ARI NETWORK SERVICES INC /WI
Form 10-Q
December 15, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended October 31, 2015

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

For the transition period from to

Commission file number 000-19608

ARI Network Services, Inc.

(Exact name of registrant as specified in its charter)

| | |
|---|---|
| WISCONSIN | 39-1388360 |
| (State or other jurisdiction of incorporation or organization) | (IRS Employer Identification No.) |

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

(Address of principal executive offices)

(414) 973-4300

(Registrant's telephone number, including area code)

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

YES NO

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

YES NO

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

| | |
|---|---|
| Large accelerated filer | Accelerated filer |
| Non-accelerated filer<br>(Do not check if a smaller reporting company) | 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

As of December 4, 2015, there were 17,173,273 shares of the registrant’s common stock outstanding.

ARI Network Services, Inc.

FORM 10-Q

FOR THE THREE MONTHS ENDED OCTOBER 31, 2015

INDEX

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

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

| | (Unaudited) October 31 2015 | (Audited) July 31 2015 |
|---|---|---|
| ASSETS | | |
| Cash and cash equivalents | $ 3,179 | $ 2,284 |
| Trade receivables, less allowance for doubtful accounts of $335 and $372 at October 31, 2015 and July 31, 2015, respectively | 2,147 | 2,046 |
| Work in process | 136 | 165 |
| Prepaid expenses and other | 736 | 820 |
| Deferred income taxes | 3,305 | 3,092 |
| Total current assets | 9,503 | 8,407 |
| Equipment and leasehold improvements: | | |
| Computer equipment and software for internal use | 2,936 | 2,800 |
| Leasehold improvements | 629 | 629 |
| Furniture and equipment | 3,012 | 2,981 |
| Total equipment and leasehold improvements | 6,577 | 6,410 |
| Less accumulated depreciation and amortization | (4,202) | (3,989) |
| Net equipment and leasehold improvements | 2,375 | 2,421 |
| Capitalized software product costs: | | |
| Amounts capitalized for software product costs | 25,836 | 25,463 |
| Less accumulated amortization | (20,833) | (20,337) |
| Net capitalized software product costs | 5,003 | 5,126 |
| Deferred income taxes | 1,892 | 2,398 |
| Other intangible assets | 9,719 | 10,116 |
| Goodwill | 21,066 | 21,168 |
| Total non-current assets | 40,055 | 41,229 |
| Total assets | $ 49,558 | $ 49,636 |

See accompanying notes

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

| | (Unaudited) October 31 2015 | (Audited) July 31 2015 |
|---|---|---|
| LIABILITIES | | |
| Current portion of long-term debt | $ 1,693 | $ 1,338 |
| Current portion of contingent liabilities | 639 | 754 |
| Accounts payable | 785 | 708 |
| Deferred revenue | 6,674 | 7,327 |
| Accrued payroll and related liabilities | 2,207 | 1,752 |
| Accrued sales, use and income taxes | 167 | 140 |
| Other accrued liabilities | 696 | 748 |
| Current portion of capital lease obligations | 121 | 174 |
| Total current liabilities | 12,982 | 12,941 |
| Long-term debt | 8,510 | 9,079 |
| Long-term portion of contingent liabilities | 245 | 362 |
| Capital lease obligations | 94 | 106 |
| Other long-term liabilities | 199 | 199 |
| Total non-current liabilities | 9,048 | 9,746 |
| Total liabilities | 22,030 | 22,687 |
| | | |
| SHAREHOLDERS' EQUITY | | |
| Cumulative preferred stock, par value $.001 per share, 1,000,000 shares authorized; 0 shares issued and outstanding at October 31, 2015 and July 31, 2015, respectively | — | — |
| Junior preferred stock, par value $.001 per share, 100,000 shares authorized; 0 shares issued and outstanding at October 31, 2015 and July 31, 2015, respectively | — | — |
| Common stock, par value $.001 per share, 25,000,000 shares authorized; 17,169,523 and 17,097,426 shares issued and outstanding at October 31, 2015 and July 31, 2015, respectively | 17 | 17 |
| Additional paid-in capital | 114,892 | 114,700 |
| Accumulated deficit | (87,404) | (87,793) |
| Other accumulated comprehensive income | 23 | 25 |
| Total shareholders' equity | 27,528 | 26,949 |
| Total liabilities and shareholders' equity | $ 49,558 | $ 49,636 |

