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 2015 and fiscal 2014, including the notes thereto, which appear elsewhere in this Annual Report on Form 10-K. This discussion contains forward-looking statements, which as previously identified are subject to the safe harbors created under the Securities Act and Exchange Act.

Overview

Fiscal 2015 was a game changing year for ARI, with revenues exceeding $40 million. We acquired three new businesses which are strategic to our operations, which we expect to be accretive to our shareholders and which position us for double digit revenue growth in fiscal 2016. Total revenue increased 22.5% or $7,424,000 during fiscal 2015, over fiscal 2014. Recurring revenue increased 18.1% in fiscal 2015, compared to fiscal 2014, and constituted over 90% of our total revenue for fiscal 2015. The growth in revenue is primarily attributable to revenue from the TCS, TASCO, and DCi acquisitions and organic growth.

Our operating income increased 550.0% or $1,958,000 from $356,000 during fiscal 2014 to $2,314,000 during fiscal 2015. Operating expenses increased 17.3%, or $4,542,000, during fiscal 2015, compared to fiscal 2014, primarily due to the additional costs of our newly-acquired operations.

The Company generated net income of $1,071,000 or $0.07 per share during fiscal 2015, compared to a net loss of $102,000 or ($0.01) per share during fiscal 2014. The increase in both operating and net earnings is primarily due to (i) operational efficiency improvements made in the second half of fiscal 2014; (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 $6,313,000 during fiscal 2015, compared to $2,383,000 during fiscal 2014.

Revenue

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

	Twelve months ended July 31				
	2015	% of Total	2014	Total	% Change
Lead Generation and eCommerce Websites	$ 22,258	55.0 %	$ 17,795	53.9 %	25.1 %
eCatalog Services	13,917	34.4 %	14,042	42.5 %	(0.9)%
Business Management Software	1,955	4.8 %	-	-%	100.0 %
Digital Marketing Services	1,228	3.0 %	449	1.4 %	173.5 %
Other Revenue	1,085	2.7 %	733	2.2 %	48.0 %
Total revenue	$ 40,443	100.0 %	$ 33,019	100.0 %	22.5 %
Recurring revenue	36,483	90.2	30,896	93.6	18.1 %
Non-recurring revenue	3,960	9.8	2,123	6.4	86.5 %
Total revenue	$ 40,443	100.0 %	$ 33,019	100.0 %	22.5 %

Total revenue increased 22.5% or $7,424,000 during fiscal 2015, compared to fiscal 2014. Recurring revenue increased 18.1% or $5,587,000 during fiscal 2015, compared to fiscal 2014. RR represented 90.2% of total revenues during fiscal 2015 versus 93.6% during fiscal 2014. The decline in RR as a percentage of total revenue during fiscal 2015 was related to the mix in revenue related to the TCS and TASCO businesses which, due to some of their perpetually licensed software, has a lower percentage of RR than our historical business, as well as the mix in revenue related to non-recurring professional services in the period.

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 estimate that we currently host and maintain more than 7,000 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 55.0% of total revenue during fiscal 2015. Lead generation and eCommerce website revenue increased 25.1% to $22,258,000 in fiscal 2015, compared to $17,795,000 during fiscal 2014. This increase was a result of both organic revenue growth from our historic lead generation and eCommerce solutions and revenue from our newly-acquired TCS eCommerce website solutions. Since the acquisition of TCS, we have integrated our sales teams related to our eCommerce website products. 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 34.4% of total revenue during fiscal 2015. eCatalog revenue decreased 0.9% or $125,000 during fiscal 2015, compared to fiscal 2014. 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 revenue has declined in fiscal 2015, it continues to drive growth in other areas of the business. Management expects eCatalog revenue to increase in fiscal 2016 due to revenue from our July 2015 acquisition of DCi and low single-digit organic growth.

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. These products were acquired from TASCO and TCS. Business management software revenue was $1,955,000 and represented 4.8% of total revenue during fiscal 2015. Management expects business management software revenue to increase in fiscal 2016, as we recognize revenue from these new products for a full fiscal year, as well as due to organic growth.

