 common stock warrants and 20,350 shares of Series A Preferred Stock for \$200,000 at closing and an \$800,000 promissory note which is payable in \$50,000 quarterly installments through September 30, 2007 at the prime interest rate plus 2%, adjusted quarterly (effective rate of 10.25% as of January 31, 2007). The note does not contain any financial covenants.

The Company issued \$700,000 of notes in connection with the OC-Net acquisition. The interest rate on the notes is prime plus 2%, adjusted quarterly (effective rate of 10.25% as of January 31, 2007) and is payable in quarterly

principal installments of \$58,333 commencing March 31, 2007 through January 31, 2010. The notes do not contain any financial covenants.

6. SHAREHOLDER RIGHTS PLAN

On August 7, 2003, the Company adopted a Shareholder Rights Plan designed to protect the interests of common shareholders from an inadequate or unfair takeover, but not affect a takeover proposal which the Board of Directors believes is fair to all shareholders. Under the Shareholder Rights Plan adopted by the Board of Directors, all shareholders of record on August 18, 2003 received one Preferred Share Purchase Right (a Right) for each share of common stock they owned. These Rights trade in tandem with the common stock until and unless they are triggered. Should a person or group acquire more than 10% of the Company s common stock (or if an existing holder of 10% or more of the common stock were to increase its position by more than 1%), the Rights would become exercisable for every shareholder except the acquirer that triggered the exercise. The Rights, if triggered, would give the other shareholders the ability to purchase additional stock of the Company at a substantial discount. The Rights will expire on

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August 18, 2013, and can be redeemed by the Company for \$0.01 per Right at any time prior to a person or group becoming a 10% shareholder.

7. INCOME TAXES

The provision for income taxes is composed of the following (in thousands):

	Three months ended		Six months ended	
	January 31		January 31	
	2007	2006	2007	2006
Current:				
Federal	\$ 103	\$ 179	\$ 183	\$ 348
State	31	32	51	62
Deferred				
Utilization of net operating loss carryforwards	(126)	(211)	(226)	(410)
Income tax (benefit) provision	\$ 8	\$	\$ 8	\$

Provision for income taxes is based on taxes payable under currently enacted tax laws and an analysis of temporary differences between the book and tax bases of our assets and liabilities, including various accruals, allowances, depreciation and amortization. The tax effect of these temporary differences and the estimated tax benefit from tax net operating losses are 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 on a quarterly basis. To the extent that management believes it is more likely than not that some portion, or all, of the deferred tax asset will not be realized, a valuation allowance is established. 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 a significant estimate that is subject to change in the near future. The change in the valuation allowance during a period is reflected with a corresponding increase or decrease in the tax provision in the statement of operations. Because of the uncertainty of long-term future economic conditions, the estimated future utilization of deferred net tax assets is based on twelve quarters of projections. The Company made no change in its estimated valuation allowance this quarter.

MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION**Results of Operations**

Total revenue increased \$169,000 or 5% for the three month period ended January 31, 2007 and \$181,000 or 3% for the six month period ended January 31, 2007, compared to the same periods last year, primarily due to an increase in revenues from the Company's relatively new dealer marketing services product line. Operating income decreased \$288,000 or 52% for the three month period ended January 31, 2007 and \$583,000 or 54% for the six month period ended January 31, 2007, compared to the same periods last year, primarily due to increased expenditures associated with developing and marketing new products and the lower gross margins generated by some of those products. Earnings decreased from \$524,000 or \$0.09 per basic share for the three months ended January 31, 2006 to \$248,000 or \$0.04 per basic share for the three months ended January 31, 2007 and decreased from \$1,022,000 or \$0.17 per basic share for the six months ended January 31, 2006 to \$473,000 or \$0.08 per basic share for the six months ended January 31, 2007. Management expects higher revenue growth over the prior year in the second half of the year, primarily due to revenues from the acquisition of OC-Net and the Company's dealer marketing services, at least partially offset by increased operating expenses over the prior year.

