As of October 21, 2016, there were approximately 2,477 holders of record of ARI common stock. We have not paid cash dividends to date and have no current intention to pay cash dividends. Our ability to make distributions to our shareholders, including cash dividends, is also restricted under the terms of our credit facilities.

During fiscal 2016, the Company did not repurchase any of its equity securities.

Item 6. *Selected Financial Data*

Not applicable.

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

The following discussion of our results of operations and financial condition should be read together with our audited consolidated financial statements for fiscal 2016 and fiscal 2015, including the notes thereto, which appear elsewhere in this Annual Report on Form 10-K. This discussion contains forward-looking statements, which as previously identified, are subject to the safe harbors created under the Securities Act and Exchange Act.

Overview

In fiscal 2016, ARI achieved record results in revenue, operating income, net income, Adjusted EBITDA and cash flow from operations.

Total revenue increased 17.9%, or $7,250,000, during fiscal 2016 over fiscal 2015. Recurring revenue increased 20.4% in fiscal 2016, compared to fiscal 2015, and constituted over 90% of our total revenue in both fiscal 2016 and 2015 as the Company continued to see growth in recurring revenue outpacing overall revenue growth. The growth in revenue is primarily attributable to revenue from the DCi, TASCO, and TCS acquisitions during fiscal 2015, and organic revenue growth.

Our operating income increased 53.2%, or $1,230,000, from $2,314,000 during fiscal 2015 to $3,544,000 during fiscal 2016. Operating expenses increased 14.6%, or $4,516,000, during fiscal 2016 compared to fiscal 2015, primarily due to the additional costs of our newly-acquired operations and additional expenses due to revenue growth. We continue to see the benefits of scale in our business as operating expenses as a percentage of sales decreased from 76.2% in fiscal 2015 to 74.1% in fiscal 2016.

The Company generated net income of $1,743,000 or $0.10 per share during fiscal 2016, compared to $1,071,000 or $0.07 per share during fiscal 2015. The increase in both operating and net income is primarily due to (i) operational efficiency improvements; (ii) organic revenue growth; and (iii) the growth in the overall business as a result of the acquisitions, while recognizing cost synergies from the combined businesses.

Cash flow from operations was $7,725,000 during fiscal 2016, compared to $6,313,000 during fiscal 2015.

Revenue

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

	Twelve months ended July 31				
	2016	% of Total	2015	% of Total	% Change
Lead Generation and eCommerce Websites	$ 24,028	50.4 %	$ 22,258	55.0 %	8.0 %
eCatalog Services	17,879	37.5 %	13,917	34.4 %	28.5 %
Business Management Software	3,051	6.4 %	1,955	4.8 %	56.1 %
Digital Marketing Solutions	1,934	4.1 %	1,228	3.0 %	57.5 %
Other Revenue	801	1.7 %	1,085	2.7 %	(26.2)%
Total revenue	$ 47,693	100.0 %	$ 40,443	100.0 %	17.9 %
Recurring revenue	43,911	92.1 %	36,483	90.2 %	20.4 %
Non-recurring revenue	3,782	7.9 %	3,960	9.8 %	(4.5)%
Total revenue	$ 47,693	100.0 %	$ 40,443	100.0 %	17.9 %

Total revenue increased 17.9% or $7,250,000 during fiscal 2016, compared to fiscal 2015. Recurring revenue increased 20.4% or $7,428,000 during fiscal 2016, compared to fiscal 2015, and represented 92.1% of total revenues during fiscal 2016 versus 90.2% during fiscal 2015. The increase in RR as a percentage of total revenue during fiscal 2016 was related to the decrease in revenue related to non-recurring professional services in the period as well as a continued focus of the Company to sell products that generate recurring revenue.