Digital Marketing Revenue

Revenues from our digital marketing solutions are generated from set-up fees and subscription fees for our lead generation tools through search engine optimization, social media marketing and website enhancements. We derived approximately 3% of our revenues from digital marketing services during fiscal 2015. Digital marketing revenue increased 173.5% from $449,000 during fiscal 2014 to $1,228,000 during fiscal 2015. This increase was primarily due to revenue for the new digital marketing services acquired from TCS and 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 2.7% of total revenue. Other revenue increased 48.0%, from $733,000 during fiscal 2014, to $1,085,000 during fiscal 2015. The increase in other revenue is primarily due to an increase in our professional services revenue. Revenues from non-recurring professional services will fluctuate from period to period based on the timing of custom projects.

Recurring Revenue

RR is one of the most important growth drivers of our business. Increasing the percentage of our revenues that are recurring, while at the same time reducing the rate of 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 18.1% from $30,896,000 during fiscal 2014 to $36,483,000 during fiscal 2015. The growth in RR was primarily attributable to both the addition of RR from our TCS acquisition and organic growth in our historic lead generation and eCommerce website products. We expect lead generation and eCommerce website RR to continue to be our largest contributor to RR growth in fiscal 2016.

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 increased 86.5% from $2,123,000 during fiscal 2014 to $3,960,000 during fiscal 2015. The increase in non-recurring revenue was primarily due to perpetual license revenue from our newly-acquired business management software and an increase in professional services revenue. 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

We classify as cost of revenue those costs directly attributable to the provision of services. These costs include (i) software amortization, which represents the periodic amortization of costs for internally developed or purchased software sold to customers; (ii) direct labor for the provision of catalog production, product implementations and professional services revenue; and (iii) other direct costs, which represent amounts paid to third-party vendors for data royalties, as well as data conversion and replication fees directly attributable to the services we provide our customers.

	Twelve months ended July 31				
	2015	**% of Revenue**	**2014**	**% of Revenue**	**% Change**
Net revenues	$ 40,443		$ 33,019		22.5 %
Cost of revenues:					
Amortization of capitalized software costs	2,022	5.0 %	2,052	6.2 %	(1.5) %
Direct labor	2,150	5.3 %	2,151	6.5 %	(0.0) %
Other direct costs	3,130	7.7 %	2,175	6.6 %	43.9 %
Total cost of revenues	7,302	18.1 %	6,378	19.3 %	14.5 %
Gross profit	$ 33,141	81.9 %	$ 26,641	80.7 %	24.4 %

Gross profit was $33,141,000 or 81.9% of revenue in fiscal 2015, compared to $26,641,000 or 80.7% of revenue for fiscal 2014. The gross profit margin improvement was due to our RR increasing at faster rate than the costs associated with servicing the RR. Amortization of capitalized software costs as a percentage of revenue decreased during fiscal 2015, compared to last year, primarily due to revenue increasing at a faster rate than software capitalization costs. Direct labor costs as a percentage of revenue decreased during fiscal 2015, compared to last year primarily due to operational efficiencies in our catalog production and website implementation operations. Other direct costs increased as a percentage of revenue during fiscal 2015, compared to fiscal 2014, due to an increase in royalty expense as we expanded our website offerings, as well as subcontracted labor that was used for a portion of our professional services work in the current year. The Company expects fluctuations in gross margin from quarter-to-quarter and year-over-year based on the mix of products sold.

Operating Expenses

We categorize net operating expenses as follows:

- Sales and marketing expenses consist primarily of personnel and related costs, including commissions for our sales and marketing employees, and the cost of marketing programs and trade show attendance;
- Customer operations and support expenses are composed of our computer hosting operations, software maintenance agreements for our core network and personnel and related costs for operations and support employees;
- Software development and technical support expenses are composed primarily of personnel and related costs; we capitalize certain of these costs in accordance with GAAP, which is discussed below, while the remaining costs are primarily related to technical support and research and development;
- General and administrative expenses primarily consist of personnel and related costs for executive, finance, human resources and administrative personnel, legal and other professional fees and other corporate expenses and overhead;
- Depreciation and amortization expenses consist of depreciation on fixed assets, which are composed of leasehold improvements and information technology assets, and the amortization of acquisition-related intangible assets. Costs associated with the amortization of software products are a component of cost of revenue; and
- We allocate certain shared costs among the various net operating expense classifications. Allocated costs include facilities, insurance, 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				
	2015	% of Revenue	2014	% of Revenue	% Change
Sales and marketing	$ 10,427	25.8 %	$ 9,344	28.3 %	11.6 %
Customer operations and support	7,811	19.3 %	6,645	20.1 %	17.5 %
Software development and technical	4,199	10.4 %	2,717	8.2 %	54.5 %
General and administrative	6,634	16.4 %	6,222	18.8 %	6.6 %
Depreciation and amortization (1)	1,756	4.3 %	1,322	4.0 %	32.8 %
Loss on impairment of long-lived assets	—	— %	35	0.1 %	%
Net operating expenses	$ 30,827	76.2 %	$ 26,285	79.6 %	17.3 %