During fiscal year 2007, the Company plans to continue to focus on the same four growth initiatives as last year: (1) maintaining and enhancing the current catalog business; (2) growing the dealer marketing services business; (3) changing to a dealer-direct business model in Europe; and (4) making selected synergistic acquisitions. We anticipate that the expenses and investments associated with these growth initiatives will be at a level that may continue to result in a decrease in operating income for fiscal 2007, but that the revenues generated by these initiatives will result in increased net income for fiscal 2008 and beyond.

Table of Contents**Critical Accounting Policies and Estimates***General*

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. The preparation of these financial statements requires the Company to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On an on-going basis, the Company evaluates its estimates, including those related to customer contracts, bad debts, capitalized software product costs, financing instruments, revenue recognition and other accrued expenses. The Company bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

The Company believes the following critical accounting policies affect its more significant judgments and estimates used in the preparation of its financial statements.

Revenue Recognition

Revenue for use of the network and for information services is recognized in the period such services are utilized. Revenue from annual or periodic maintenance fees, license and license renewal fees and catalog subscription fees is recognized ratably over the period the service is provided. Revenue under arrangements that include acceptance terms beyond the Company's standard terms is not recognized until acceptance has occurred. If collectibility 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. When professional services are not considered essential, the revenue allocable to the professional services is recognized as the services are performed. When professional services are considered essential, revenue under the arrangement is recognized pursuant to contract accounting using the percentage-of-completion method with progress-to-completion measured based upon labor hours incurred. When the current estimates of total contract revenue and contract cost indicate a loss, a provision for the entire loss on the contract is made. Revenue under arrangements with customers who are not the ultimate users (resellers) is deferred if there is any contingency on the ability and intent of the reseller to sell such software to a third party. Amounts invoiced to customers prior to recognition as revenue as discussed above are reflected in the accompanying balance sheets as deferred revenue.

Bad Debts

The Company maintains an allowance for doubtful accounts for estimated losses resulting from the inability of its customers to make required payments. The Company currently reserves for most amounts due over 90 days, unless there is reasonable assurance of collectibility. If the financial condition of the Company's customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required.

Use of Estimates

The preparation of the Company's financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions about accrued expenses that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Legal Provisions

The Company is periodically involved in legal proceedings arising from contracts, patents or other matters in the normal course of business. The Company reserves for any material estimated losses if the outcome is reasonably certain, in accordance with the provisions of SFAS No. 5 Accounting for Contingencies .

Impairment of Long-Lived Assets

Equipment and leasehold improvements and capitalized software product costs are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. If the sum of the expected undiscounted cash flows is less than the carrying value of the related asset or group of assets, a loss is recognized for the difference between the fair value and carrying value of the asset or group of assets.

Cash and Cash Equivalents

The Company's investment policy, as approved by the Board of Directors, is designed to provide preservation of capital, adequate liquidity to meet projected cash requirements, optimum yields in relationship to risk, market conditions and tax considerations and minimum risk of principal loss through diversified short and medium term investments. Eligible investments included direct obligations of the U.S. Treasury, obligations issued or guaranteed by the U.S. government, certain time deposits, certificates of deposits issued by commercial banks, money market mutual funds, asset backed securities and municipal bonds. The Company's current investments include commercial paper and money market funds with terms not exceeding ninety days.

Table of Contents*Debt Instruments*

The Company valued debt discounts for Common Stock Warrants granted in consideration for Notes Payable using the Black Scholes valuation method. Non-cash interest expense is recorded for the amortization of the debt discount over the term of the debt.

Deferred Tax Asset

The tax effect of the temporary differences between the book and tax bases of assets and liabilities and the estimated tax benefit from tax net operating losses are reported as deferred tax assets and liabilities in the balance sheet. An assessment of the likelihood that net deferred tax assets will be realized from future taxable income is performed. Because the ultimate realizability of deferred tax assets is highly subject to the outcome of future events, the amount established as valuation allowances 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 operations.

Stock-Based Compensation

Effective August 1, 2006, the Company adopted the provisions of Statement of Financial Accounting Standard No. 123R, Share-Based Payment, (SFAS 123R) for its stock option and stock purchase plans. The Company previously accounted for these plans under the recognition and measurement principles of Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees, (APB 25) and related interpretations and disclosure requirements established by Statement of Financial Accounting Standard No. 123, Accounting for Stock-Based Compensation, (SFAS 123), as amended by Statement of Financial Accounting Standard No. 148, Accounting for Stock-Based Compensation Transition and Disclosure.