See accompanying notes

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

| | Three months ended October 31 | |
|---|---|---|
| | 2015 | 2014 |
| Net revenue | $ 11,737 | $ 9,112 |
| Cost of revenue | 2,069 | 1,749 |
| Gross profit | 9,668 | 7,363 |
| Operating expenses: | | |
| Sales and marketing | 2,765 | 2,542 |
| Customer operations and support | 2,446 | 1,690 |
| Software development and technical support (net of capitalized software product costs) | 1,255 | 872 |
| General and administrative | 1,785 | 1,604 |
| Depreciation and amortization (exclusive of amortization of software product costs included in cost of revenue) | 609 | 372 |
| Net operating expenses | 8,860 | 7,080 |
| Operating income | 808 | 283 |
| Other income (expense): | | |
| Interest expense | (112) | (89) |
| Loss on change in fair value of contingent liabilities | (8) | — |
| Other, net | — | (1) |
| Total other income (expense) | (120) | (90) |
| Income before provision for income tax | 688 | 193 |
| Income tax expense | (299) | (89) |
| Net income | $ 389 | $ 104 |
| | | |
| Weighted average common shares outstanding: | | |
| Basic | 17,152 | 13,693 |
| Diluted | 17,604 | 14,014 |
| | | |
| Net income per common share: | | |
| Basic | $ 0.02 | $ 0.01 |
| Diluted | $ 0.02 | $ 0.01 |

See accompanying notes

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

| | Three months ended October 31 | |
|---|---|---|
| | 2015 | 2014 |
| Net income | $ 389 | $ 104 |
| Other comprehensive income (loss), net of tax: | | |
| Foreign currency translation adjustments | (2) | 9 |
| Total other comprehensive income (loss) | (2) | 9 |
| Comprehensive income | $ 387 | $ 113 |

See accompanying notes

ARI Network Services, Inc.

Consolidated Statements of Cash Flows

(Dollars in Thousands)

(Unaudited)

| | Three months ended October 31 | |
|---|---|---|
| | 2015 | 2014 |
| Operating activities: | | |
| Net income | $ 389 | $ 104 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Amortization of software products | 496 | 549 |
| Net non-cash interest expense | 5 | 17 |
| Depreciation and other amortization | 610 | 371 |
| Gain on change in fair value of earn-out payable | 8 | - |
| Provision for bad debt allowance | 25 | 51 |
| Deferred income taxes | 293 | 69 |
| Stock based compensation | 90 | 68 |
| Stock based director fees | 25 | 35 |
| Net change in assets and liabilities: | | |
| Trade receivables | (102) | (224) |
| Work in process | 29 | (22) |
| Prepaid expenses and other | 86 | 185 |
| Other long-term assets | - | (39) |
| Accounts payable | 71 | 226 |
| Deferred revenue | (700) | (130) |
| Accrued payroll and related liabilities | 435 | 230 |
| Accrued sales, use and income taxes | 27 | - |
| Other accrued liabilities | (52) | 144 |
| Net cash provided by operating activities | $ 1,735 | $ 1,634 |
| Investing activities: | | |
| Purchase of equipment, software and leasehold improvements | (167) | (21) |
| Cash paid for contingent liabilities related to acquisitions | (125) | (249) |
| Cash paid for net assets related to acquisitions | - | (4,200) |
| Software development costs capitalized | (373) | (341) |
| Net cash used in investing activities | $ (665) | $ (4,811) |
| Financing activities: | | |
| Borrowings under line of credit, net | $ - | $ 1,000 |
| Payments on long-term debt | (151) | (168) |
| Borrowings under long-term debt | - | 2,168 |
| Payments of capital lease obligations | (65) | (55) |
| Proceeds from exercise of common stock options | 43 | 16 |
| Net cash provided by (used in) financing activities | $ (173) | $ 2,961 |