Lead Generation and eCommerce Website Revenue

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

transaction fees. Our Lead Generation and eCommerce Website solutions are typically sold as one year, renewable contracts with monthly payment terms. We currently host and maintain more than 7,500 websites for dealers in all of our vertical markets. Lead Generation and eCommerce Website solutions have become ARI's largest source of revenue and accounted for 50.4% of total revenue during fiscal 2016. Lead Generation and eCommerce Website revenue increased 8.0% to $24,028,000 in fiscal 2016, compared to $22,258,000 during fiscal 2015. This increase was a result of both organic revenue growth from our historic Lead Generation and eCommerce solutions and revenue from the TCS eCommerce website solution that was acquired in September 2014. We anticipate that our Lead Generation and eCommerce Website platforms will continue to be the Company's largest source of growth from a total revenue perspective, much of this growth coming in the ATW, AAPS and HME markets.

eCatalog Revenue

Our eCatalog solutions generate revenue from renewable subscription fees for our software, data content, software maintenance and support fees and software customization fees. eCatalog is our second largest source of RR, representing 37.5% of total revenue during fiscal 2016. eCatalog revenue increased 28.5% or $3,962,000 during fiscal 2016, compared to fiscal 2015 primarily as a result of our acquisition of DCi in July 2015. The catalog content provided in our eCatalog solutions helps to drive sales growth in our Lead Generation and eCommerce Website solutions as well, so while eCatalog organic revenue growth is expected to be lower than our other products, it continues to drive growth in other areas of the business. Management expects eCatalog revenue to increase at a low organic growth rate as the Company already has strong market share with this product.

Business Management Software Revenue

Business management software revenue is generated from perpetual one-time license and installation fees for our new business management software, along with recurring maintenance and support fees, as well as hosting fees for our SaaS version. Business management software revenue represented 6.4% of total revenue during fiscal 2016. Business management software revenue increased 56.1% or $1,096,000 during fiscal 2016 as a result of both organic growth and revenue from TCS and TASCO, which were acquired in September 2014 and April 2015, respectively. Management expects business management software revenue to increase in fiscal 2017 due to organic growth, however, some of this growth depends upon non-recurring perpetual license sales which can be harder to project from a timing perspective.

Digital Marketing Solutions Revenue

Revenues from our Digital Marketing Solutions are generated from set-up fees and subscription fees for our lead generation tools through search engine optimization, social media marketing and website enhancements. We derived 4.1% of our revenues from Digital Marketing Services during fiscal 2016. Digital marketing revenue increased 57.5%, from $1,228,000 during fiscal 2015 to $1,934,000 during fiscal 2016, primarily due to organic growth from our existing offerings. Management expects digital marketing revenue to increase as this service offering is a relatively new offering and is complementary to our other products, allowing us to expand within our current markets and current customers.

Other Revenue

We also offer a suite of complementary solutions, which include software, professional services and hosting services. Other revenue, which is primarily non-recurring in nature, represented approximately 1.7% of total revenue, and decreased 38.7%, from $1,085,000 during fiscal 2015, to $801,000 during fiscal 2016. The decrease in other revenue is primarily due to a decrease in our professional services revenue. Revenues from non-recurring professional services will fluctuate from period to period based on the timing of custom projects and the Company has intentionally de-emphasized these projects as it focuses more on RR.

Recurring Revenue

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

We generate RR from each of our primary product categories from monthly license, subscription, maintenance and support fees. RR increased 20.4% from $36,483,000 during fiscal 2015, to $43,911,000 during fiscal 2016, primarily attributable to both the addition of

RR from our acquisitions in fiscal 2016 and organic growth. We expect Lead Generation and eCommerce Website RR to continue to be our largest contributor to RR growth in fiscal 2017.

Non-recurring Revenue

Non-recurring revenue is generated from one-time perpetual license fees from our business management offerings, certain offerings within the Company's digital marketing services, professional services related to software customization and data conversion, usage fees charged on our RR products, set-up fees and other complementary products and services. Total non-recurring revenue decreased 4.5% from $3,960,000 during fiscal 2015, to $3,782,000 during fiscal 2016, primarily due to decreased professional services revenue partially offset by increased perpetual license revenue from software management solutions. Our goal is to maintain non-recurring revenue of less than 10% of total revenue, as the margins on this revenue tends to be lower than our RR products. Furthermore, non-recurring revenue must be resold each year.

