

ARI NETWORK SERVICES INC /WI

Form 10-K

October 29, 2015

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

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

For the fiscal year ended  
July 31, 2015

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

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For the transition period  
from        to

Commission File Number 000-19608

ARI Network Services, Inc.

(Exact name of registrant as specified in its charter)

WISCONSIN (State or other jurisdiction or organization)	39-1388360 (IRS Employer Identification No.)
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10850 West Park Place, Suite 1200,

Milwaukee, Wisconsin (Address of principal executive office)	53224 (Zip Code)
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(414) 973-4300

Registrant's telephone number, including area code

Securities registered pursuant to Section 12(b) of the Act:

Name of each exchange

Title of each class    on which registered

Common Stock, par value

\$0.001 per share	NASDAQ Capital Market
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Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act  
Yes    No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Exchange Act. Yes No

Indicate by check mark whether the registrant (1) filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by checkmark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).  
Yes No

Indicate by check if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (S229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Non-accelerated filer

(Do not check if a smaller reporting company)

Accelerated filer

Smaller reporting company

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

Yes      No

The aggregate market value of the common stock held by non-affiliates of the registrant, based on the closing price of the registrant's common stock on January 30, 2015 as reported on the NASDAQ Capital Market, was \$28,000,000.

As of October 23, 2015, there were 17,169,523 shares of the registrant's shares outstanding.

2

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ARI Network Services, Inc.

FORM 10-K

FOR THE FISCAL YEAR ENDED JULY 31, 2015

INDEX

	Page
PART I	
Item 1 <u>Business</u>	4
Item 1A <u>Risk Factors</u>	11
Item 2 <u>Properties</u>	15
	<u>Legal</u>
Item 3 <u>Proceedings</u>	15
	<u>Mine Safety</u>
Item 4 <u>Disclosures</u>	16
PART II	
	<u>Market for</u>
	<u>Registrant's</u>
	<u>Common</u>
	<u>Equity, Related</u>
	<u>Stockholder</u>
	<u>Matters and</u>
	<u>Issuer</u>
	<u>Purchases of</u>
	<u>Equity</u>
Item 5 <u>Securities</u>	16
	<u>Selected</u>
Item 6 <u>Financial Data</u>	16
	<u>Management's</u>
	<u>Discussion and</u>
	<u>Analysis of</u>
	<u>Financial</u>
	<u>Condition and</u>
	<u>Results of</u>
Item 7 <u>Operations</u>	16
	<u>Quantitative</u>
	<u>and Qualitative</u>
	<u>Disclosures</u>
	<u>about Market</u>
Item 7A <u>Risk</u>	26
	<u>Financial</u>
	<u>Statements and</u>
	<u>Supplementary</u>
Item 8 <u>Data</u>	26
Item 9	26

	<u>Changes In and Disagreements With Accountants on Accounting and Financial Disclosure Controls and</u>	
Item 9A	<u>Procedures</u>	26
	<u>Other</u>	
Item 9B	<u>Information</u>	27
PART III		
	<u>Directors, Executive Officers, and Corporate</u>	
Item 10	<u>Governance</u>	27
	<u>Executive</u>	
Item 11	<u>Compensation</u>	27
	<u>Security</u>	
	<u>Ownership of Certain Beneficial Owners and Management and Related Stockholder</u>	
Item 12	<u>Matters</u>	27
	<u>Certain Relationships and Related Transactions and Director</u>	
Item 13	<u>Independence</u>	27
	<u>Principal Accountant Fees and</u>	
Item 14	<u>Services</u>	27
PART IV		
Item 15	<u>Exhibits</u>	28
	<u>Signatures</u>	30
	<u>Report of Independent Registered Public Accounting Firm Consolidated Financial Statements</u>	
		31
		31



This Annual Report on Form 10-K, including the section titled “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in Item 7, contains forward-looking statements regarding future events and our future results that are subject to the safe harbors created under the Securities Act of 1933 (the “Securities Act”) and the Securities Exchange Act of 1934 (the “Exchange Act”). All statements other than statements of historical facts are statements that could be deemed to be forward-looking statements. These statements are based on current expectations, estimates, forecasts, and projections about the markets in which we operate and the beliefs and assumptions of our management. Words such as “expects,” “anticipates,” “targets,” “goals,” “projects,” “intends,” “plans,” “believes,” “seeks,” “estimates,” “endeavors,” “strives,” “may,” variations of such words, and similar expressions are intended to identify such forward-looking statements. In addition, any statements that refer to projections of our future financial performance, our anticipated growth and trends in our businesses, and other characterizations of future events or circumstances are forward-looking statements. Readers are cautioned that these forward-looking statements are only predictions and are subject to risks, uncertainties, and assumptions that are difficult to predict, estimate, or verify, including those identified below under “Item 1A. Risk Factors” and elsewhere herein. Therefore, actual results may differ materially and adversely from those expressed in any forward-looking statements. We undertake no obligation to revise or update any forward-looking statements for any reason.

## PART I

### Item 1. Business

#### Overview

ARI Network Services, Inc. offers an award-winning suite of data-driven software tools and marketing services to help dealers, equipment manufacturers and distributors in selected vertical markets Sell More Stuff!™ – online and in-store. Our innovative products are powered by a proprietary data repository of enriched original equipment and aftermarket electronic content of OEM parts, aftermarket parts, garments and accessories (“PG&A”) and whole goods from more than 1,800 manufacturers. Business is complicated, but we believe our customers’ technology tools don’t have to be. We remove the complexity of selling and servicing new and used whole goods inventory, and PG&A for customers in the automotive tire and wheel aftermarket (“ATW”), automotive aftermarket parts and service (“AAPS”), powersports, outdoor power equipment (“OPE”), marine, home medical equipment (“HME”), recreational vehicles (“RV”) and appliance industries. More than 23,500 equipment dealers, distributors and manufacturers worldwide leverage our web and eCatalog platforms to Sell More Stuff!™

We were incorporated in Wisconsin in 1981. Our principal executive office and headquarters is located in Milwaukee, Wisconsin. The office address is 10850 West Park Place, Suite 1200, Milwaukee, WI 53224, and our telephone number at that location is (414) 973-4300. Our principal website address is [www.arinet.com](http://www.arinet.com). ARI also maintains operations in Cypress, California; Floyds Knobs, Indiana; Des Moines, Iowa; Duluth, Minnesota; Wexford, Pennsylvania; Cookeville, Tennessee; Salt Lake City, Utah; and Leiden, The Netherlands.

In July 2015, we acquired the assets of Direct Communications Incorporated, (“DCi”). DCi has the largest sales and data network for performance and accessory parts in the AAPS market. DCi has nearly 20 years of cataloging experience, and DCi’s proprietary data repository has more than 165 million vehicle fitments in use by over 80,000 aftermarket businesses.

#### Our Solutions



We offer software as a service (“SaaS”) and data as a service (“DaaS”) solutions to help our customers Sell More Stuff!™ both online and in-store. Our primary solutions include: (i) Lead Generation and eCommerce Websites, which provide a web presence for dealers and wholesalers, and serve as a platform for driving leads and eCommerce sales; (ii) eCatalogs, which drive sales of inventory and PG&A at the dealer’s parts counter, their online website and other sources through parts lookup of our proprietary data repository; (iii) business management software designed to streamline every aspect of a dealer’s operation, drive profitability, and allow them to provide better customer service; and (iv) digital marketing solutions designed to generate leads and drive traffic both to the dealer’s website and brick-and-mortar location.