Revenues

The Company is a leading provider of technology-enabled services (including electronic parts catalogs and dealer marketing services) that help to increase sales and profits for dealers, distributors and manufacturers in the manufactured equipment market. The Company currently provides 100 catalogs of manufactured equipment from 75 manufacturers to over 26,000 dealers in approximately 89 countries in 12 segments of the worldwide manufactured equipment market including outdoor power, power sports, motorcycles, recreation vehicles, marine, construction, agricultural equipment, auto and truck parts after-market and others, primarily in the U.S., Canada, Europe and Australia. Collectively, dealers and distributors have over 77,000 catalog subscriptions. The Company supplies three types of software and services: (1) robust Web and CD-ROM interactive electronic parts catalogs, (2) dealer marketing services including template-based website services and technology-enabled direct mail services and (3) communication or transaction services. The Company's primary product line at present is electronic parts catalogs; the other products are supplementary offerings that leverage its position in the catalog market. Management's strategy is to expand the Company's electronic parts catalog software and services business with dealers in the existing vertical markets, expand to other similar markets, and execute on the four growth initiative strategies previously mentioned. The following table sets forth certain catalog, customer and subscription information by region derived from the Company's financial and customer databases. The number of distinct distributors and dealers is estimated because some subscriptions are distributed by third parties (including manufacturers), which may or may not inform the Company of the distributors and/or dealers to which the subscription is distributed.

Catalog, Customer and Subscription Information by Region**(As of January 31, 2007)**

	Catalogs	Distinct Manufacturers	Subscriptions	Distinct Distributors (Estimated)	Distinct Dealers (Estimated)
North America	88	66	68,676	98	21,366
Rest of World	58	9	9,211	59	5,576
Included in both Regions	(46)				
Total	100	75	77,887	157	26,942

Catalog= A separately sold and/or distributed parts catalog. A manufacturer may have more than one catalog. More than one brand or distinct product line may be included in a catalog.

Distinct Manufacturer= A single independent manufacturer, not owned by another manufacturer, served by ARI. Distinct manufacturers are included in the region they most serve even if they have catalogs in both regions.

Subscription= A single catalog subscribed to by a single dealer or distributor. A dealer or distributor may subscribe to more than one catalog.

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Distinct Distributor= A single independent distributor, not owned by another distributor, served by ARI. A distributor generally buys from manufacturers and sells to dealers.

Distinct Dealer= A single independent servicing dealer, not owned by another dealer, served by ARI

As part of its historical business practice, the Company continues to provide dealer and distributor communication services to the U.S. and Canadian agribusiness industry. As the Company focuses on its core businesses in the Equipment industry, revenues in the non-equipment industry are expected to continue to decline as a percentage of total revenues during fiscal 2007.

The Equipment industry has been a growing percentage of the Company's revenue over the past seven years and is composed of several vertical markets including outdoor power, power sports, motorcycles, recreation vehicles, marine, construction, floor maintenance, agricultural equipment, auto and truck parts after-market and others, primarily in the U.S., Canada, Europe and Australia. Management's strategy is to expand the Company's electronic parts catalog software and services business with dealers in the existing vertical markets, expand to other similar markets, and execute on the four growth initiative strategies previously mentioned.

The following table sets forth, for the periods indicated, certain revenue information derived from the Company's unaudited financial statements.

**Revenue by Location and Service
(In Thousands)**

	Three months ended			Six months ended		
	January 31		Percent Change	January 31		Percent Change
	2007	2006		2007	2006	
North American						
Catalog subscriptions	\$ 2,625	\$ 2,581	2%	\$ 5,208	\$ 5,159	1%
Catalog professional services	312	439	(29%)	594	794	(25%)
Dealer marketing services	294	107	175%	511	175	192%
Dealer & distributor communications	149	188	(21%)	347	415	(16%)
Subtotal	3,380	3,315	2%	6,660	6,543	2%
Rest of the World						
Catalog subscriptions	267	170	57%	470	384	22%
Catalog professional services	44	37	19%	64	86	(26%)
Subtotal	311	207	50%	534	470	14%
Total Revenue						
Catalog subscriptions	2,892	2,751	5%	5,678	5,543	2%
Catalog professional services	356	476	(25%)	658	880	(25%)
Dealer marketing services	294	107	175%	511	175	192%
Dealer & distributor communications	149	188	(21%)	347	415	(16%)
Total	\$ 3,691	\$ 3,522	5%	\$ 7,194	\$ 7,013	3%