Cost of Revenue and Gross Margin

	Twelve months ended July 31				
	2016	% of Revenue	2015	% of Revenue	% Change
Net revenues	$ 47,693		$ 40,443		17.9 %
Cost of revenues:					
Amortization of capitalized software costs	2,108	4.4 %	2,023	5.0 %	4.2 %
Direct labor	2,840	6.0 %	2,150	5.3 %	32.1 %
Other direct costs	3,858	8.1 %	3,129	7.7 %	23.3 %
Total cost of revenues	8,806	18.5 %	7,302	18.1 %	20.6 %
Gross profit	$ 38,887	81.5 %	$ 33,141	81.9 %	17.3 %

Gross profit was $38,887,000 or 81.5% of revenue in fiscal 2016, compared to $33,141,000 or 81.9% of revenue for fiscal 2015. The decrease in gross profit margin was due to investments made to migrate website customers from older platforms that we are no longer actively selling to newer platforms, and an increase in royalty costs as we continue to expand our product offerings.

Amortization of capitalized software costs as a percentage of revenue decreased during fiscal 2016, compared to last year, primarily due to revenue increasing at a faster rate than software capitalization costs in recent years. Direct labor costs as a percentage of revenue increased during fiscal 2016, compared to last year, primarily due to: (i) an increase in our digital marketing revenue, which has higher direct costs than our other products; (ii) an increase in website implementations; and (iii) the migration of customer websites in an effort to consolidate our customers to the product most suited to their industry and consolidate our website platforms. Other direct costs increased as a percentage of revenue during fiscal 2016, compared to fiscal 2015, due to increased third party costs associated with our digital marketing and website add-on offerings and fees paid to outside contractors for assistance with the website migrations and custom professional service projects. The Company expects fluctuations in gross margin from quarter to quarter and year over year based on sales bookings, the mix of products sold, and the nature of any ongoing website platform migrations.

Operating Expenses

We categorize net operating expenses as follows:

- Sales and marketing expenses consist primarily of personnel and related costs, including commissions for our sales and marketing employees and the cost of marketing programs and trade show attendance.
- Customer operations and support expenses are composed of our computer hosting operations, software maintenance agreements for our core network and personnel and related costs for operations and support employees.
- Software development and technical support expenses are composed primarily of personnel and related costs; we capitalize certain of these costs in accordance with GAAP, which is discussed below, while the remaining costs are primarily related to technical support and research and development.
- General and administrative expenses primarily consist of personnel and related costs for executive, finance, human resources and administrative personnel, legal and other professional fees and other corporate expenses and overhead.
- Depreciation and amortization expenses consist of depreciation on fixed assets, which are composed of leasehold improvements and information technology assets, and the amortization of acquisition-related intangible assets. Costs associated with the amortization of software products are a component of cost of revenue.

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

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

	Twelve months ended July 31				
	2016	% of Revenue	2015	% of Revenue	% Change
Sales and marketing	$ 10,847	22.7 %	$ 10,427	25.8 %	4.0 %
Customer operations and support	9,940	20.8 %	7,811	19.3 %	27.3 %
Software development and technical support	5,093	10.7 %	4,199	10.4 %	21.3 %
General and administrative	7,056	14.8 %	6,634	16.4 %	6.4 %
Depreciation and amortization (1)	2,407	5.0 %	1,756	4.3 %	37.1 %
Net operating expenses	$ 35,343	74.1 %	$ 30,827	76.2 %	14.6 %

(1) Exclusive of amortization of software product costs of $2,108 and $2,023 for the twelve months ended July 31, 2016 and 2015, respectively, which are included in cost of revenue

Net operating expenses increased 14.6% or $4,516,000 during fiscal 2016, compared to fiscal 2015. The Company acquired the net assets of TCS in September 2014, the net assets of TASCO in April 2015 and the net assets of DCi in July 2015. The increase in net operating expenses was primarily due to the costs necessary to operate the acquired businesses for a full 12 months in fiscal 2016, as compared to the TCS office for only 10 months, the TASCO office for 3 months and the DCi office for part of July in fiscal 2015. Net operating expenses as a percentage of sales decreased from 76.2% in fiscal 2015 to 74.1% in fiscal 2016. This is primarily a result of operational efficiencies and revenue growth. To the extent the Company can leverage growth in its core RR products, management expects net operating expenses to decline as a percentage of total revenues, as incremental costs related to these products decrease for every dollar of new revenue.