(1) Exclusive of amortization of software product costs of $2,022 and $2,052 for the twelve months ended July 31, 2015 and 2014, respectively, which are included in cost of revenue

Net operating expenses increased 17.3% or $4,542,000 during fiscal 2015, compared to fiscal 2014. 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 TCS office for 10 months, the TASCO office for 3 months and the DCi office for part of July. During January 2014, the Company implemented a 14% reduction in workforce as a result of consolidating operations and other operational efficiencies achieved, primarily in the catalog conversion and website implementation and support areas, which offset the additional operating costs of our recent acquisitions. The Company expensed approximately $300,000 during fiscal 2014 in severance and related costs as a result of this workforce reduction. To the extent the Company can leverage growth in its core RR products, management expects net operating expenses to decline as a percentage of total revenues, as incremental costs related to these products decrease for every dollar of new revenue.

Sales and Marketing

Sales and marketing expense increased 11.6% or $1,083,000 during fiscal 2015, compared to fiscal 2014. The increase was primarily a result of the cost of the sales staff associated with the TCS operation. Sales and marketing expense as a percentage of revenue decreased from 28.3% of revenue in fiscal 2014 to 25.8% for the same period in fiscal 2015. This decrease is due to the growth in our RR base, which requires much less resources to renew, integration of new acquisitions which tend to operate with lower sales costs as a portion of revenue, reduced trade show spend and the impact of the workforce reduction during January 2014. Management expects sales and marketing expense as a percentage of revenue to continue to decline as RR continues to grow.

Customer Operations and Support

Customer operations and support expense increased 17.5% or $1,166,000 during fiscal 2015, compared to fiscal 2014, and as a percentage of revenue decreased from 20.1% of revenue during fiscal 2014 to 19.3% during fiscal 2015. The decrease in customer operations and support expense as a percentage of revenue is primarily related to efficiencies gained as we continue to grow RR, offset in part by costs associated with the acquisitions. Management expects customer operations and support expenses to increase in fiscal 2016 due to the additional costs associated with the acquisitions, but to decline as a percentage of revenue over time, as we continue to integrate these areas into our operations, 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 54.5% or $1,482,000 during fiscal 2015 versus fiscal 2014, primarily due to the additional development staff associated with the TCS products. During fiscal 2015, we capitalized $1,085,000 of software development labor and overhead, versus $1,501,000 during fiscal 2014. In addition to internal capitalized software costs, we had outsourced development costs of $320,000 during fiscal 2015 and $284,000 during fiscal 2014. During fiscal 2015, we devoted resources to several enhancements of our website products and a major new upgrade to our web eCatalog product, but have largely completed our work on AccessorySmart and PartStream products, which contributed to the higher capitalization rate in fiscal 2014.

Direct labor classified as cost of sales was relatively the same at $2,150,000 during fiscal 2015 and fiscal 2014. We had an increase in professional services revenue for which the related additional costs were offset by efficiencies implemented in the catalog conversion and customer implementation and support areas.