| | | |
|---|---|---|
| Effect of foreign currency exchange rate changes on cash | (2) | 5 |
| Net change in cash and cash equivalents | 895 | (211) |
| Cash and cash equivalents at beginning of period | 2,284 | 1,808 |
| Cash and cash equivalents at end of period | $ 3,179 | $ 1,597 |
| Cash paid for interest | $ 113 | $ 74 |
| Cash paid for income taxes | $ 64 | $ 20 |
| | | |
| Non-cash investing and financing activities | | |
| Issuance of common stock in connection with acquisitions | $ - | $ 1,980 |
| Debt issued in connection with acquisition | - | 3,000 |
| Capital leases acquired in connection with acquisitions | - | 109 |
| Current assets acquired in connection with acquisitions | 32 | 634 |
| Accrued liabilities assumed in connection with acquisitions | 53 | - |
| Issuance of common stock related to payment of contingent liabilities | 60 | 42 |
| Cashless exercise of common stock warrants | 46 | - |
| Issuance of common stock related to payment of director compensation | - | 31 |
| Issuance of common stock related to payment of employee compensation | - | 97 |
| Contingent liabilities incurred in connection with acquisition | (62) | 761 |

See accompanying notes

6

ARI Network Services, Inc.

Notes to Consolidated Financial Statements

## 1. Description of the Business and Significant Accounting Policies

### Description of the Business

ARI Network Services, Inc. ("ARI" or "the Company") creates software-as-a-service ("SaaS"), data-as-a-service ("DaaS") and other solutions that help equipment manufacturers, distributors and dealers in selected vertical markets to Sell More Stuff!™ – online and in-store. We remove the complexity of selling and servicing new and used 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. Our innovative products are powered by a proprietary library of enriched original equipment and aftermarket content from over 1,800 manufacturers. 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. 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.

### Basis of Presentation

These consolidated financial statements include the consolidated financial statements of ARI and its wholly-owned subsidiary, ARI Europe B.V. and have been prepared in accordance with accounting principles generally accepted in the United States ("GAAP"). We eliminated all significant intercompany balances and transactions in consolidation. All adjustments that, in the opinion of management, are necessary for a fair presentation for the periods presented have been reflected as required by Regulation S-X, Rule 10-01.

### Fiscal Year

Our fiscal year ends on July 31. References to fiscal 2016, for example, refer to the fiscal year ended July 31, 2016, and references to fiscal 2015 refer to the fiscal year ended July 31, 2015.

### 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 has customer contracts with multiple services or elements, which may be delivered at different times. 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 standalone 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.

Revenue for variable transaction fees, primarily for use of the shopping cart feature of our websites, is recognized as it is earned.

Amounts received for shipping and handling fees are reflected in revenue. Costs incurred for shipping and handling are reported in cost of revenue.

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

No single customer accounted for 10% or more of ARI's revenue during the three months ended October 31, 2015 or 2014.

Trade Receivables, Credit Policy and Allowance for Doubtful Accounts

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

The carrying amount of trade receivables is reduced by an allowance that reflects management's best estimate of the amounts that will not be collected. Management individually reviews receivable balances that exceed ninety (90) days from the invoice date and, based on an assessment of current creditworthiness 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.

Capitalized and Purchased Software Product Costs

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

The annual amortization of software products is computed using the straight-line method over the estimated economic life of the product, which currently ranges from two to nine years. Amortization starts when the product is available for general release to customers. The Company capitalizes software enhancements on an on-going basis and all other software development and support expenditures are charged to expense in the period incurred.

Deferred Loan Fees and Debt Discounts

Fees associated with securing debt are capitalized and shown as contra-debt, reducing the carrying amount of long term debt on the consolidated balance sheet. Deferred loan fees and debt discounts are amortized to interest expense over the life of the debt using the effective interest method.

Deferred Income Taxes

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

Legal Provisions

ARI is periodically involved in legal proceedings arising from contracts, patents or other matters in the normal course of business. We reserve for any material estimated losses if the outcome is probable and reasonably estimable, in accordance with GAAP. We had no provisions for legal proceedings during the three months ended October 31, 2015 or 2014.

Recently Adopted Accounting Standards

On August 1, 2015, the Company retrospectively adopted Accounting Standards Update (“ASU”) 2015-03 related to the presentation of debt issuance costs. Debt issuance costs of $29,000, previously recorded to prepaid expenses and other, and $84,000, previously recorded to other long-term assets as of July 31, 2015, are now presented as a direct deduction from the carrying amount of long-term debt on the balance sheet as of October 31, 2015.