Sales and Marketing

Sales and marketing expense increased 4.0% or $420,000 during fiscal 2016, compared to fiscal 2015. The increase was primarily a result of the cost of the sales staff associated with the DCi operation. Sales and marketing expense as a percentage of revenue decreased from 25.8% of revenue in fiscal 2015 to 22.7% for the same period in fiscal 2016. This decrease is due to the growth in our RR base, which requires much less resources to renew. Management expects sales and marketing expense as a percentage of revenue to be flat or down as RR continues to grow.

Customer Operations and Support

Customer operations and support expense increased 27.3% or $2,129,000 during fiscal 2016, compared to fiscal 2015, and as a percentage of revenue increased from 19.3% of revenue during fiscal 2015 to 20.8% during fiscal 2016. The customer operations and support functions of an acquired business typically take longer to fully integrate due to merging software platforms, help desks and customer hosting systems in order to operate more efficiently. Management expects customer operations and support expenses to decline as a percentage of revenue over time, to the extent we continue to integrate these areas into our operations and we supplement labor capacity in our India office, while RR continues to grow.

Software Development and Technical Support

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

Software development and technical support costs increased 21.3% or $894,000 during fiscal 2016 versus fiscal 2015, primarily due to the additional development staff associated with the TCS products and additional capacity related to the Company's continued focus to reduce churn. During fiscal 2016, we capitalized $1,302,000 of software development labor, overhead and interest expense, versus

$1,091,000 during fiscal 2015. In addition to internal capitalized software costs, we had outsourced development costs of $478,000 during fiscal 2016 and $320,000 during fiscal 2015. We devoted much of these resources to a major upgrade of our website products during fiscal 2016.

We expect fluctuations in the percentage of software development and technical support costs classified as operating expenses from period-to-period, based on the mix of research and prototype work versus capitalized software development and professional services activities.

General and Administrative

General and administrative expense increased 6.4% or $422,000 during fiscal 2016, compared to fiscal 2015. The increase was primarily a result of additional headcount from the TCS and DCi acquisitions. General and administrative expense as a percentage of revenue decreased from 16.4% of revenue for fiscal 2015 to 14.8% for the same period in fiscal 2016. Management expects general and administrative expense as a percentage of revenue to decrease over time as we continue to scale the business, although additional acquisitions or other transactions could result in elevated general and administrative expense in future periods.

Other Income and Expense

The table below summarizes the components of other income and expenses for fiscal 2016 and fiscal 2015 (in thousands):

	Twelve months ended July 31		
	2016	**2015**	**% Change**
Interest expense	$ (460)	$ (465)	(1.1)%
Other, net	10	33	(69.7)%
Total other income (expense)	$ (450)	$ (432)	4.2 %

Interest expense is composed of both interest paid on the Company's debt financing arrangements and amortization of non-cash interest charges related to deferred finance costs and imputed interest on contingent liabilities. Interest expense remained relatively unchanged in fiscal 2016 as compared to 2015. This is a result of the Company continuing to pay down outstanding debt balances partially offset by an increase in the Prime Rate of interest. The Company expects interest expense to decrease in fiscal 2017, compared to fiscal 2016, due to the continued pay down of outstanding debt.