North America

Catalog Subscriptions

North American catalog subscription revenues are derived from software license fees, license renewal fees, software maintenance and support fees, catalog subscription fees, and other miscellaneous subscription fees charged to dealers, distributors and manufacturers for the use of the Company's catalog products in the United States and Canada. Catalog subscription revenues increased for the three and six months ended January 31, 2007, compared to the same periods last year, primarily due to increased sales of the Company's web-based catalog products. Catalog subscription renewals from the Company's North American customers were approximately 87% for the six months ended January 31, 2007. Management expects revenues from catalog subscriptions in North America to increase modestly for the remainder of fiscal 2007 compared to the prior year.

Table of Contents*Catalog Professional Services*

Revenues from the Company's North American catalog professional services are derived from software customization labor, data conversion labor, data conversion replication fees, travel and shipping fees primarily charged to manufacturers and distributors in the United States and Canada. Revenues from catalog professional services in North America decreased for the three and six month periods ended January 31, 2007, compared to the same periods last year, primarily due to lower customization labor charged for the deployment of new web-based manufacturer databases. Management expects revenues from catalog professional services in North America to continue to decrease somewhat for the remainder of fiscal 2007 compared to the prior year.

Dealer Marketing Services

Revenues from the Company's North American dealer marketing services are derived from start-up and access fees charged to dealers for Website Smart and set-up and postage fees for ARI MailSmart in the United States and Canada. Revenues from dealer marketing services in North America increased, for the three and six month periods ended January 31, 2007, compared to the same periods last year, primarily due to sales of Website Smart and MailSmart as a result of the Company's investments in sales and marketing in the dealer marketing services area. Revenues from the Company's recently acquired Website Smart Pro are included in Dealer Marketing Services from January 26, 2007. Management expects revenues from dealer marketing services in North America to increase for the remainder of fiscal 2007 compared to the prior year, partially due to the OC-Net acquisition.

Dealer and Distributor Communications

Revenues from dealer and distributor communications are derived from license renewal fees, software maintenance, customization labor and other communication fees charged for dealers and distributors to communicate with manufacturers in the manufactured equipment industry and the agricultural inputs industry. Dealer and distributor communication revenues decreased for the three and six month periods ended January 31, 2007, compared to the same periods last year, primarily due to a decline in the base of customers as the Company focused the business primarily on its catalog and dealer marketing services products. Management expects revenues from dealer and distributor communication products will be a declining percentage of total revenue for the remainder of fiscal 2007 compared to the prior year.

Rest of the World*Catalog Subscriptions*

Catalog subscription revenues from the rest of the world are derived from software license fees, license renewal fees, software maintenance and support fees, catalog subscription fees, and other miscellaneous subscription fees charged to dealers, distributors and manufacturers for the use of the Company's catalog products. Catalog subscription revenues for the rest of the world increased for the three and six month periods ended January 31, 2007, compared to the same periods last year, primarily due to the amortization of revenue from a large Harley Davidson deal closed in the fourth quarter of fiscal 2006 and a large sale to a Korean manufacturer in the first quarter of fiscal 2007. The increase in Rest of World revenues in the second quarter of fiscal 2007 should not be interpreted as an indicator that our challenges in the European market are behind us. The number of new subscriptions purchased directly by dealers has declined, compared to the same period last year. Management expects revenues from catalog subscriptions in the rest of the world to increase for the remainder of fiscal 2007, compared to the prior year.