2. Basic and Diluted Net Income per Common Share

Basic net income per common share is computed by dividing net income by the basic weighted average number of common shares outstanding during the period. Diluted net income per common share is computed by dividing net income by the weighted average number of common shares outstanding during the period and reflects the potential dilution that could occur if all of ARI’s outstanding stock options and warrants that are in the money were exercised (calculated using the treasury stock method).

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

| | Three months ended October 31 | |
|---|---|---|
| | 2015 | 2014 |
| Net income | $ 389 | $ 104 |

| | | |
|---|---|---|
| Weighted-average common shares outstanding | 17,152 | 13,693 |
| Effect of dilutive stock options and warrants | 452 | 321 |
| Diluted weighted-average common shares outstanding | 17,604 | 14,014 |
| | | |
| Net income per share | | |
| Basic | $ 0.02 | $ 0.01 |
| Diluted | $ 0.02 | $ 0.01 |
| | | |
| Options and warrants that could potentially dilute net income per share in the future that are not included in the computation of diluted net income per share, as their impact is anti-dilutive | - | 226 |

9

3. Debt

Silicon Valley Bank

On April 26, 2013, the Company entered into a Loan and Security Agreement (the “Agreement”) with Silicon Valley Bank (“SVB”), pursuant to which SVB extended to the Company credit facilities consisting of a $3,000,000 revolving credit facility with a maturity date of April 26, 2015 and a $4,500,000 term loan with a maturity date of April 26, 2018.

On September 30, 2014, in connection with the Company’s acquisition of Tire Company Solutions, LLC (“TCS”), the Company entered into the First Loan Modification Agreement (the “Modification Agreement”) with SVB, which contained substantial amendments to the terms of the Agreement.

The Modification Agreement includes 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. This term loan is an amendment to the existing $4,500,000 term loan with an original maturity date of April 26, 2018.

The term loan and any loans made under the SVB revolving credit facility accrue interest at a per annum rate equal to the Prime rate plus the Applicable Margin for Prime Rate Loans set forth in the chart below determined based on the Total Leverage Ratio, as defined in the Modification Agreement. The Company had $0 outstanding on the revolving credit facility and the effective interest rate was 3.75% at October 31, 2015.

| Total Leverage Ratio | Applicable Margin for Prime Rate Loans | |
|---|---|---|
| >= 2.50 to 1.0: | 1.50 | % |
| > 1.75 to 1.00 but <2.50 to 1.00: | 1.00 | % |
| <= 1.75 to 1.00: | 0.50 | % |

Principal in respect of any loans made under the revolving facility is required to be paid in its entirety on or before September 30, 2016. Principal in respect of the term loan is required to be paid in quarterly installments on the first day of each fiscal quarter of the Company as follows: $151,250 commenced on November 1, 2014 through August 1, 2016; $226,875 commencing on November 1, 2016 through August 1, 2017; and $302,500 commencing on November 1, 2017 through August 1, 2019. All remaining principal in respect of the term loan is due and payable on September 30, 2019. The Company is permitted to prepay all of, but not less than all of, the outstanding principal amount of the term loan upon notice to SVB and, in certain circumstances, the payment of a prepayment penalty of up to $61,000. Following July 31, 2015, the Modification Agreement requires the Company to make additional payments in the amount of 25% of excess cash flow, as defined in the agreement, until the Company’s Total Leverage Ratio is less than

2.00 to 1.00.

The Modification Agreement contains covenants that restrict, among other things and subject to certain conditions, the ability of the Company to permit a change of control, incur debt, create liens on its assets, make certain investments, enter into merger or acquisition transactions and make distributions to its shareholders. Financial covenants include the maintenance of a minimum Total Leverage Ratio equal to or less than 3.00 to 1.00 and the maintenance of a Fixed Charge Coverage Ratio (as defined in the Modification Agreement) equal to or greater than 1.25 to 1.00. The Total Leverage Ratio was 1.34 and the Fixed Charge Ratio was 4.37 for the twelve months ended October 31, 2015. The Modification Agreement also contains customary events of default that, if triggered, could result in an acceleration of the Company's obligations under the Modification Agreement. The loans are secured by a first priority security interest in substantially all assets of the Company.