Our solutions also improve our customers’ overall customer satisfaction through a highly efficient and accurate data lookup experience at the parts counter and a quicker response time to online inquiries, both of which serve to significantly improve a customer’s overall experience with the dealer.

Our SaaS and DaaS solutions are sold through our internal sales force and are composed primarily of recurring licenses and subscriptions and, in the case of business management software, perpetual licenses and maintenance contracts. Customers typically sign annual, auto-renewing contracts. Today, approximately 90% of our revenues are recurring.

## Lead Generation and eCommerce Websites

Our eCommerce-enabled website solutions provide consumers with information about a dealership and its product lines through our extensive library of electronic catalog content and allow consumers to obtain information on whole goods and purchase PG&A via the dealer's website 24 hours a day, 7 days a week. Our website solutions are tailored to each of the vertical markets we serve and tightly integrated with our electronic library of inventory and PG&A content. We offer a full menu of website add-ons including a mobile inventory management application, third-party inventory integrations and business management integrations. Our lead generation tools are designed to efficiently manage and nurture generated leads through email campaigns, automated responses, sales team reminders, and other lead generating activities, increasing conversion rates and ultimately revenues for our customers.

Websites are sold through our inside sales teams, which are aligned by vertical market. The sales process will typically include a live demo of the site and may even include a free trial period (we refer to these as "test drives"). We typically charge a nominal, one-time set-up fee to develop a new dealer website, monthly recurring subscription fees and variable transaction fees. Our website solutions are typically sold under one year, renewable contracts with monthly payment terms. We estimate that as of July 31, 2015, we host and maintain more than 7,000 websites for dealers across all of our vertical markets.

## eCatalog Platform Solutions

Our eCatalog solutions leverage our industry-leading library of electronic whole goods and PG&A content to allow manufacturers, distributors, dealers and consumers to view and interact with this information to efficiently support the sales and service of equipment either in-store or online. We offer a variety of both DaaS and SaaS eCatalog products tailored to the specific industries we serve.

Our eCatalog solutions are sold through our dedicated internal sales team. Fees charged for the use of our eCatalog products include a recurring license fee, subscription fees for subscribed catalogs and, in some cases, page view fees.

## Business Management Software

Our business management software solutions are designed to streamline every aspect of a dealer's operations to allow them to provide improved customer service. These products are sold through our dedicated internal sales team, and fees charged include perpetual one-time license or installation fees, maintenance and support fees, as well as hosting fees for our SaaS version. These solutions are a new offering, as a result of our acquisitions of Tire Company Solutions, LLC (TCS) in September 2014 and TASC Corporation (TASCO) in April 2015, and are currently only offered in the ATW aftermarket.

## Digital Marketing Services

ARI complements our suite of data-driven software tools with digital marketing services that deliver the engaging experiences that today's consumers demand. ARI's digital marketing services include search engine optimization, email marketing, social media management, search engine marketing ("PPC"), online reputation management and online directory management to help dealers drive more online leads, eCommerce sales and in-store traffic.

## Other Solutions

We also offer a suite of complementary solutions, which include software, website customization, professional services and hosting services.

## Our Growth Strategy

ARI's goal is to become the leading provider of SaaS and DaaS solutions that help our customers efficiently and effectively sell more major units, replacement parts, accessories and service – in other words, to Sell More Stuff!™ Our continued goal is to grow revenues at a double-digit rate and to grow earnings through scalability. We will accomplish this goal by deploying our solutions to dealers, distributors, manufacturers, service providers, and consumers in selected vertical markets where the finished goods are complex equipment, requiring service, that are primarily sold and serviced through an independent dealer channel. We believe this strategy will drive increased value to our shareholders, employees, and customers.

We also believe the execution of the following strategic pillars will enable us to achieve the growth and profitability needed to drive long-term sustainable value for our shareholders. These strategic foundations are primarily centered on enhancing the value proposition to our customers, which will lead to additional revenues through pricing actions, product and feature upsells, reduced

customer churn rates, and expansion by leveraging our core competencies in new complementary markets. Each of these strategic pillars is a long-term foundation for growth; within each we have established near-term goals, as discussed below.

Drive organic growth through expanded service offerings to grow both our subscriber customer base and our average revenue per dealer.

As a subscription-based, recurring revenue (RR) business, the most important drivers of future growth are nurturing and defending our customer base, developing and selling additional products to our existing customer base, and acquiring new customers. We define RR as revenue from products and services which are subscription-based and renewable, including software access fees, data content fees, maintenance and support fees and hosting fees. We define churn as the percentage of RR that does not renew. In fiscal 2015, our RR increased 18.1% over fiscal 2014 and the percentage of our total revenues that were RR were over 90% in both years. To improve on these results, we will continue to:

Develop and deploy innovative new solutions. We have resources assigned to each of our core products that continue to research and develop new value-added features and functionality for our existing products. The introduction of new solutions, upgrades to existing products, and new feature sets are all designed to grow our average revenue per dealer (“ARPD”), an important measure for a subscription-based business, and the increase in our customer base serves to quickly compound the benefits of an increased ARPD. This fiscal year, we released a number of new features, upgrades and products including the following:

#### Web Platforms

- o We developed an all-new whole goods shopping experience, delivering one of the most advanced unit inventory browsing experiences in the market, which includes convenient search and filtering capabilities that rival the leading independent shopping portals.
- o We released the first smartphone and tablet application for iOS and Android in the market that enables dealers to manage all of their unit inventory directly from the app, including adding units, taking photos, managing promotions, and pushing inventory to third party channels such as eBay Motors and Craigslist.
- o We released a new auto-quote response feature for ATW products that automatically emails interested consumers current pricing information upon receipt of a quote request.
- o We released a localized version of the ATW product, which allows the language to be in French. The product was stream-lined to allow for additional languages to be added with minimal development effort.
- o We partnered with a third-party vendor to release ARI Inventory, an add-on feature to our websites that enables dealers to automatically push inventory listings from their website to third-party channels such as Craigslist and eBay Motors, as well as to their social media channels.
- o We developed and released an all-new tire shopping experience, which presents consumers with targeted tire recommendations for their unique vehicle based on various key decision criteria, such as expert recommendations, best warranty, best promotion, lowest price, as well as significantly reducing the number of steps required to submit a quote, which resulted in an almost 50% increase in leads to our dealers.
- o We developed additional integrations to leading credit card processors, as well as additional integration points for third parties to integrate with our software to streamline order processing.
- o We developed integrations to three additional leading business management systems in the marine, powersports, and outdoor power markets, enabling dealers to seamlessly integrate online orders and unit inventory between the

web platform and business system.

- o We launched a new Premium Directory Management upsell solution that scans and enhances dealership listings across more than 100 online directories, as well as Google My Business, to drive improved local search performance and drive more customer traffic.
- o We authored additional market-specific content and released new features on the Endeavor website platform to serve the outdoor power and marine vertical markets, leading to more than 30% YoY sales growth in those verticals.

#### eCatalog Platforms

- o We developed a major update to our PartSmart Web® platform, delivering a series of market-driven enhancements and innovations, including a streamlined user experience, dynamic diagram thumbnail previews, and fast moving parts tracking and display by unit.