Catalog Professional Services

Revenues from the Company's rest of the world catalog professional services are derived from software customization labor, data conversion labor, data conversion replication fees, travel and shipping fees primarily charged to manufacturers that do not reside in North America. Revenues from catalog professional services in the rest of the world increased, for the three month period ended January 31, 2007, compared to the same period last year, primarily due customization labor charged to the manufacturer located in Korea. Revenues from catalog professional services in the rest of the world decreased for the six month period ended January 31, 2007, compared to the same period last year, primarily due a decrease in labor charged to manufacturers for the deployment of databases. Management expects revenues from professional services in the rest of the world to increase for the remainder of fiscal 2007, compared to the prior year.

Table of Contents**Cost of Products and Services Sold**

The following table sets forth, for the periods indicated, certain information regarding revenue and cost of products and services sold which is derived from the Company's unaudited financial statements.

Cost of Products and Services Sold as a Percent of Revenue by Revenue Type
(In thousands)

	Three months ended January 31			Six months ended January 31		
	2007	2006	% Chg	2007	2006	% Chg
Catalog subscriptions						
Revenue	\$2,892	\$2,751	5%	\$5,678	\$5,543	2%
Cost of revenue	278	260	7%	573	538	7%
Cost of revenue as a percent of revenue	10%	9%		10%	10%	
Catalog professional services						
Revenue	356	476	(25%)	658	880	(25%)
Cost of revenue	112	119	(6%)	237	219	8%
Cost of revenue as a percent of revenue	31%	25%		36%	25%	
Dealer marketing services						
Revenue	294	107	176%	511	175	192%
Cost of revenue	174	49	255%	268	80	235%
Cost of revenue as a percent of revenue	59%	46%		52%	46%	
Dealer and distributor communications						
Revenue	149	188	(21%)	347	415	(16%)
Cost of revenue	20	27	(26%)	52	68	(23%)
Cost of revenue as a percent of revenue	13%	14%		15%	16%	
Total						
Revenue	\$3,691	\$3,522	5%	\$7,194	\$7,013	3%
Cost of revenue	584	455	28%	1,130	905	25%
Cost of revenue as a percent of revenue	16%	13%		16%	13%	

Cost of revenue for catalog subscriptions consists primarily of reseller fees, software amortization costs, catalog replication and distribution costs. Cost of catalog subscriptions as a percentage of revenue decreased slightly for the three month period remained relatively the same for the six month period ended January 31, 2007, compared to the same periods last year. Management expects gross margins, as a percent of revenue from catalog subscriptions, to vary slightly from quarter to quarter due to the timing of data shipments.

Cost of revenue for catalog professional services consists of customization and catalog production labor. Cost of professional services as a percentage of revenue increased for the three and six month periods ended January 31, 2007, compared to the same periods last year, primarily due to an increase in non-billable professional services.

Management expects cost of catalog professional services to fluctuate from quarter to quarter depending on the mix of

services sold, the nature of manufacturer data conversion contracts, and the Company's performance towards the contracted amount for customization projects.

Cost of revenue for dealer marketing services consists primarily of website setup labor, software amortization costs, postcards and distribution costs. Cost of dealer marketing services as a percentage of revenue increased for the three and six month periods ended January 31, 2007, compared to the same periods last year, primarily due to an increase in the percentage of sales represented by MailSmart, which has a lower margin than the other dealer marketing services offered. Management expects gross margins, as a percent of revenue from dealer marketing services, to fluctuate from quarter to quarter depending on the mix of products and services sold.

Cost of revenue for dealer and distributor communications consists primarily of telecommunication costs, royalties and software customization labor. Cost of dealer and distributor communications as a percentage of revenue decreased for the three and six month periods ended January 31, 2007, compared to the same periods last year, primarily due to a decrease in telecommunication costs and software customization labor. Management expects gross margins, as a percent of revenue from dealer and distributor communications, to be relatively consistent from quarter to quarter.

Table of Contents**Operating Expenses**

The following table sets forth, for the periods indicated, certain operating expense information derived from the Company's unaudited financial statements.