TCS Promissory Notes

In connection with the acquisition of TCS, on September 30, 2014, the Company issued two promissory notes (the "Notes") in the aggregate principal amount of $3,000,000 to the former owners of TCS. In February 2015, the principal amount of the Notes was reduced by $66,575 as a result of post-closing adjustments to the valuation of the net assets acquired, pursuant to the terms of the asset purchase agreement. The Notes initially accrue interest on the outstanding unpaid principal balance at a rate per annum equal to 5.0%; however, if any amount payable under a Note is not paid when due, such overdue amount will bear interest at the default rate of 7.5% from the date of such non-payment until such amount is paid in full. Accrued interest on the Notes will be due and payable quarterly commencing on December 29, 2014 and continuing on each 90th calendar day thereafter, until September 30, 2018, at which time all accrued interest and outstanding principal balance will be due and payable in full. The first four payments due and payable under the Notes will be interest only payments, and payments of principal and interest shall not commence until the payment due on December 29, 2015. The payments are subject to acceleration upon certain Events of Default, as defined in the Notes.

DCi Promissory Note

In connection with the acquisition of Direct Communications Inc. ("DCi"), on July 13, 2015, the Company issued a promissory note (the "DCi Note") in the aggregate principal amount of $2,000,000 to the former owners of DCi. In October 2015, the principal amount of the DCi Notes was reduced by $61,038 as a result of post-closing adjustments to the estimated valuation of the net assets acquired, pursuant to the terms of the asset purchase agreement. The DCi Note initially accrues interest on the outstanding unpaid principal balance at a rate per annum equal to 4.0%. Accrued interest on the DCi Note is due and payable quarterly commencing on October 13, 2015 and continuing on each 90th calendar day thereafter, until July 13, 2019, at which time all accrued interest and outstanding principal balance will be due and payable in full. The first four payments due and payable under the DCi Note are interest only payments, and payments of principal and interest shall not commence until the payment due on October 13, 2016. The payments are subject to acceleration upon certain Events of Default, as defined in the DCI Note.

The following table sets forth certain information related to the Company's long-term debt as of October 31, 2015 and July 31, 2015 (in thousands):

| | October 31 2015 | July 31 2015 |
|---|---|---|
| Notes payable principal | $ 10,317 | $ 10,529 |
| Less debt issuance costs | (114) | (112) |
| Less current maturities | (1,693) | (1,338) |
| Notes payable - non-current | $ 8,510 | $ 9,079 |

Minimum principal payments due on the SVB Term Note and the TCS Notes are as follows for the fiscal years ending (in thousands):

| | SVB Term Note | TCS Notes | DCi Notes | Total Notes Payable |
|---|---|---|---|---|
| 2016 | $ 454 | $ 693 | $ — | $ 1,147 |
| 2017 | 832 | 965 | 643 | 2,440 |
| 2018 | 1,134 | 1,014 | 669 | 2,817 |
| 2019 | 1,210 | 261 | 627 | 2,098 |
| 2020 | 1,815 | — | — | 1,815 |
| | $ 5,445 | $ 2,933 | $ 1,939 | $ 10,317 |

4. Business Combinations

DCi Acquisition

On July 13, 2015, the Company acquired substantially all of the assets of DCi, a leading provider of differentiated product content and electronic catalog software serving manufacturers, distributors, jobbers and independent retailers in the AAPS. Consideration for the acquisition included: (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. The principal amount of the Notes was reduced by $61,038 as a result of post-closing adjustments to the estimated valuation of the net assets acquired, pursuant to the terms of the asset purchase agreement.

The Company expects the DCi acquisition to accelerate its growth in the AAPS and provide a platform to further expand the reach of ARI's data-driven eCommerce websites and automotive point-of-sale software. The combined customer benefits and operational efficiencies are expected to result in a stronger organization that can create more value for our customers, shareholders and employees.

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

| | Preliminary Purchase Price |
|---|---|
| Cash | $ 3,750 |
| Financed by note payable | 1,939 |
| Issuance of common stock | 500 |
| Purchase price | $ 6,189 |

| | Preliminary Purchase Allocation |
|---|---|
| Trade receivables | $ 425 |
| Prepaid expense and other | 30 |
| Assumed liabilities | (255) |
| Furniture and equipment | 512 |
| Software product costs | 607 |
| Intangible assets | 2,126 |
| Goodwill | 2,744 |
| Purchase price allocation | $ 6,189 |

Intangible assets include the fair value of tradenames, customer relationships, and non-competition agreements. Estimated goodwill represents the additional benefits provided to the Company by the acquisition of DCi operational synergies. The Company acquired approximately $2,900,000 of tax deductible goodwill related to the DCi acquisition. The final purchase price, as well as the purchase price allocation, is subject to the completion of the final valuation of the net assets acquired and the calculation of the working capital adjustment as set forth in the asset purchase agreement. The final valuation is expected to be completed as soon as is practicable but no later than July 13, 2016 and could have a material impact on the preliminary purchase price allocation disclosed above.