6

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- o We released an expanded DataSmart® product offering that provides key product data extract access, in addition to on-demand application programming interface access, to offer additional flexibility for implementation with various eCommerce software and search engine optimization (“SEO”) customization capabilities.
- o We developed a new SEO plugin for our AccessoryStream® product, helping to bolster the search engine ranking of parts, garments, and apparel products on website running on the PHP framework. This release complements a previous release of the same tool for the .NET framework.
- o We completed a partnership and integration of our DaaS offering with Channel Advisor, the leader in multi-channel eCommerce, to help dealers utilize our data to automatically place product sales listings on Amazon and eBay.
- o We developed an import utility for Data Manager, our OEM parts authoring software, that seamlessly imports SOLIDWORKS® Composer™ SVG files to significantly reduce data authoring time for our manufacturer customers. These product enhancements were designed to automate and enhance the marketing, sales and servicing activities for our customers, in order to help them sell and service more parts, garments, accessories and whole goods.

· Differentiate our content. We believe we have the largest library of replacement part, major unit, and PG&A content in the vertical markets we serve. This fiscal year, we authored five new OEM parts catalogs and we added seven new product catalogs to our library, encompassing more than 40,000 new items. However, simply offering the largest content library in the markets we serve is not sufficient to drive the long-term revenue growth we desire. We strive to deliver more value to our customers through enrichment of our content. Content enrichment can take several forms, including the incorporation of user reviews and feedback into our existing content, further enhancing content provided to us by our OEM customers, and creating new forms of content that further our customers’ ability to efficiently service and sell more whole goods and PG&A.

- o This fiscal year, our enrichment activities included the addition of over 230,000 new part-to-unit fitments and 115,000 new product attributes.

- o We substantially expanded the level of enrichment of our tire product information with the addition of 11 new performance and quality classifications to better aid the shopping experience, such as dry handling, wet handling, snow traction and braking.

- o We have also continued integrating analytic tools into several of our products, offering value-added feedback to our customers and channel partners to help them Sell More Stuff!™

· Enter new markets. ARI currently maintains a significant share in our core vertical markets of OPE, powersports, marine, RV and appliances. Accordingly, we anticipate low single-digit growth in these markets. ARI maintains a lower share in our growth vertical markets of HME, ATW, and AAPS. Accordingly, we anticipate double-digit growth in these markets. As we continue to increase our share in our current markets, leveraging our technology in new and underserved markets will be important to maintaining substantial organic growth rates. Including the acquisition of TCS, ARI currently has more than 3,000 dealer websites in the ATW market. We estimate that the total market approximates 18,000 dealers. Further, the broader AAPS market, which we entered via our acquisition of DCi, comprises nearly 80,000 independent service providers, more than all of our other markets combined. We intend to continue to invest heavily in this growth market, including seeking opportunities to leverage our products and services in the broader AAPS. We are one of the first website providers to service the HME market. We estimate that this market comprises nearly 25,000 service providers, and believe the market to be in an early stage with respect to eCommerce adoption. We recently invested in dedicated resources designed to expedite our growth in this market.

· Expand geographically. Although we maintain relationships with dealers throughout the world, we have low penetration into international markets. Growing our international business will require us to secure and publish electronic content from OEMs outside the U.S. and make changes to our existing products that will allow us to rapidly deploy these products in a scalable and efficient manner, without the need to have “boots on the ground” in

those countries. During fiscal 2014 and 2015, we added 15 new catalog content offerings in the international outdoor power equipment market.

Nurture and retain existing customers through world-class customer service and value-added product feature updates.

In order to achieve sustained double-digit organic growth, we not only need to execute the growth strategies described above, we must also retain our existing customers. In a SaaS business, the cost to retain an existing customer is much less than the cost to acquire a new customer. Accordingly, customer churn is an important metric we track and manage. We experienced improvements in our churn rates the past several years as a result of strategic actions taken by the Company, all of which are designed to enhance the “stickiness” of our product within our customers’ operations. In fiscal 2015, we did experience an increase in customer churn from 12.6% in fiscal 2014 to 15.5%. The increase was due to the termination of a bulk license arrangement with an OEM, price increases for some legacy customers who had heavily discounted pricing, and the growth in website revenue which tends to have a higher churn rate. We will continue to leverage our relationships with existing customers and closely monitor and manage the level of customer churn.

Lead the market with open integration to related platforms.

One of our strategic advantages is our focus on integrating our solutions with dealer business management systems (“DMS”) in order to pass key information, including customer and transactional data, between our solutions and the DMS, saving our customers valuable time and eliminating redundant data entry. We currently have integration capabilities with over 90 DMS’s (we refer to these relationships as “Compass Partners”), and we continue to seek other strategic alliances that can be integrated with our product and service offerings.

Successfully execute acquisitions that align with our core strategy

Since 1995, we have had a formal corporate development program aimed at identifying, evaluating, and closing acquisitions that align with our strategy. We focus on vertically-oriented markets with a large base of independent, multi-line dealers that sell and service complex equipment. Our strategy is to acquire companies that have one or more of the following attributes: (i) expand our market share in existing verticals; (ii) expand into new markets that fit our desired profile; (iii) provide us with complementary products which can be cross-sold to our existing customer base; (iv) provide opportunities to cross-sell our existing products; and (v) can be integrated into our operations, thereby creating cost-saving synergies.

Since the program’s inception until the end of fiscal 2015, we have closed 16 acquisitions. A summary of some of our most recent acquisitions is as follows:

Acquisition	Date	Strategy
Direct Communications Inc.	July 2015	A leading provider of electronic catalog and content in the AAPS industry
	April 2015	



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TASCO Corporation (and affiliated Signal Extraprise Corporation)		Extend business management software platform in the ATW market
Tire Company Solutions, LLC	September 2014	Consolidate website position and add new business management software in the ATW market
DUO Web Solutions	November 2013	A leading provider of social media and online digital marketing services in the powersports industry
50 Below Sales & Marketing, Inc. (Retail Division)	November 2012	A market leader in the powersports industry
Ready2Ride, Inc.	August 2012	Entrance into ATW and DME industries New award-winning website platform First of its kind aftermarket fitment data for the powersports industry

During fiscal 2015, we completed the following 3 acquisitions which have aligned with our acquisition strategy:

- Our acquisition of TCS not only cemented our position as one of the largest suppliers of eCommerce solutions in the ATW market, but also provided a new business management software product for retailers, wholesalers, and rereaders in the ATW and AAPS markets.
- Our acquisition of TASCO has extended our position as a business management system leader in the ATW market, including expanded software dedicated to solving the unique needs of large, multi-location franchised businesses.
- Our acquisition of DCi accelerated our entry into the AAPS market. DCi is a leading provider of differentiated product content and electronic parts catalog software serving manufacturers, distributors, jobbers, and independent retailers in the AAPS.

## Our Competitive Strengths

### Market Leader in Core Verticals

We believe that we are one of the leaders in each of our core vertical markets. More than 23,500 equipment dealers, distributors and manufacturers worldwide leverage our web and eCatalog platforms, which allows us to cost-effectively leverage our published catalog content into a large and diversified customer base and to launch new product enhancements and technology-enabled solutions to this customer base.

### Breadth and Depth of Published Content

The breadth and depth of our catalog content, as well as our ability to enhance and efficiently publish manufacturers' PG&A data as it becomes available, provides ARI with a critical competitive advantage and represents a high barrier to entry for potential new competitors. Our eCatalog content enables multi-line dealers to easily access catalog content for multiple manufacturers using a single software platform. This advantage, which saves our customers significant time, provides "stickiness" to our catalog customer base that allows us to efficiently and cost effectively nurture our existing customers while devoting resources to develop new products and services, enabling us to grow our overall customer base as well as ARPD.