Operating Expenses
(In thousands)

	Three months ended			Six months ended		
	January 31			January 31		
	2007	2006	% Chg	2007	2006	% Chg
Customer operations and support	\$ 276	\$ 279	(1%)	\$ 544	\$ 582	(7%)
Selling, general and administrative	2,101	1,840	14%	4,086	3,699	10%
Software development and technical support	359	305	18%	728	580	26%
Depreciation and amortization	110	94	17%	216	174	24%
Net operating expenses	\$ 2,846	\$ 2,518	13%	\$ 5,574	\$ 5,035	11%

Customer operations and support consists primarily of server room operations, software maintenance agreements for the Company's core network and customer support costs. Customer operations and support costs decreased for the three and six month periods ended January 31, 2007, compared to the same period last year, primarily due to the reduction of temporary help used in the data conversion operations. Management expects customer operations and support costs to increase slightly, compared to the prior year, for the remainder of fiscal 2007.

Selling, general and administrative expenses (SG&A) increased for the three and six month periods ended January 31, 2007, compared to the same periods last year, as the Company invested in continued sales and marketing initiatives in the North American market and because of the new costs related to the SFAS123R expensing of stock options. SG&A, as a percentage of revenue, increased from 53% for the six month period ended January 31, 2006 to 57% for the six month period ended January 31, 2007. Management expects SG&A costs to continue to be higher than the previous year for the remainder of fiscal 2007 as the Company continues its sales and marketing initiatives and to recognize the costs of stock options under SFAS123R.

The Company's technical staff (in-house and contracted) performs software development, technical support, software customization and data conversion services for customer applications. Management expects fluctuations from quarter to quarter, as the mix of development and customization activities will change based on customer requirements even if the total technical staff cost remains relatively constant. Software development and technical support costs increased for the three and six month periods ended January 31, 2007, compared to the same periods last year, primarily due to continued expenses related to the deployment of the new catalog software, released in the first quarter of fiscal 2007. Management expects software development and technical support costs to continue to be higher than the previous year for the remainder of fiscal 2007 as the Company supports its new catalog products.

Depreciation and amortization expense increased for the three and six month periods ended January 31, 2007, compared to the same periods last year. Management expects depreciation and other amortization to increase for the remainder of fiscal 2007, compared to the prior year, as the Company continues to invest in software and equipment to operate the business.

Other Items

Earnings decreased from net income of \$524,000 and \$1,022,000 for the three and six month periods ended January 31, 2006, to net income of \$248,000 and \$473,000 for the three and six month periods ended January 31, 2007, respectively. The Company's increase in revenue was offset by an increase in technical support costs and sales

expenses associated with its new products and sales initiatives. Management expects to continue to generate positive earnings and cash flows for the remainder of fiscal 2007.

Interest expense includes both cash and non-cash interest. Interest paid was approximately \$41,000 and \$92,000 for the three and six month periods ended January 31, 2007, and \$63,000 and \$128,000 for the three and six month periods ended January 31, 2006, respectively. In addition, excess debt principal was amortized to offset interest expense by approximately \$9,000 and \$22,000 for the three and six month periods ended January 31, 2007 and \$13,000 and \$29,000 for the three and six month periods ended January 31, 2006, respectively.

Table of Contents**Acquisitions**

Since December 1995, the Company has had a formal business development program aimed at identifying, evaluating and closing acquisitions that augment and strengthen the Company's market position, product offerings, and personnel resources. Since the program's inception, six business acquisitions and one software asset acquisition have been completed, four of which were fully integrated into the Company's operations prior to fiscal year 2006.

Most recently, the Company completed the acquisition of OC-Net, as described in Note 4 to the Consolidated Financial Statements. The business development program is still an important component of the Company's long-term growth strategy and the Company expects to continue to pursue it aggressively.

Liquidity and Capital Resources

The following table sets forth, for the periods indicated, certain cash flow information derived from the Company's unaudited financial statements.

Cash Flow Information
(In thousands)

	Three months ended January 31			Six months ended January 31		
	2007	2006	%	2007	2006	%
Net income	\$ 248	\$ 524	(53%)	\$ 473	\$ 1,022	(54%)
Amortization of software products	198	152	30%	385	297	30%
Amortization of deferred finance costs and debt discount	(22)	(15)	(47%)	(33)	(31)	(6%)
Depreciation and other amortization	110	94	18%	216	174	24%
Stock based compensation related to stock options	42		100%	68		100%
Stock issued as contribution to 401(k) plan				42	21	100%
Net change in working capital	(464)	(247)	(88%)	(873)	(600)	(46%)
Net cash provided by operating activities	112	508	(78%)	278	883	(69%)
Net cash used in investing activities	(1,342)	(255)	(426%)	(1,554)	(510)	(205%)
Net cash used in financing activities	(322)	(224)	(44%)	(669)	(440)	(52%)
Net change in cash	(\$1,552)	\$ 29	(5452%)	(\$1,945)	(\$67)	(2,803%)