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

General and Administrative

General and administrative expense increased 6.6% or $412,000 during fiscal 2015, compared to fiscal 2014. The increase was primarily a result of transaction costs for the TCS, TASCO and DCi acquisitions and additional headcount from these acquisitions. General and administrative expense as a percentage of revenue decreased from 18.8% of revenue for fiscal 2014 to 16.4% for the same period in fiscal 2015. 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 2015 and fiscal 2014 (in thousands):

	Twelve months ended July 31		
	2015	**2014**	**% Change**
Interest expense	$ (465)	$ (286)	62.6 %
Loss on change in fair value of stock warrants	—	(28)	(100.0)%
Gain on change in fair value of contingent liabilities	—	67	(100.0)%
Gain on change in fair value of contingent assets	28	—	100.0 %
Other, net	5	30	(83.3)%
Total other income (expense)	$ (432)	$ (217)	99.1 %

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 increased 62.6% or $179,000 during fiscal 2015, compared to fiscal 2014, due primarily to the additional debt and contingent liabilities resulting from the TCS acquisition. The Company expects interest expense to increase during fiscal 2016, compared to fiscal 2015, due to the debt resulting from the July 2015 acquisition of DCi.

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 2015 and 2014 (in thousands):

	Twelve months ended July 31	
	2015	2014
Net income (loss)	$ 1,071	$ (102)
Interest	465	286
Amortization included in cost of sales	2,023	2,052
Depreciation and amortization	1,756	1,322
Loss on FMV of Warrant Derivatives	-	28
Loss on impairment of long-lived assets	-	35
Income taxes	811	241

EBITDA	$ 6,126	$ 3,862
Stock-based compensation expense	446	560
Adjusted EBITDA	$ 6,572	$ 4,422
Revenue	$ 40,443	$ 33,019
Adjusted EBITDA as a % of revenue	16.3 %	13.4 %

Adjusted EBITDA increased 48.6%, from $4,422,000 during fiscal 2014 to $6,572,000 during fiscal 2015. Adjusted EBITDA as a percentage of revenue increased from 13.4% during fiscal 2014 to 16.3% during fiscal 2015. The increase was primarily due to the improvement in operating income. Management expects Adjusted EBITDA as a percentage of revenue to increase in fiscal 2016, to the extent earnings continue to increase as a result of RR growth and the Company recognizes a full year of earnings related to its recent acquisitions.

Acquisitions

On July 13, 2015, the Company acquired substantially all of the assets of Direct Communications Inc. (DCi), a leading provider of differentiated product content and electronic catalog software serving manufacturers, distributors, jobbers and independent retailers in AAPS. Consideration for the acquisition included: (1) a cash payment equal to $3,750,000; (2) 159,795 shares of the Company's common stock; and (3) the issuance of a promissory note in principal amount of $2,000,000 to DCi, which is subject to a working capital adjustment as set forth in the asset purchase agreement.

On April 27, 2015, the Company acquired substantially all of the assets of TASCO, a leading provider of business management software designed exclusively for the automotive ATW aftermarket industry. Consideration for the acquisition included: (1) a cash payment at the closing of the transaction equal to $1,750,000; (2) 242,424 shares of the Company's common stock; and (3) a $200,000 holdback payable on April 27, 2016, subject to a working capital adjustment as defined in 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 marketing services designed exclusively for the automotive ATW vertical. Consideration for the acquisition included: (1) a cash payment equal to $4,200,000; (2) 618,744 shares of the Company's common stock; (3) the issuance of two promissory notes initially in aggregate principal amount of $3,000,000 to the former owners of TCS. The principal amount of the notes was reduced by $67,000 to $2,933,000 as a result of post-closing adjustments to the valuation of the net assets acquired, pursuant to the terms of the asset purchase agreement; and (4) a contingent earn-out purchase price payable in three potential payments and contingent upon the attainment of specific revenue goals. The earn-out does not have an upper range, however, the payout at 100% per the asset purchase agreement is $933,000 and the estimated fair value is $711,000.

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 $5,490,000 as of July 31, 2015, primarily consisting of net operating loss carryforwards ("NOLs") and book to tax temporary differences. Income tax expense is provided for at the applicable statutory tax rate applied to current U.S. income before taxes, plus or minus any adjustments to the deferred tax assets and to the estimated valuation allowance against deferred tax assets. Income tax expense, if any, does not represent a significant current cash obligation, as we continue to have NOLs to offset substantially all of the taxable income.