### Recurring Revenue Model

During fiscal 2015, approximately 90% of our revenue was subscription-based and RR. The majority of our customers are on contracts of 12 months or longer, and these contracts typically auto-renew for additional 12-month terms. This provides us with advanced visibility into our future revenues and opportunities to sell additional services to our customers. Our RR model also emphasizes the importance of maintaining a low rate of customer churn, one of the key financial drivers of any SaaS business. We closely monitor customer churn and the reasons we may lose customers, so that we can take action on those reasons that are within our control in order to reduce churn rates in the future.

Our RR model, when combined with low rates of customer churn, significantly reduces the cost to maintain and nurture our customer base. This, in turn, frees up resources to enhance our existing products and work toward new revenue-generating product innovations. Additionally, a substantial portion of our eCatalog business is focused on our customers' service and repair operations. This allows our revenues to remain strong even in a down economy, as consumers tend to repair their equipment rather than buy new equipment during challenging economic times.

### Suite of Products Covers Entire Sales and Service Cycle

Our suite of dealer products and services and eCommerce capabilities enhance our customers' front office operations by covering the entire sales cycle, from lead generation and lead management, to sales of whole goods and PG&A to the consumer, to billing and collections, both in-store and online. Our eCatalog products allow dealers to efficiently service and repair equipment.

We believe that our competitive advantages will enable us to compete effectively and sustainably in our vertical markets, although given the current pace of technological change, it is possible that as yet unidentified competitors could emerge, existing competitors could merge and/or obtain additional capital, thereby making them more formidable, or new technologies could come on-stream and potentially threaten our position.

## Our Markets and the Challenges We Face

Competition for our products and services varies by product and by vertical market. We believe that no single competitor today competes with us on every product and service in each of our industry verticals. In eCatalogs, we compete primarily with Snap-on Business Solutions, which designs and delivers eCatalogs, accessory sales tools, and manufacturer network development services, primarily to the automotive, powersports, and OPE markets. In addition, there are a variety of smaller companies focused on one or two specific industries.

In lead management, websites and eCommerce, our primary competitor is PowerSports Network, owned by Dominion Enterprises. We also compete with CDK Global in the powersports, marine and RV markets, and with Net Driven in the ATW market. Competition for our website development services also comes from in-house information technology groups that may prefer to build their own web-based proprietary systems, rather than utilizing our proven industry solutions. There are also large, general market eCommerce companies, such as IBM, which offer products and services that could address some of our customers' needs. These general eCommerce companies do not typically compete with us directly, but they could decide to do so in the future. We believe we maintain a competitive advantage in our core vertical markets given the breadth and integration of our published catalog content into our lead management and website products.

Several of the markets we serve, including powersports, marine and RV, are closely aligned with the state of the economy, given the luxury nature of the products in those verticals. Our customer churn rates have shown improvement in these markets over the past several fiscal years. However, future economic downturns could have a significant impact on our business as a downturn could lead to an increase in customer churn in these markets due to manufacturer bankruptcies, dealer closures, and extreme cost reduction measures by our dealers. It is also important to note that the effects of a difficult economic environment may be somewhat softened, relative to other product and service providers to the markets, by the consumers' willingness in a down economy to repair existing equipment rather than purchase new equipment, which serves to amplify the importance of our published parts content provided to customers via our catalog parts lookup products and our website products.

### Intellectual Property

We rely on various intellectual property laws in the United States and other jurisdictions as well as confidentiality procedures and contractual provisions to protect our proprietary technology and our brand. We also enter into confidentiality and proprietary rights agreements with our employees, consultants, and other third parties, and control access to software, documentation, and other proprietary information. We have numerous registered trademarks in the U.S. and elsewhere.

### Employees

As of July 31, 2015, we had 387 full-time equivalent employees ("FTE's") and a total of 397 employees. Of these FTE's, 181 are involved in customer operations and support, 121 are in sales and marketing, 55 are engaged in maintaining or developing software and providing software customization services, and 30 are involved in general and administration functions. None of these employees are represented by a union.

### Fiscal Year

ARI's fiscal year ends on July 31st. Any references throughout this document to "2015" or "fiscal 2015" and "2014" or "fiscal 2014" refer to the fiscal years ended July 31, 2015, and July 31, 2014, respectively.

### Executive Officers of the Registrant

The table below sets forth the names of ARI's executive team as of October 20, 2015. The executives serve at the discretion of the Board of Directors.

Name	Age	Capacity Served
Roy W. Olivier	56	President, Chief Executive Officer and Director
William A. Nurthen	42	Vice President of Finance, Chief Financial Officer, Secretary and Treasurer
Robert A. Ostermann	36	Chief Technology Officer
Bradley J. Smith	33	Vice President, Product Management

Robert A. Jones      44      Vice President, Sales

Roy W. Olivier

Olivier was appointed President and Chief Executive Officer of the Company in May 2008, after having served in the capacity of Vice President of Global Sales and Marketing of the Company since September 2006. Prior to joining ARI in 2006, Olivier was a consultant to start-up, small and medium-sized businesses. Prior to that, he was Vice President of Sales and Marketing for ProQuest Media Solutions, a business he founded in 1993 and sold to ProQuest in 2000. Before that, Olivier held various sales and marketing executive and managerial positions with several other companies in the telecommunications and computer industries, including Multicom Publishing Inc., Tandy Corporation, BusinessLand, and PacTel.

William A. Nurthen

Nurthen was appointed Vice President of Finance and Chief Financial Officer of ARI in November 2013, when he joined the Company. Nurthen also serves as Treasurer and Corporate Secretary. Prior to joining ARI, Nurthen served as CFO of Cabrera Capital Markets, LLC, an investment banking firm from 2011-2013. Prior to that, he served in a variety of high-level financial leadership positions including CFO of bioLytical Laboratories from 2008-2011. From 1999 to 2007, Nurthen served in various financial roles at Inforte Corp., a NASDAQ company, including Vice President of Finance and eventually CFO. From 1997 to 1999, Nurthen worked in various financial operations roles at Platinum Technology International, Inc., a software and consulting company. Nurthen earned his B.A. from The University of Notre Dame in 1995 and his MBA from The Kellogg School of Management at Northwestern University in 2002.

Robert A. Ostermann

Ostermann was appointed Chief Technology Officer of ARI in August 2012, after having served as Executive Director of Technology since November 2011 and prior to that Director of Product Engineering since joining the Company in June 2008. Prior to joining ARI, Ostermann served in various technology management and development roles at Parcel Pro Inc. in Torrance, California, and The California Breath Clinics in Los Angeles, California from 2003-2008. Prior to that, he was lead developer at OC-Net, Inc., a company we acquired in January 2008, in Cypress, California. Ostermann earned a B.S. in Business Administration, Computer Information Systems from California State University.

Bradley J. Smith

Smith was appointed Vice President of Product Management in February 2014, leading the Company's innovative product strategy. Prior to this, Smith served as Director of Product Management, and prior to that, served various web development positions since joining the Company in July 2007. Prior to joining ARI, Smith served in the U.S. Army from 2000 to 2006. Smith holds a double B.A. in Web/Technology Development and Spanish from the University of Wisconsin-Stevens Point in 2007, and an MBA from the University of Wisconsin-Eau Claire in 2012.

Robert A. Jones

Jones was appointed Vice President of Sales in August 2014, after having served as Director of Sales since November 2013, when he joined the Company. Prior to joining ARI, Jones served as Director of Retail Sales at 50 Below Sales and Marketing, Inc. from February 2010 to November 2013. Prior to that, Jones spent 25 years in the Hospitality Industry.