Net cash provided by operating activities decreased for the three and six month periods ended January 31, 2007, compared to the same periods last year, primarily due to the decrease in net income. The effect of net changes in working capital is dependent on the timing of payroll and other cash disbursements, accruals and the timing of invoices and may vary significantly from quarter to quarter. Net cash used in investing activities increased for the three and six month periods ended January 31, 2007, compared to the same periods last year, primarily due to the purchase of OC-Net. Management expects cash provided by operating activities net of cash used in investing activities to be positive for the remainder of fiscal 2007, unless the Company undertakes additional acquisitions.

At January 31, 2007, the Company had cash and cash equivalents of approximately \$1,639,000 compared to approximately \$3,584,000 at July 31, 2006.

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The following table sets forth, for the periods indicated, certain information related to the Company's debt derived from the Company's unaudited financial statements.

Debt Schedule
(In thousands)

	January 31 2007 (Unaudited)	July 31 2006 (Audited)	Net Change
Note payable to WITECH:			
Current portion of note payable	\$ 150	\$ 200	\$ (50)
Long term portion of note payable		50	(50)
Total note payable to WITECH	150	250	(100)
Notes payable to New Holders:			
Current portion of notes payable	1,100	1,200	(100)
Long term portion of notes payable		500	(500)
Total face value of notes payable to New Holders	1,100	1,700	(600)
Carrying value in excess of face amount of notes payable	16	42	(26)
Debt discount (common stock warrants and options)	(6)	(12)	6
Total carrying value of notes payable to New Holders	1,110	1,730	(620)
Debt related to acquisition of OC-Net, Inc.:			
Acquired short term debt	37		37
Current portion of note payable	233		233
Long term portion of note payable	467		467
Long term cash holdback	150		150
	887		887
Total debt	\$ 2,147	\$ 1,980	\$ (167)

On April 24, 2003, the Company restructured its debt. In exchange for previously outstanding debt and securities, the Company issued to the New Holders, in aggregate, \$500,000 in cash, New Notes in the amount of \$3.9 million and New Warrants for 250,000 common shares, exercisable at \$1.00 per share. The interest rate on the New Notes is prime plus 2%, adjusted quarterly (effective rate of 10.25% as of January 31, 2007). The New Notes are payable in \$200,000 quarterly installments commencing March 31, 2004 through December 31, 2005 and \$300,000 quarterly installments commencing March 31, 2006 until paid in full. The New Notes do not contain any financial covenants, but the Company is restricted from permitting certain liens on its assets. In addition, in the event of payment default that is not cured within ninety (90) days, Taglich Brothers, Inc., one of the New Holders, has the right to appoint one designee to the Company's Board of Directors. The New Warrants were estimated to have a value of \$36,000, of which the unamortized amount reduces the carrying amount of the debt.

On August 8, 2003, the Company repurchased from WITECH Corporation 1,025,308 shares of Common Stock, a warrant to purchase 30,000 shares of Common Stock at \$.24 per share, and 20,350 shares of Series A Preferred Stock with an approximate face value plus accrued and undeclared dividends of \$3.5 million. The Company paid \$200,000 in cash and issued a four-year note for \$800,000, payable quarterly and bearing interest at prime plus 2%, adjusted quarterly (effective rate of 10.25% as of January 31, 2007). The note does not contain any financial covenants.

On January 26, 2007, the Company purchased all of the outstanding stock of OC-NET. Consideration for the acquisition included \$700,000 in debt to the sellers and future contingent payments totaling up to \$400,000. Included in the liabilities of OC-NET was approximately \$37,000 of debt to local creditors. The notes to the sellers are payable quarterly and bear interest at prime plus 2%, adjusted quarterly (effective rate of 10.25% as of January 31, 2007). The notes do not contain any financial covenants.