We had income tax expense of $811,000 during fiscal 2015, compared to $241,000 during fiscal 2014. We paid income taxes of $64,000 and $106,000 during fiscal 2015 and 2014, respectively, primarily related to statutory alternative minimum taxes. Income tax expense may vary from period to period as we continue to evaluate the valuation allowance against net deferred tax assets.

We also have NOLs related to tax losses incurred by our Netherlands operation. We have determined that, consistent with prior periods, it is not likely that the net operating losses will be utilized and therefore, a full valuation allowance is recorded, resulting in $0 net deferred tax assets related to the Netherlands operation at July 31, 2015 and 2014.

Liquidity and Capital Resources

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

	Twelve months ended July 31		
	2015	2014	Change
Net cash provided by operating activities	$ 6,313	$ 2,383	$ 3,930
Net cash used in investing activities	(11,942)	(2,818)	(9,124)
Net cash provided by financing activities	6,127	51	6,076
Effect of foreign currency exchange rate changes on cash	(22)	(3)	(19)
Net change in cash	$ 476	$ (387)	$ 863
Cash at end of period	$ 2,284	$ 1,808	$ 476

We generated $476,000 of net cash during fiscal 2015, compared to the utilization of $387,000 during fiscal 2014. We generated net cash provided by operating activities of $6,313,000 during fiscal 2015 compared to $2,383,000 during fiscal 2014. This increase in cash generated from operations was primarily due to increased pre-tax profitability, and an increase in revenue from cash collected in the period rather than from realization of deferred revenue, which had resulted from cash collected in prior periods.

Cash used in investing activities increased $9,124,000 during fiscal 2015, compared to fiscal 2014. 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. In addition, we paid $250,000 for a contingent liability from a previous acquisition, capitalized $1,411,000 of software development costs, purchased technology and equipment of $692,000 and received $111,000 from an earn-out receivable, during fiscal 2015. During fiscal 2014, we paid net cash of $490,000 in acquisition related investments, capitalized $1,798,000 of software development costs and acquired technology equipment of $658,000. We will continue to invest cash in the business to further our growth strategies previously discussed.

Net cash provided from financing activities was $6,127,000 during fiscal 2015, as the Company increased its senior debt, as described below, to partially fund the TCS acquisition in September 2014, and generated $4,834,000 from the sale of the Company's common stock pursuant to an underwritten offering. Net cash provided by financing activities was $51,000 in fiscal 2014.

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 Silicon Valley Bank ("SVB"), pursuant to which SVB extended to the Company credit facilities consisting of a $3,000,000 revolving credit facility with a maturity date of September 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, 2015 (in thousands):

	SVB Term Note	TCS Notes	DCi Notes	Total Notes Payable
2016	$ 605	$ 733	$ —	$ 1,338
2017	832	978	640	2,450
2018	1,134	978	666	2,778
2019	1,210	244	694	2,148
2020	1,815	—	—	1,815
	$ 5,596	$ 2,933	$ 2,000	$ 10,529

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, 2015 (in thousands):

Fiscal Year Ending July 31:	**Capital Leases**	**Operating Leases**
2016	$ 179	$ 994
2017	58	900
2018	50	834
2019	17	632
2020	—	507
Thereafter	—	364
Total minimum lease payments	304	4,231
Less amounts related to interest	(24)	—
Net minimum lease payments	$ 280	$ 4,231

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 amortized 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 2015 or fiscal 2014.

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, 2015, 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	
	2015	2014	2015	2014	2015	2014	2015	2014
Net revenues	$ 9,112	$ 8,160	$ 10,139	$ 8,135	$ 10,280	$ 8,176	$ 10,912	$ 8,548
Gross margin	$ 7,363	$ 6,600	$ 8,277	$ 6,449	$ 8,500	$ 6,616	$ 9,001	$ 6,976
Net income (loss)	$ 104	$ 25	$ 260	$ (461)	$ 339	$ 160	$ 368	$ 174
Basic and diluted net income per common share:				-				
Basic	$ 0.01	$ 0.00	$ 0.02	$ (0.03)	$ 0.02	$ 0.01	$ 0.02	$ 0.01
Diluted	$ 0.01	$ 0.00	$ 0.02	$ (0.03)	$ 0.02	$ 0.01	$ 0.02	$ 0.01

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.