Available Information

You can obtain copies of our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and other filings with the SEC, and all amendments to these filings, free of charge on our investor relations website at [investor.arinet.com](http://investor.arinet.com) as soon as reasonably practical following our filing of any of these reports with the SEC. You can also obtain copies free of charge by contacting us at our office address listed above.

Item 1A. Risk Factors

The risks and uncertainties described below are not the only ones facing us. Other events that we do not currently anticipate or that we do not currently deem to be material also may affect our results of operations and financial condition.

Continued uncertain economic conditions or reduced investments in technology spending may negatively impact our business.

Our business depends on the overall demand for technology services spending and on the economic health and general willingness of our current and prospective customers to make capital and expense commitments. If the conditions in the U.S. and global economic environment remain uncertain or continue to be volatile, or if they deteriorate further, our business, operating results, and financial condition may be adversely affected. Our customers sell capital goods, some of which are considered luxury in nature, which are highly dependent on the disposable income of end consumers. Weak or volatile economic conditions or a reduction in consumer spending may weaken our customers' demand for eCatalogs, lead management and eCommerce websites, business management software, and other technology-enabled services, or their general information technology spending, which would likely harm our business and operating results in a number of ways, including longer sales cycles, potential lower prices for our services, reduced sales and increased churn.

We may become liable to our customers and lose customers if we have defects or disruptions in our service or if we provide poor service.

Because we deliver some of our technology as a service, errors or defects in the software applications underlying our services, or a failure of our hosting infrastructure, may make our services, in particular our eCommerce services, unavailable to our customers. Since our customers use our eCommerce services to facilitate their sales, any errors, defects, disruptions in service, or other performance problems with our services, whether in connection with the day-to-day operation of our services, upgrades or otherwise, could damage our customers' businesses.

Despite the implementation of security measures, the core of our network infrastructure is vulnerable to unauthorized access, computer viruses, equipment failure and other disruptive problems, including the following:

- we and our users may experience interruptions in service as a result of the accidental or intentional actions of Internet users, current and former employees or others;

- unauthorized access may jeopardize the security of confidential information stored in our computer systems and our customers' computer systems, which may result in liability to our customers and also may deter potential customers;
- we may face liability for transmitting to third parties viruses that damage or impair their access to computer networks, programs, data or information;
- there may be a systemic failure of Internet communications, leading to claims associated with the general unavailability of some of our products; or
- eliminating computer viruses and alleviating other security or technical problems may require interruptions, delays or cessation of service to our customers.

If we have any errors, defects, disruptions in service, or other performance problems with our services, customers could elect not to renew, or delay or withhold payment to us, we could lose future sales, or customers may make claims against us, which could result in an increase in our provision for doubtful accounts, an increase in collection cycles for accounts receivable or litigation costs.

We may be exposed to risks and costs associated with protecting the integrity and security of our customers' information.

A significant number of customers make purchases from us using credit cards. In order for our business to function successfully, we and other market participants must be able to handle and transmit confidential information, including credit card information, securely. We are not currently fully compliant with Payment Card Industry ("PCI"), Data Security Standards, and there can be no assurance that in the future, we will be able to operate our facilities and our customer service and sales operations in accordance with PCI or other industry recommended practices. We intend to obtain compliance with PCI Data Security Standards and will incur additional expenses to attain and maintain PCI compliance.

Further, there is increased litigation over personally identifiable information, and we may be subject to one or more claims or lawsuits related to intentional or unintentional exposure of our customer's personally identifiable information. Even if we are compliant with PCI standards, we still may not be able to prevent security breaches involving customer transaction data. Any breach could cause consumers to lose confidence in the security of our websites and choose not to purchase from us. If a computer hacker or other criminal is able to circumvent our security measures, he or she could destroy or steal valuable information or disrupt our operations. Any security breach could expose us to risks of data loss, fines, litigation and liability and could seriously disrupt our operations and harm our reputation, any of which could adversely affect our business.

In addition, states and the federal government have enacted additional laws and regulations to protect consumers against identity theft, including laws governing treatment of personally identifiable information. We collect and store personal information from consumers in the course of doing business. These laws have increased the costs of doing business and, if we fail to implement appropriate safeguards or we fail to detect and provide prompt notice of unauthorized access as required by some of these laws, we could be subject to potential claims for damages and other remedies. If we were required to pay any significant amounts in satisfaction of claims under these laws, or if we were forced to cease our business operations for any length of time as a result of our inability to comply fully with any such law, our business, operating results and financial condition could be adversely affected.

Our core markets and verticals are competitive, and if we do not compete effectively, our operating results may be negatively impacted.

The markets for eCatalogs, lead management and eCommerce websites, business management software, and other technology-enabled services targeted at our vertical markets are competitive, and the eCommerce area, specifically, is rapidly changing with relatively low barriers to entry. With the introduction of new technologies and market entrants, we expect competition to remain intense. In addition, increased competition generally could result in reduced sales, reduced margin, or the failure of our services to achieve or maintain more widespread market acceptance. Competition in our market is based principally upon service breadth and functionality; service performance, security and reliability;



ability to tailor and customize services for a specific company, vertical market or industry; ease of use of the service; speed and ease of deployment, integration, and configuration; total cost of ownership, including price and implementation and support costs; professional services implementation; strength of customer relationships; and financial resources of the vendor. To compete effectively, we also must be able to more frequently update our services to meet market demand.

Our principal competitors include Snap-on Business Solutions and PowerSports Network, owned by Dominion Enterprises. Some of our actual and potential competitors enjoy competitive advantages over us, such as greater name recognition within our target vertical markets, larger marketing budgets, as well as substantially greater financial, technical, and other resources. If we are not able to compete effectively, our operating results will be harmed.

The impact of negative factors on the business may not be immediately reflected in our financial results.

Because we recognize subscription revenue over the term of the applicable agreement, non-renewal of subscriptions or reductions in new service agreements may not be immediately reflected in our operating results. The majority of our revenue in any given period is attributable to service agreements entered into during previous periods. A decline in new or renewed service agreements in any one period will not be fully reflected in our revenue in that period, but will reduce our revenue in future periods. As a result, the effect of significant downturns in sales and market acceptance of our services in a particular period may not be fully reflected in our operating results until future periods. Our subscription model also makes it difficult for us to rapidly increase our revenue through additional sales in any period, because revenue from new customers must be recognized over the applicable subscription term.

Our operating results may fluctuate from quarter to quarter.

We expect that a portion of our revenue in the future will be derived from non-recurring fee income, which consists primarily of revenues from professional services such as software customization and training, software sales and one-time network installation fees. The timing of recording of this revenue is dependent upon several factors that we cannot predict. These factors include:

- the time required to close large license fee and development agreements, which can be delayed due to customer requirements and decision-making processes;
- the seasonality of certain sectors of the markets in which we operate;
- delays in the introduction of new products or services and their acceptance by customers; and
- delays in delivering customized software to our customers.

Our costs are not entirely predictable and may vary from quarter-to-quarter due to acquisitions or non-recurring expenditures. Cash flows may also vary from quarter to quarter, depending on the timing of disbursements and customer payments. These fluctuations may make period-to-period comparisons of our results of operations more complex.

Changes in financial accounting standards or practices may cause adverse, unexpected financial reporting fluctuations and harm our operating results.

A change in accounting standards or practices could harm our operating results and may even affect our reporting of transactions completed before the change is effective. New accounting pronouncements and varying interpretations of accounting pronouncements have occurred and may occur in the future. Changes to existing rules or the questioning of current practices may harm our operating results or the way we conduct our business and may increase our compliance costs.