On July 9, 2004, the Company entered into a line of credit with Bank One, N.A. which permits the Company to borrow an amount equal to 80% of the book value of all eligible accounts receivable plus 45% of the value of all eligible open renewal orders (provided the renewal rate is at least 85%) minus \$75,000, up to \$1,000,000, and bears interest at prime rate. Eligible accounts include certain non-foreign accounts receivable which are less than 90 days from the invoice date. The line of credit terminates July 9, 2007, and is secured by substantially all of the Company's assets. The line of credit limits repurchases of common stock, the payment of dividends, liens on assets and new indebtedness, and requires the Company to meet minimum net worth and debt service coverage financial covenants. As of January 31, 2007, there were no borrowings on the line of credit.

Management believes that funds generated from operations will be adequate to fund the Company's operations, investments and debt payments for the foreseeable future, although additional financing may be necessary if the Company were to complete a material acquisition or to make a large investment in its business.

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Off-Balance Sheet Arrangements

The Company has no off-balance sheet arrangements as of March 9, 2007.

Forward Looking Statements

Certain statements contained in this Form 10-QSB are forward looking statements including revenue growth, future cash flows and cash generation and sources of liquidity. Expressions such as believes, anticipates, expects, and similar expressions are intended to identify such forward looking statements. Several important factors can cause actual results to materially differ from those stated or implied in the forward looking statements. Such factors include, but are not limited to the factors listed on Exhibit 99.1 of the Company's annual report on Form 10-KSB for the year ended July 31, 2006, which is incorporated herein by reference. The forward-looking statements are made only as of the date hereof, and the Company undertakes no obligation to publicly release the result of any revisions to these forward-looking statements.

ITEM 3. CONTROLS AND PROCEDURES

The Company maintains a set of disclosure controls and procedures that are designed to ensure that information required to be disclosed by it in the reports filed by it under the Securities Exchange Act of 1934, as amended (Exchange Act) is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. The Company carried out an evaluation, under the supervision and with the participation of its management, including its Chief Executive Officer and its Chief Financial Officer, of the effectiveness of the design and operation of its disclosure controls and procedures pursuant to Rule 13a-15 of the Exchange Act. Based on that evaluation, the Company's Chief Executive Officer and its Chief Financial Officer concluded that the Company's disclosure controls and procedures are effective as of January 31, 2007.

There have been no changes in the Company's internal control over financial reporting identified in connection with the evaluation discussed above that occurred during the quarter ended January 31, 2007 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Table of Contents**PART II OTHER INFORMATION****ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

During the quarter ended January 31, 2007, except as set forth in the Company's Current Report on Form 8-K, filed on January 29, 2007, the Company did not sell any equity securities which were not registered under the Securities Act or repurchase any of its equity securities.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

(a) The Company held its 2006 Annual Meeting of Shareholders on December 7, 2006.

(b) Votes cast for the election of Gordon J. Bridge to serve as director until the 2009 Annual Shareholder's Meeting were as follows:

For	5,204,605
Withheld authority to vote for	642,088

Votes cast for the election of Ted C. Feierstein to serve as director until the 2009 Annual Shareholder's Meeting were as follows:

For	5,198,938
Withheld authority to vote for	647,775

(c) Votes cast to ratify the appointment of Wipfli LLP as ARI's auditors for the year ending July 31, 2007 were as follows:

For	5,750,942
Against	37,105
Abstained	58,646

ITEM 6. EXHIBITS

2.1 Stock Purchase Agreement dated January 26, 2007, by and among OC-Net, Inc., the stockholders of OC-Net, Inc. and the Company, incorporated by reference to the Company's Current Report on Form 8-K filed on January 29, 2007.

31.1 Section 302 Certification of Chief Executive Officer.

31.2 Section 302 Certification of Chief Financial Officer.

32.1 Section 906 Certification of Chief Executive Officer.

32.2 Section 906 Certification of Chief Financial Officer.

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SIGNATURES

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

ARI Network Services, Inc.
(Registrant)

Date: March 19, 2007

/s/ Brian E. Dearing
Brian E. Dearing, Chairman of the Board
and Chief Executive Officer

/s/ Timothy Sherlock
Timothy Sherlock, Chief Financial Officer