TASCO Acquisition

On April 27, 2015, the Company acquired substantially all of the assets of TASCO Corporation and its affiliated company Signal Extraprise Corporation (collectively “TASCO”), a leading provider of business management software designed exclusively for the automotive tire and wheel aftermarket industry. Consideration for the acquisition included: (1) a cash payment at the closing of the transaction equal to $1,750,000, which was funded through a borrowing on the Company’s revolving credit facility; (2) 242,424 shares of the Company’s common stock; and (3) a $200,000 holdback payable on April 27, 2016. In October 2015, the holdback amount was reduced by $61,922 as a result of post-closing adjustments to the valuation of the net assets acquired, pursuant to the terms of the asset purchase agreement. The Company determined that the TASCO assets acquired did not constitute a business that is “significant” as defined in the applicable SEC regulations.

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

| | Preliminary Purchase Price |
|---|---|
| Cash | 1,750 |
| Issuance of common stock | 800 |
| Contingent holdback | 138 |
| Purchase price | 2,688 |

| | Preliminary Purchase Allocation |
|---|---|
| Trade receivables | 120 |
| Assumed liabilities | (227) |
| Software product costs | 291 |
| Intangible assets | 1,387 |
| Goodwill | 1,117 |
| Purchase price allocation | 2,688 |

The final purchase price, as well as the purchase price allocation, is subject to the completion of the final valuation of the net assets acquired and the calculation of the holdback payment, which is subject to set-off and a working capital adjustment as set forth in the asset purchase agreement. The final valuation is expected to be completed as soon as is practicable but no later than April 27, 2016 and could have a material impact on the preliminary purchase price allocation disclosed above.

TCS Acquisition

On September 30, 2014, the Company acquired substantially all of the assets of TCS, a leading provider of software, websites and digital marketing services designed exclusively for dealers, wholesalers, retreaders and manufacturers within the automotive tire and wheel industries. 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 in aggregate principal amount of $2,933,000 (as adjusted) to the former owners of TCS; and (4) a contingent earn-out purchase price contingent upon the attainment of specific revenue goals over the first three years following the acquisition.

The TCS acquisition increased the Company’s portfolio of ATW dealer websites by more than 30%. The acquisition is expected to accelerate ARI’s opportunity to drive organic growth through the cross selling of new products. It also provides solutions for the entire ATW supply chain, including wholesalers, retreaders and manufacturers. The TCS business offers a business management solution for ATW dealers as well as for auto repair shops. The combined customer benefits and operational efficiencies are expected to result in a stronger organization that can create more value for our customers, shareholders and employees.

The acquisition was funded from cash on hand, an increase in our SVB Term Loan, funds available on our revolving credit facility seller financing and the Company’s common stock. The following tables show the allocation of the purchase price (in thousands):

| | Purchase Price |
|---|---|
| Cash | $ 4,200 |
| Financed by note payable | 2,933 |
| Issuance of common stock | 1,980 |
| Contingent earn-out | 711 |
| Purchase price | $ 9,824 |

| | Purchase Allocation |
|---|---|
| Trade receivables | $ 606 |
| Prepaid expense and other | 33 |
| Assumed liabilities | (668) |
| Furniture and equipment | 117 |
| Software product costs | 820 |

| | | |
|---|---|---|
| Intangible assets | 4,080 | |
| Goodwill | | 4,836 |
| Purchase price allocation | $ 9,824 | |

Intangible assets include the fair value of tradenames, customer relationships, and non-competition agreements. Estimated goodwill represents the additional benefits provided to the Company by the acquisition of TCS operational synergies. The Company cannot determine revenue and expenses specifically related to the TCS operation since the date of acquisition, as we have begun integration of the businesses. The Company acquired approximately $5,200,000 of tax deductible goodwill related to the TCS acquisition.