Our business could suffer if we are unable to protect our intellectual property rights or become liable for infringing the intellectual property rights of others.

We regard our trademarks, proprietary technology, and similar intellectual property as critical to our success, and we rely upon trademark law, trade secret protection, and confidentiality and license agreements with our employees, strategic partners and others to protect our proprietary rights, but these measures can have only limited effectiveness. Prevalent use of the Internet has also increased the ease with which third parties can distribute our intellectual property without our authorization.

We intend to pursue the registration of our material trademarks as necessary. We may not be entitled to the benefits of any such registration until such registration takes effect. In addition, effective protection may not be available in every country in which our products are available. Further, we may be subject to claims in the ordinary course of our

business, including claims of alleged infringement of the trademarks, copyrights and other intellectual property rights of third parties by us and our licensees.

Other parties may assert claims of infringement of intellectual property or other proprietary rights against us. These claims, even if without merit, could require us to expend significant financial and managerial resources. Furthermore, if claims like this were successful, we might be required to change our trademarks, alter our content, products or services, or pay financial damages, any of which could substantially increase our operating expenses. We also may be required to obtain licenses from others to refine, develop, market and deliver new services. We may be unable to obtain any needed license on commercially reasonable terms or at all, and rights granted under any licenses may not be valid and enforceable. In the future, we could be subject to legal proceedings and claims from time to time in the ordinary course of our business, including claims of alleged infringement of trademarks and other intellectual property rights of third parties by us and our licensees. Any such claims could have a material adverse effect on our business, financial condition and operating results.

We are dependent on our management and employees.

We are dependent on the services of our executive officers and other key employees. There can be no assurance, however, that we can obtain executives of comparable expertise and commitment in the event of death, disability or voluntary departure of one of our executive officers or other key employees, or that our business would not suffer material adverse effects as the result of the death, disability or voluntary departure. Further, the loss of the services of any one or more of these employees could have an adverse effect on our business. In addition, we will also need to attract and retain other highly skilled technical and managerial personnel for whom competition is intense. If we are unable to do so, our business, results of operations and financial condition could be materially and adversely affected.

Our common stock has had limited trading.

Trading in our common stock has historically been thin. Because of the thinness of the market for our stock, the price of our common stock may be subject to manipulation. This limited trading may adversely affect the liquidity of our common stock, not only in terms of the number of shares that can be bought and sold at a given price, but also through delays in the timing of transactions and reduction in security analysts' and the media's coverage of us. As a result, there could be a larger spread between the bid and the ask prices of our common stock and investors may not be able to sell shares of our common stock when or at prices they desire.

We may not be able to identify, acquire, and successfully integrate acquisitions.

A key component of our growth strategy has been and will continue to be acquisitions and other business development opportunities that solidify or accelerate our market position in our core offerings and vertical markets. The successful implementation of this strategy depends upon our ability to identify suitable acquisition candidates, acquire such businesses on acceptable terms, finance the acquisitions and integrate their operations successfully into ARI. There can be no assurance that such candidates will be available or, if such candidates are available, that the price will be attractive or that we will be able to identify, acquire, finance or integrate such businesses successfully. In addition, in pursuing such acquisition opportunities, we may compete with other entities with similar growth strategies; these competitors may be larger and have greater financial and other resources than ARI. Competition for these acquisition targets could also result in increased prices of acquisition targets and/or a diminished pool of companies available for acquisition.

The successful integration of these acquisitions also may involve a number of additional risks, including: (i) the inability to retain the clients of the acquired business; (ii) the lingering effects of poor client relations or service performance by the acquired business, which also may taint our existing business; (iii) the inability to retain the desirable management, key personnel and other employees of the acquired business; (iv) the inability to fully realize the desired efficiencies and economies of scale; (v) the inability to establish, implement or police ARI's existing standards, controls, procedures and policies in the acquired business; (vi) diversion of management attention; and (vii) exposure to client, employee and other legal claims for activities of the acquired business prior to acquisition. In addition, any acquired business could perform significantly worse than expected.

The inability to identify, acquire, finance and successfully integrate acquisitions could have a material adverse effect on ARI or its estimated or desired business, income, growth or other condition and results.

Future acquisitions, financing arrangements or exercise of outstanding options and warrants may result in dilution to existing shareholders.

The timing, size and success of acquisition efforts and any capital commitments cannot be readily predicted. Future acquisitions or investments may be financed by issuing shares of common stock, cash, or a combination thereof. To the extent our common stock is used for all or a portion of the consideration to be paid for future acquisitions or investments, shareholders' ownership will be diluted.

We face risks with our international strategy.

Our business strategy includes increasing our presence in the non-U.S. markets. This strategy presents a number of special risks, including:

- managing more geographically diverse operations;
- dealing with currency fluctuations;
- increased costs of operation;
- only having a small number of employees in these markets;
- our dependence on value-added resellers and contractors to sell and service our products;
- a much smaller and more concentrated current customer base; and

- assumption that U.S. international policy will remain favorable towards the countries in which we sell our products and services.

Our historical losses have resulted in accumulated deficits on the consolidated balance sheet.

While we have been profitable in recent years, we have experienced net losses in numerous fiscal years since our organization in 1981. These net losses have resulted in an accumulated deficit of \$87,793,000 as of July 31, 2015. We may not be able to maintain or increase profitability in the future. As a result of these historical losses, our financial position has been weakened, and our ability to finance our growth may be constrained.

Our unused net operating loss carryforwards could become impaired if we do not maintain profitability.

We have federal net operating loss carryforwards (“NOLs”) of \$4,515,000 as of July 31, 2015. We may not be able to maintain sufficient, timely taxable income to utilize these before they expire. As a result, both net income and income tax liabilities could be negatively impacted.

We will require a significant amount of cash to service our indebtedness. Our ability to generate cash depends on certain factors beyond our control.

Our ability to make principal and interest payments on our indebtedness and to fund planned capital expenditures and product development efforts will depend on our ability to generate cash flow in the future. Our future operating performance and financial results will be subject, in part, to factors beyond our control, including dealer bankruptcies in the vertical markets we serve, and general economic, financial and business conditions. We cannot assure that our business will generate sufficient cash flow from operations or that future financing facilities will be available to us in an amount sufficient to enable us to pay our indebtedness or to fund our other liquidity needs.

If we are unable to generate sufficient cash flow to service our debt, we may be required to:

- refinance all or a portion of our debt or obtain additional financing, neither of which can be assured and may be at terms that are less favorable than our current financing arrangements;
- sell some of our assets or operations;
- reduce or delay capital expenditures, research and development efforts and acquisitions; or
- revise or delay our strategic plans.

If we are required to take any of these actions, it could have a material adverse effect on our business, financial condition and results of operations. In addition, we cannot assure that we would be able to take any of these actions, that these actions would enable us to continue to satisfy our capital requirements or that these actions would be permitted under the terms of our various debt instruments.

## Item 2. Properties

The table below summarizes ARI’s current facilities. Management believes that the Company’s current facilities are suitable and sufficient to support present operations.

Description of Use	Location	Square Footage	Lease Expiration	Country
Corporate headquarters; outdoor power equipment, marine and recreational vehicle	Milwaukee, WI	16,300	July 2021	United States
Software development	Cypress, CA	6,000	July 2020	United States

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Aftermarket publishing	Floyds Knobs, IN	2,200	April 2017	United States
Automotive aftermarket sales and support	Des Moines, IA	8,000	November 2017	United States
Powersports, automotive tire and wheel and durable medical equipment sales and support	Duluth, MN	25,500	January 2019	United States
Automotive tire and wheel sales and support	Wexford, PA	1,100	May 2017	United States
Automotive tire and wheel sales and support	Cookeville, TN	14,000	November 2018	United States
Automotive tire and wheel sales and support	Salt Lake City, UT	2,000	April 2016	United States
European sales and support	Leiden, The Netherlands	2,200	April 2020	Netherlands

Item 3. Legal Proceedings

None.