Adjusted EBITDA

EBITDA is calculated as net income adjusted to exclude interest expense, amortization, depreciation and income tax expense. Adjusted EBITDA further eliminates non-cash, stock-based compensation expense. Management believes Adjusted EBITDA is helpful in understanding period-over-period operating results separate and apart from non-operating expenses and expenses pertaining to prior period investing activities, particularly given the Company's significant investments in capitalized software and its continuing efforts in completing acquisitions, which typically result in significant non-cash depreciation and amortization expense in subsequent periods. However, Adjusted EBITDA has significant limitations as an analytical tool and should only be used cautiously in addition to, and never as a substitute for, operating income, cash flows or other measures of financial performance prepared in accordance with generally accepted accounting principles and may not necessarily be comparable to similarly titled measures of other companies.

The table below presents the reconciliation of net income to EBITDA and Adjusted EBITDA for fiscal 2016 and fiscal 2015 (in thousands):

	Twelve months ended July 31	
	2016	2015
Net income	$ 1,743	$ 1,071
Interest expense	460	465
Amortization included in cost of sales	2,108	2,023
Depreciation and amortization	2,407	1,756
Income tax expense	1,351	811
EBITDA	$ 8,069	$ 6,126
Stock-based compensation expense	427	446
Adjusted EBITDA	$ 8,496	$ 6,572
Revenue	$ 47,693	$ 40,443
Adjusted EBITDA as a % of revenue	17.8 %	16.3 %

Adjusted EBITDA increased 29.3%, from $6,572,000 during fiscal 2015 to $8,496,000 during fiscal 2016. Adjusted EBITDA as a percentage of revenue increased from 16.3% during fiscal 2015 to 17.8% during fiscal 2016. The increase was primarily due to the improvement in operating income and an increase in depreciation and amortization expense. Management expects Adjusted EBITDA to increase in fiscal 2016, to the extent earnings continue to increase as a result of RR growth.

Acquisitions

On July 13, 2015, the Company acquired substantially all of the assets of DCi, a leading provider of differentiated product content and electronic catalog software serving manufacturers, distributors, jobbers and independent retailers in the AAPS. Consideration for the acquisition included: (i) a cash payment equal to $3,750,000; (ii) 159,795 shares of the Company's common stock; and (iii) the issuance of a promissory note in principal amount of $2,000,000 to DCi. The principal amount of the DCi note was reduced by approximately $64,000 as a result of post-closing adjustments to the estimated valuation of the net assets acquired, pursuant to the terms of the asset purchase agreement.

On April 27, 2015, the Company acquired substantially all of the assets of TASCO Corporation and its affiliated company Signal Extraprise Corporation (collectively "TASCO"), a leading provider of business management software designed exclusively for the automotive tire and wheel aftermarket industry. Consideration for the acquisition included: (i) a cash payment at the closing of the transaction equal to $1,750,000, which was funded through a borrowing on the Company's revolving credit facility; (ii) 242,424 shares of the Company's common stock; and (iii) a $200,000 holdback payable on April 27, 2016. In October 2015, the holdback amount was reduced by approximately $62,000 as a result of post-closing adjustments to the valuation of the net assets acquired, pursuant to the terms of the asset purchase agreement.

On September 30, 2014, the Company acquired substantially all of the assets of TCS, a leading provider of software, websites and digital marketing solutions designed exclusively for dealers, wholesalers, retreaders and manufacturers within the automotive tire and wheel industries. Consideration for the acquisition included (i) a cash payment equal to $4,200,000; (ii) 618,744 shares of the Company's common stock; (iii) the issuance of two promissory notes in aggregate principal amount of $2,933,000 (as adjusted) to the former owners of TCS; and (iv) a contingent earn-out purchase price contingent upon the attainment of specific revenue goals over the first three years following the acquisition. The earn-out, with an original fair value of $711,000, was amended in March 2016 to four quarterly payments of $120,905, which commenced in December 2015, followed by four quarterly payments of $70,000 to commence in December 2016.

The Company's strategy is to integrate the sales teams from acquisitions as quickly as possible in order to realize cross selling synergies. As a result, we do not track revenues and costs specific to the individual acquired businesses.

Income Taxes

The Company has net deferred tax assets of $4,294,000 as of July 31, 2016, primarily consisting of net operating loss carryforwards ("NOLs") and book-to-tax temporary differences. Income tax expense is provided for at the applicable statutory tax rate applied to current U.S. income before taxes, plus or minus any adjustments to the deferred tax assets and to the estimated valuation allowance against deferred tax assets. Income tax expense does not represent a significant current cash obligation, as we continue to have NOLs to offset substantially all of the taxable income.

We had income tax expense of $1,351,000 during fiscal 2016, compared to $811,000 during fiscal 2015. We paid income taxes of $46,000 and $64,000 during fiscal 2016 and 2015, respectively, primarily related to state income taxes and federal statutory alternative minimum taxes. Income tax expense may vary from period to period as we continue to evaluate the valuation allowance against net deferred tax assets.

We also have NOLs related to tax losses incurred by both our Netherlands and India operations. We have determined that, consistent with prior periods, it is not likely that the net operating losses will be utilized and therefore, a full valuation allowance is recorded, resulting in $0 net deferred tax assets related to the Netherlands and India operations at July 31, 2016 and 2015.

Liquidity and Capital Resources

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

	Twelve months ended July 31		
	2016	2015	Change
Net cash provided by operating activities	$ 7,725	$ 6,313	$ 1,412
Net cash used in investing activities	(3,496)	(11,942)	8,446
Net cash provided by (used in) financing activities	(1,381)	6,127	(7,508)
Effect of foreign currency exchange rate changes on cash	(14)	(22)	8
Net change in cash	$ 2,834	$ 476	$ 2,358
Cash at end of period	$ 5,118	$ 2,284	$ 2,834

We generated $2,834,000 of net cash during fiscal 2016, compared to the $476,000 during fiscal 2015. We generated net cash from operating activities of $7,725,000 during fiscal 2016 compared to $6,313,000 during fiscal 2015. This increase in cash generated from operations was primarily due to increased pre-tax profitability, and higher non-cash depreciation and amortization expense as a result of our acquisitions in fiscal 2015.

Cash used in investing activities decreased $8,446,000 during fiscal 2016, compared to fiscal 2015. During fiscal 2015, we paid cash of $4,200,000 as consideration for the TCS acquisition, $1,750,000 as consideration for the TASCO acquisition and $3,750,000 as consideration for the DCi acquisition, while we had no acquisitions in fiscal 2016. These decreases were partially offset by increased investment in equipment and software development costs as we upgraded the equipment in our data centers, built out our India office, invested in an enterprise CRM system and invested more heavily in product improvements. We will continue to invest cash in the business to further our growth strategies previously discussed.

Net cash used in financing activities was $1,381,000 during fiscal 2016, as the Company made payments on its outstanding debt. Net cash provided by financing activities was $6,127,000 in fiscal 2015 as the Company increased its senior debt, as described below, to partially fund the TCS acquisition in September 2014, and generated $4,756,000 from the sale of the Company's common stock pursuant to an underwritten offering.

On May 12, 2015, the Company completed an underwritten offering pursuant to which it sold 1,760,000 shares of its common stock at a price to the public of $3.00 per share. The Company received net proceeds of approximately $4,686,300 from the sale, after deducting underwriting discounts and commissions and estimated offering expenses payable by the Company. The Company used a portion of the net proceeds to fund the DCi acquisition and a portion to repay its outstanding line of credit balance of $1,750,000 incurred in connection with its April 2015 acquisition of TASCO (thus making the line of credit fully available for future transactions).

The Company borrowed an additional $2.1 million on the Silicon Valley Bank ("SVB") term note and $1.5 million on the SVB revolving credit line (each as described below) to partially fund its acquisition of TCS on September 30, 2014. The balance on the revolving credit line was subsequently repaid by the Company. The Company also issued two promissory notes in the aggregate principal amount of $3,000,000 in connection with the TCS acquisition and one promissory note in the principal amount of $2,000,000 in connection with the DCi acquisition.

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

Debt

The Company has a Loan and Security Agreement (the "Agreement") with SVB, pursuant to which SVB extended to the Company credit facilities consisting of a $3,000,000 revolving credit facility with a maturity date of November 30, 2016 and a $6,050,000 term loan with a maturity date of September 30, 2019. In addition to this, the Company has issued several promissory notes in connection with its acquisitions. See Note 4 to the consolidated financial statements for further details.

The following table summarizes the Company's outstanding debt obligations as of July 31, 2016 (in thousands):

Fiscal year ending July 31:	SVB Term Note	TCS Notes	DCi Notes	Total Notes Payable
2017	$ 832	$ 965	$ 621	$ 2,418
2018	1,134	1,014	645	2,793
2019	1,211	261	670	2,142
2020	1,815	—	—	1,815
	$ 4,992	$ 2,240	$ 1,936	$ 9,168

Leases

We lease office space and certain office equipment under capital and operating lease arrangements expiring through 2021. See Note 8 to the consolidated financial statements for further details. The following table shows our remaining obligations under these arrangements as of July 31, 2016 (in thousands):

Fiscal Year Ending July 31:		Capital Leases		Operating Leases
2017	$	58	$	1,101
2018		50		1,004
2019		17		726
2020		—		473
2021		—		364
Thereafter		—		—
Total minimum lease payments		125		3,668
Less amounts related to interest		(12)		—
Net minimum lease payments	$	113	$	3,668

Critical Accounting Policies

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

Revenue Recognition

Revenues from subscription fees for use of our software, access to our catalog content and software maintenance and support fees are all recognized ratably over the contractual term of the arrangement. The Company accounts for delivered elements in accordance with the selling price when arrangements include multiple product components or other elements and vendor-specific objective evidence exists for the value of all undelivered elements. Revenue on undelivered elements is recognized when the elements are delivered. ARI considers all arrangements with payment terms extending beyond 12 months not to be fixed or determinable and evaluates other arrangements with payment terms longer than normal to determine whether the arrangement is fixed or determinable. If the fee is not fixed or determinable, revenue is recognized as payments become due from the customer. Arrangements that include acceptance terms beyond the standard terms are not recognized until acceptance has occurred. If collectability is not considered probable, revenue is recognized when the fee is collected.

For software license arrangements that do not require significant modification or customization of the underlying software, the Company recognizes revenue when persuasive evidence of an arrangement exists, delivery has occurred, the fee is fixed or determinable and collectability is probable.

Revenues for professional services to customize complex features and functionality in a product's base software code or develop complex interfaces within a customer's environment are recognized as the services are performed if they are determined to have stand-alone value to the customer or if all of following conditions are met (i) the customer has a contractual right to take possession of the software; (ii) the customer will not incur significant penalty if it exercises this right; and (iii) it is feasible for the customer to either run the software on its own hardware or contract with another unrelated party to host the software. When the current estimates of total contract revenue for professional services and the total related costs indicate a loss, a provision for the entire loss on the contract is made in the period the amount is determined. Professional service revenues for set-up and integration of hosted websites, or other services considered essential to the functionality of other elements of the arrangement, are recognized over the term of the contract.

Trade Receivables, Credit Policy and Allowance for Doubtful Accounts

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

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

Deferred Income Taxes

The tax effect of the temporary differences between the book and tax basis of assets and liabilities and the estimated tax benefit from tax net operating losses is reported as deferred tax assets and liabilities in the consolidated balance sheet. An assessment of the likelihood that net deferred tax assets will be realized from future taxable income is performed periodically. Because the ultimate realizability of deferred tax assets is highly subject to the outcome of future events, the amount established as a valuation allowance is considered to be a significant estimate that is subject to change in the near term. To the extent a valuation allowance is established or there is a change in the allowance during a period, the change is reflected with a corresponding increase or decrease in the tax provision in the statement of income. Future events that could have a material impact on the valuation allowance include, but are not limited to, acquisitions, triggering a limitation of use under Section 382 of the Internal Revenue Code and changes in tax legislation.