Pro Forma Information

The following unaudited pro forma combined financial information presents the Company's results as if the Company had acquired TCS and DCi on August 1, 2014. The unaudited pro forma information has been prepared with the following considerations:

i. The unaudited pro forma condensed consolidated financial information has been prepared using the acquisition method of accounting under existing GAAP. The Company is the acquirer for accounting purposes.
ii. The pro forma combined financial information does not reflect any operating cost synergy savings that the combined company may achieve as a result of the acquisition, the costs necessary to achieve these operating synergy savings or additional charges necessary as a result of the acquisition.

The unaudited pro forma financial information presented is for information purposes only and does not purport to represent what the Company's, TCS's or DCi's financial position or results of operations would have been had the acquisition in fact occurred on such date or at the beginning of the period indicated, nor does it project the Company's and TCS's financial position or results of operation for any future date or period.

| | Three months ended October 31 | |
|---|---|---|
| | 2015 | 2014 |
| Revenue | $ 11,737 | $ 10,972 |
| Net income | $ 389 | $ 203 |
| | | |
| Net income per common share: | | |
| Basic | $ 0.02 | $ 0.01 |
| Diluted | $ 0.02 | $ 0.01 |

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

| | Three months ended October 31 | |
|---|---|---|
| | 2015 | 2014 |
| Amortization of intangible assets | - | 126 |
| Acquisition-related professional fees | - | (210) |
| Interest expense | - | 65 |
| Income tax benefit (expense) | - | 66 |

The Company reduced goodwill by approximately $100,000 during the quarter ended October 31, 2015, as a result of adjustments to the preliminary purchase price allocation of the TCS, TASCO and DCi acquisitions. The Company cannot determine revenue and expenses specifically related to its acquisitions since the date of acquisition, as we begin integrating these operations into our business upon closing of the acquisitions.

5. Contingent Liabilities

Consideration for the April 2015 TASCO acquisition includes a $138,078 (as adjusted) holdback payable on April 27, 2016, contingent on the final working capital balance of TASCO as of the transaction close date.

Consideration for the September 2014 TCS acquisition includes 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 at July 31, 2015.

Consideration for the 2012 Ready2Ride acquisition included a contingent hold-back purchase price of up to $250,000 and contingent earn-out payments as follows: (i) the first earn-out payment, composed of $125,000 was paid in October 2013 and 10,000 shares of common stock issued in November 2013; (ii) the second earn-out payment, composed of $125,000 and 15,000 shares of common stock, was paid in September 2014; and (iii) the third earn-out payment, composed of $125,000 and 15,000 shares of common stock, was paid in August 2015.

The following table shows changes in the holdback and earn-out payable related to the Ready2Ride, TCS and TASCO acquisitions (in thousands):

| | Three months ended October 31 | |
|---|---|---|
| | 2015 | 2014 |
| Beginning balance | $ 1,116 | $ 448 |
| Additions | — | 761 |
| Adjustments | (62) | — |
| Payments | (186) | (292) |
| Imputed interest recognized | 8 | 9 |
| Loss on change in fair value of earn-out | 8 | - |
| Ending balance | $ 884 | $ 926 |
| Less current portion | $ (639) | $ (165) |
| Ending balance, long-term | $ 245 | $ 761 |

14

The following table shows the remaining estimated payments of contingent liabilities related to the TCS and TASCO acquisitions at October 31, 2015, (in thousands):

| | |
|---|---|
| 2016 | $ 514 |
| 2017 | 268 |
| 2018 | 114 |
| 2019 | 22 |
| Total estimated payments | 918 |
| Less imputed interest | (34) |
| Present value of contingent liabilities | $ 884 |

6. Other Intangible Assets

Amortizable intangible assets include customer relationships and other intangibles including trade names and non-compete agreements. Amortizable intangible assets are composed of the following at October 31, 2015 and 2014 (in thousands):

| | Three months ended October 31, 2014 | | | Wtd. avg. |
|---|---|---|---|---|
| | Cost | Accumulated | Net | remaining |
| Customer relationships | Basis | Amortization | Value | life |
| Beginning balance | $ 7,174 | $ (3,584) | $ 3,590 | |
| Activity | 2,270 | (199) | 2,071 | |
| Ending balance | $ 9,444 | $ (3,783) | $ 5,661 | 9.00 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Other intangibles | | | | | | |
| Beginning balance | $ | 383 | $ | (361) | $ | 22 |