Item 4. Mine Safety Disclosures

Not Applicable.

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

ARI's common stock is currently traded on the NASDAQ Capital Market under the symbol "ARIS". Prior to December 9, 2013, ARI's common stock was quoted on the OTCQB. The following table sets forth the high and low sales price for the periods indicated.

Quarter Ended:	High	Low
10/31/2013	\$ 3.40	\$ 2.70
1/31/2014	\$ 3.51	\$ 2.92
4/30/2014	\$ 3.45	\$ 2.33
7/31/2014	\$ 3.22	\$ 2.53
10/31/2014	\$ 3.56	\$ 2.41
1/31/2015	\$ 4.45	\$ 3.07
4/30/2015	\$ 3.99	\$ 3.01
7/31/2015	\$ 3.30	\$ 2.74

As of October 20, 2015, there were approximately 1,555 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 2015, 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 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, TASC0, 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 TASCOS 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 TASC0 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.

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

	Twelve months ended July 31				% Change
	2015	% of Revenue	2014	% of Revenue	
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 support	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	%	(100.0)	%
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 TASC0 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 TASC0 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, TASC0 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 TASC0, 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 TASC0 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 TASC0 (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.

## 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, 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, 2015. 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, 2015.

#### 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, 2015.

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 pursuant to the amendments to Rule 2-02(f) of Regulation S-X that exempt us from this attestation requirement 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, 2015 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. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people or by management override of the control. The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Over time, controls may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

#### Item 9B. Other Information

None.

### PART III

#### Item 10. Directors, Executive Officers, and Corporate Governance

Information required by Item 10 of Part III will be included in our Proxy Statement relating to our Fiscal 2016 Annual Meeting of Shareholders and is incorporated herein by reference, with the exception of information relating to the Company's executive officers, which is set forth in Part I of this report.

#### Item 11. Executive Compensation

Information required by Item 11 of Part III will be included in our Proxy Statement relating to our Fiscal 2016 Annual Meeting of Shareholders, and is incorporated herein by reference.

#### Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

Information required by Item 12 of Part III will be included in our Proxy Statement relating to our Fiscal 2016 Annual Meeting of Shareholders, and is incorporated herein by reference.

Item 13. Certain Relationships, Related Transactions, and Director Independence

Information required by Item 13 of Part III will be included in our Proxy Statement relating to our Fiscal 2016 Annual Meeting of Shareholders, and is incorporated herein by reference.

Item 14. Principal Accountant Fees and Services

Information required by Item 14 of Part III will be included in our Proxy Statement relating to our Fiscal 2016 Annual Meeting of Shareholders, and is incorporated herein by reference.

PART IV

Item 15. Exhibits

- 2.1 Asset Purchase Agreement, dated September 30, 2014, by and among ARI Network Services, Inc., Tire Company Solutions, LLC, Barry Reese and Kenny Pratt, incorporated by reference to Exhibit 2.1 to the Company's Current Report on Form 8-K filed on October 2, 2014.
- 2.2 Asset Purchase Agreement dated August 17, 2012 by and among ARI Network Services, Inc., Ready2Ride, Incorporated, Jamie Amy-Longacre and Ronald L. Longacre, Jr., incorporated by reference to Exhibit 2.1 to the Company's Current Report on Form 8-K filed on August 23, 2012.
- 2.3 First Amendment to Asset Purchase Agreement by and among ARI Network Services, Inc., RJ Longacre, Inc., Jamie Amy-Longacre and Ronald R. Longacre, Jr., dated as of October 22, 2013, incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended December 31, 2013.
- 2.4 Asset Purchase Agreement, dated July 13, 2015, by and among ARI Network Services, Inc., Direct Communications, Incorporated, et al., incorporated by reference to Exhibit 2.1 to the Company's Current Report on Form 8-K filed on July 14, 2015.
- 3.1 Articles of Incorporation of the Company, as amended, incorporated herein by reference to Exhibit 3.1 of the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended April 30, 1999.
- 3.2 Articles of Amendment of the Company, incorporated herein by reference to Exhibit 3.2 to the Company's Current Report on Form 8-K filed on August 18, 2003.
- 3.3 By-laws of the Company incorporated herein by reference to Exhibit 3.1 of the Company's Registration Statement on Form S-1 (Reg. No. 33-43148).
- 4.1 Form of Subordinated Promissory Note, dated September 30, 2014, incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K filed on October 2, 2014.
- 4.4 Form of Common Stock Purchase Warrant dated March 15, 2013, incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K filed on March 18, 2013.
- 4.5 Form of First Amendment to Common Stock Purchase Warrant, incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on July 31, 2013.
- 4.6 Unsecured Non-Negotiable Subordinated Promissory Note, dated July 13, 2015, made by ARI Network Services, Inc. in favor of Direct Communications, Incorporated, incorporated by reference to Exhibit 5.1 to the Company's Current Report on Form 8-K filed on July 14, 2015.
- 10.1 Form of Securities Purchase Agreement dated March 12, 2013, between ARI Network Services, Inc. and the Purchasers identified therein, incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on March 18, 2013.
- 10.2\* Summary of Executive Bonus Arrangements (Fiscal 2015).
- 10.3 Loan and Security Agreement dated as of July 27, 2011 by and between ARI Network Services, Inc. and Fifth Third Bank, incorporated herein by reference to Exhibit 10.1 to the Form 8-K filed on July 28, 2011.
- 10.4\* Amended and Restated Employment Agreement, executed as of October 31, 2011, between Roy W. Olivier and ARI Network Services, Inc., incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on November 4, 2011.
- 10.5\* First Amendment to Amended and Restated Employment Agreement, dated February 5, 2015, between Roy W. Olivier and ARI Network Services, Inc., incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on February 9, 2015.
- 10.6\* Second Amendment to Amended and Restated Employment Agreement, dated October 9, 2015, between Roy W. Olivier and ARI Network Services, Inc., incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on October 15, 2015.



- 10.7\* Second Amendment to Change of Control Agreement, dated October 31, 2011, between Roy W. Olivier and ARI Network Services, Inc., incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed on November 4, 2011.
- 10.8\* Employment Agreement, executed as of August 14, 2012, between Marvin A. Berg and ARI Network Services, Inc., incorporated by reference to the Company's Form 10-K for the fiscal year ended July 31, 2012.
- 10.9\* Change of Control Agreement, dated August 14, 2012, between Marvin A. Berg and ARI Network Services, Inc., incorporated by reference to Exhibit 10.29 to the Company's Form 10-K for the fiscal year ended July 31, 2012.
- 10.10\* Separation Agreement between Marvin A. Berg and ARI Network Services, Inc., effective as of July 31, 2015.
- 10.11 Loan and Security Agreement dated as of April 26, 2013 among Silicon Valley Bank, ARI Network Services, Inc. and Project Viking II Acquisition, Inc., incorporated by reference to Exhibit 10.1 to the Company Form 8-K filed on April 29, 2013.