Stock-Based Compensation

We use the Black-Scholes model to value stock options granted. Expected volatility is based on historical volatility of the Company's stock. The expected life of options granted represents the period of time that options granted are expected to be outstanding. The risk-free rate for periods within the contractual term of the options is based on the U.S. Treasury yields in effect at the time of grant. As stock-based compensation expense recognized in our results of operations is based on awards ultimately expected to vest, the amount has been reduced for estimated forfeitures, which were estimated based on our historical experience. Management reviews the critical assumptions used in the Black-Scholes model each quarter and adjusts those assumptions when necessary.

Goodwill and Other Intangible Assets

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

Estimating the fair value of a reporting unit is an inherently subjective process. Changes in assumptions, estimates, and other inputs could result in the indication of potential impairment of a portion of the recorded goodwill. Management believes the assumptions, estimates and other inputs used reflect our best efforts and are appropriate for valuing the reporting unit. Our goodwill impairment test indicated that goodwill was not impaired in fiscal 2016 or fiscal 2015.

Impairment tests are also performed for those intangible assets with estimable useful lives if circumstances indicate that an impairment event may have occurred.

Quarterly Financial Data

The following table sets forth the unaudited results of operations for each of the eight quarterly periods ended July 31, 2016, prepared on a basis consistent with the audited financial statements, reflecting all normal recurring adjustments that are considered necessary. The quarterly information is as follows (in thousands, except per share data):

	1st Quarter		2nd Quarter		3rd Quarter		4th Quarter	
	2016	2015	2016	2015	2016	2015	2016	2015
Net revenues	$ 11,737	$ 9,112	$ 11,752	$ 10,139	$ 11,984	$ 10,280	$ 12,220	$ 10,912
Gross margin	$ 9,668	$ 7,363	$ 9,688	$ 8,277	$ 9,650	$ 8,500	$ 9,881	$ 9,001
Net income (loss)	$ 389	$ 104	$ 448	$ 260	$ 448	$ 339	$ 458	$ 368
Basic and diluted net income per common share:				-				
Basic	$ 0.02	$ 0.01	$ 0.03	$ 0.02	$ 0.03	$ 0.02	$ 0.03	$ 0.02
Diluted	$ 0.02	$ 0.01	$ 0.03	$ 0.02	$ 0.03	$ 0.02	$ 0.03	$ 0.02

Off-Balance Sheet Arrangements

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

Item 7A. *Quantitative and Qualitative Disclosures About Market Risk*

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

Item 8. *Financial Statements and Supplementary Data*

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

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

None.

Item 9A. *Controls and Procedures*

Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures designed to ensure that information required to be disclosed in our reports filed under the Exchange Act, as amended, is recorded, processed, summarized and reported within the required time periods and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow for timely decisions regarding required disclosure.

As required by Rule 13a-15 under the Exchange Act, we have completed an evaluation, under the supervision and with the participation of our management, including the Chief Executive Officer and the Chief Financial Officer, of the effectiveness and the design and operation of our disclosure controls and procedures as of July 31, 2016. Based upon this evaluation, our management, including the Chief Executive Officer and the Chief Financial Officer, has concluded that our disclosure controls and procedures were effective as of July 31, 2016.

Management's Annual Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act. Under the supervision and with the participation of our management, including our Chief Executive Officer and the Chief Financial Officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in Internal Control over Financial Reporting – Guidance for Smaller Public Companies issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our evaluation under this framework, our management concluded that our internal control over financial reporting was effective as of July 31, 2016.

This Annual Report on Form 10-K does not include an attestation report of our independent registered public accounting firm regarding internal control over financial reporting. Internal control over financial reporting was not subject to attestation by our independent registered public accounting firm based on our status as a non-accelerated filer. We are required to provide only management's report in this Annual Report on Form 10-K.

Changes in Internal Controls

There were no changes to the Company's internal control over financial reporting during the year ended July 31, 2016 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Limitations on Effectiveness of Controls and Procedures

Our management, including our Chief Executive Officer and Chief Financial Officer, does not expect that our disclosure controls and procedures or our internal controls will prevent all errors and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected. These inherent limitations include, but are not limited to, the realities that judgments in decision-making can be faulty and that breakdowns can occur because of simple error or mistake.