- 10.12 First Loan Modification Agreement, dated September 30, 2014, by and among Silicon Valley Bank, ARI Network Services, Inc. and Project Viking II Acquisition, Inc., incorporated by reference to the Company's Current Report on Form 8-K filed on October 2, 2014.
- 10.13\* Employment Agreement by and between William A. Nurthen and ARI Network Services, Inc., incorporated by reference to the Company's Current Report on Form 8-K filed on November 22, 2013.
- 10.14\* Change of Control Agreement between ARI Network Services, Inc. and William A. Nurthen, incorporated by reference to the Company's Current Report on Form 8-K filed on November 22, 2013.
- 10.15\* ARI Network Services, Inc. 2000 Employee Stock Purchase Plan, as amended, incorporated by reference to the Company's Current Report on Form 8-K filed on January 8, 2014.
- 10.16\* ARI Network Services, Inc. 2000 Stock Option Plan, amended April 15 2014, incorporated by reference to Exhibit 10.2 to the Company's Quarterly Report for the quarter ended April 30, 2014.
- 10.17\* ARI Network Services, Inc. 2010 Equity Incentive Plan, amended April 15, 2014, incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report for the quarter ended April 30, 2014.
- 10.18\* Form of 2010 Equity Incentive Plan Restricted Stock Award Agreement, incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on March 9, 2015.
- 21.1 Subsidiaries of the Company.
- 23.1 Consent of Wipfli LLP.
- 24.1 Powers of Attorney appear on the signature page hereof.
- 31.1 Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer.
- 31.2 Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer.
- 32.1 Section 1350 Certification of Chief Executive Officer
- 32.2 Section 1350 Certification of Chief Financial Officer

\* Indicates Management Contract or Compensatory Plan or Agreement.

SIGNATURES

Pursuant to the requirements of Section 15 or 15(d) of the Securities Exchange Act of 1934, this report has been signed on its behalf by the undersigned, thereunto duly authorized, on this 29th day of October, 2015.

By: /s/ Roy W. Olivier

Roy W. Olivier

President and Chief Executive Officer

(Principal Executive Officer)

By: /s/ William A. Nurthen

William A. Nurthen

Vice President of Finance and Chief Financial Officer

(Principal Financial Officer and Principal Accounting Officer)

KNOW ALL MEN BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Roy W. Olivier and William A. Nurthen, his true and lawful attorney-in-fact and agent with full power of substitution and resubstitution, for him and his name, place and stead, in any and all capacities, to sign any and all amendments to this report and to file the same with all exhibits thereto, and other documents in connection therewith, with the Commission, granting unto said attorney-in-fact and agent full power and authority to do and perform each act and thing requisite and necessary to be done, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorney-in-fact and agent, or his substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

/s/ William H. Luden, III    October 29, 2015

William H. Luden, III  
Chairman of the Board

/s/ Roy W. Olivier            October 29, 2015

Roy W. Olivier  
Director

William C. Mortimore      October 29, 2015  
William C. Mortimore  
Director

/s/ P. Lee Poseidon      October 29, 2015  
P. Lee Poseidon  
Director

/s/ Robert Y, Newell, IV      October 29, 2015  
Robert Y, Newell, IV  
Director

/s/ Chad J. Cooper      October 29, 2015  
Chad J. Cooper  
Director

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders

ARI Network Services, Inc.

We have audited the accompanying consolidated balance sheets of ARI Network Services, Inc. and Subsidiary (the Company) as of July 31, 2015 and 2014, and the related consolidated statements of operations, comprehensive income (loss), shareholders' equity and cash flows for each of the years in the two-year period ended July 31, 2015. The Company's management is responsible for these financial statements. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of July 31, 2015 and 2014, and the results of its operations and its cash flows for each of the years in the two-year period ended July 31, 2015, in conformity with accounting principles generally accepted in the United States.

/s/ Wipfli LLP

Minneapolis, MN

October 29, 2015

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

	July 31 2015	July 31 2014
<b>ASSETS</b>		
Cash and cash equivalents	\$ 2,284	\$ 1,808
Trade receivables, less allowance for doubtful accounts of \$372 and \$359 at July 31, 2015 and 2014	2,046	1,212
Work in process	165	294
Prepaid expenses and other	848	1,030
Deferred income taxes	3,092	2,655
Total current assets	8,435	6,999
Equipment and leasehold improvements:		
Computer equipment and software for internal use	2,800	2,382
Leasehold improvements	629	626
Furniture and equipment	2,981	2,327
Total equipment and leasehold improvements	6,410	5,335
Less accumulated depreciation and amortization	(3,989)	(3,564)
Net equipment and leasehold improvements	2,421	1,771
Capitalized software product costs:		
Amounts capitalized for software product costs	25,463	22,676
Less accumulated amortization	(20,337)	(18,656)
Net capitalized software product costs	5,126	4,020
Deferred income taxes	2,398	3,507
Other long-term assets	84	72
Other intangible assets	10,116	3,612
Goodwill	21,168	12,367
Total non-current assets	41,313	25,349
Total assets	\$ 49,748	\$ 32,348

See accompanying notes

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

	(Unaudited) July 31 2015	(Audited) July 31 2014
<b>LIABILITIES</b>		
Current portion of long-term debt	\$ 1,338	\$ 675
Current portion of contingent liabilities	754	295
Accounts payable	708	656
Deferred revenue	7,327	7,415
Accrued payroll and related liabilities	1,752	1,336
Accrued sales, use and income taxes	140	123
Other accrued liabilities	748	472
Current portion of capital lease obligations	174	195
Total current liabilities	12,941	11,167
Long-term debt	9,191	3,375
Long-term portion of contingent liabilities	362	153
Capital lease obligations	106	233
Other long-term liabilities	199	214
Total non-current liabilities	9,858	3,975
Total liabilities	22,799	15,142
<b>SHAREHOLDERS' EQUITY</b>		
Cumulative preferred stock, par value \$.001 per share, 1,000,000 shares authorized; 0 shares issued and outstanding at July 31, 2015 and 2014, respectively	—	—
Junior preferred stock, par value \$.001 per share, 100,000 shares authorized; 0 shares issued and outstanding at July 31, 2015 and 2014, respectively	—	—
Common stock, par value \$.001 per share, 25,000,000 shares authorized; 17,097,426 and 13,506,316 shares issued and outstanding at July 31, 2015 and 2014, respectively	17	14
Additional paid-in capital	114,700	106,077
Accumulated deficit	(87,793)	(88,864)
Other accumulated comprehensive income (loss)	25	(21)
Total shareholders' equity	26,949	17,206
Total liabilities and shareholders' equity	\$ 49,748	\$ 32,348

See accompanying notes

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

	Twelve months ended July 31	
	2015	2014
Net revenue	\$ 40,443	\$ 33,019
Cost of revenue	7,302	6,378
Gross profit	33,141	26,641
Operating expenses:		
Sales and marketing	10,427	9,344
Customer operations and support	7,811	6,645
Software development and technical support (net of capitalized software product costs)	4,199	2,717
General and administrative	6,634	6,222
Depreciation and amortization (exclusive of amortization of software product costs included in cost of revenue)	1,756	1,322
Loss on impairment of long-lived assets	—	35
Net operating expenses	30,827	26,285
Operating income	2,314	356
Other income (expense):		
Interest expense	(465)	(286)
Loss on change in fair value of stock warrants	—	(28)
Gain on change in fair value of contingent liabilities	—	67
Gain on change in fair value of contingent assets	28	—
Other, net	5	30
Total other income (expense)	(432)	(217)
Income before provision for income tax	1,882	139
Income tax expense	(811)	(241)
Net income (loss)	\$ 1,071	\$ (102)

Weighted average common shares outstanding: