



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

	Three months ended April 30		Nine months ended April 30	
	2015	2014	2015	2014
Net revenue	\$ 10,280	\$ 8,176	\$ 29,531	\$ 24,471
Cost of revenue	1,780	1,560	5,391	4,806
Gross profit	8,500	6,616	24,140	19,665
Operating expenses:				
Sales and marketing	2,718	2,291	7,928	7,190
Customer operations and support	1,831	1,638	5,392	5,029
Software development and technical support (net of capitalized software product costs)	1,102	679	3,046	2,016
General and administrative	1,709	1,289	4,901	4,490
Depreciation and amortization (exclusive of amortization of software product costs included in cost of revenue)	465	354	1,245	1,014
Net operating expenses	<u>7,825</u>	<u>6,251</u>	<u>22,512</u>	<u>19,739</u>
Operating income (loss)	675	365	1,628	(74)
Other income (expense):				
Interest expense	(123)	(68)	(352)	(216)
Loss on change in fair value of stock warrants	—	4	—	(28)
Gain on change in fair value of estimated contingent liabilities	—	—	—	26
Gain on change in fair value of contingent assets	28	—	28	—
Other, net	2	12	5	27
Total other income (expense)	<u>(93)</u>	<u>(52)</u>	<u>(319)</u>	<u>(191)</u>
Income (loss) before provision for income tax	582	313	1,309	(265)
Income tax benefit (expense)	(243)	(153)	(606)	(11)
Net income (loss)	<u>\$ 339</u>	<u>\$ 160</u>	<u>\$ 703</u>	<u>\$ (276)</u>
Weighted average common shares outstanding:				
Basic	14,362	13,394	14,100	13,235
Diluted	14,786	13,790	14,536	13,235
Net income (loss) per common share:				
Basic	<u>\$ 0.02</u>	<u>\$ 0.01</u>	<u>\$ 0.05</u>	<u>\$ (0.02)</u>
Diluted	<u>\$ 0.02</u>	<u>\$ 0.01</u>	<u>\$ 0.05</u>	<u>\$ (0.02)</u>

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

	<i>(Unaudited)</i> Apr 30 2015	<i>(Audited)</i> July 31 2014
<b>ASSETS</b>		
Cash and cash equivalents	\$ 2,161	\$ 1,808
Trade receivables, less allowance for doubtful accounts of \$386 and \$359 at April 30, 2015 and July 31, 2014, respectively	2,271	1,212
Work in process	169	294
Prepaid expenses and other	1,114	1,030
Deferred income taxes	3,235	2,655
<i>Total current assets</i>	8,950	6,999
Equipment and leasehold improvements:		
Computer equipment and software for internal use	2,722	2,382
Leasehold improvements	626	626
Furniture and equipment	2,546	2,327
	5,894	5,335
Less accumulated depreciation and amortization	(4,026)	(3,564)
<i>Net equipment and leasehold improvements</i>	1,868	1,771
Capitalized software product costs:		
Amounts capitalized for software product costs	24,729	22,676
Less accumulated amortization	(20,216)	(18,656)
<i>Net capitalized software product costs</i>	4,513	4,020
Deferred income taxes	2,451	3,507
Other long-term assets	82	72
Other intangible assets	8,092	3,612
Goodwill	18,517	12,367
<i>Total non-current assets</i>	35,523	25,349
<b>Total assets</b>	<b>\$ 44,473</b>	<b>\$ 32,348</b>

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

	<i>(Unaudited)</i>	<i>(Audited)</i>
	<b>Apr 30</b>	<b>July 31</b>
	<b>2015</b>	<b>2014</b>
<b>LIABILITIES</b>		
Current portion of long-term debt	\$ 1,094	\$ 675
Current portion of contingent liabilities	627	295
Accounts payable	766	656
Deferred revenue	7,796	7,415
Accrued payroll and related liabilities	1,690	1,336
Accrued sales, use and income taxes	137	123
Other accrued liabilities	773	472
Current portion of capital lease obligations	216	195
<i>Total current liabilities</i>	<u>13,099</u>	<u>11,167</u>
Long-term borrowings on line of credit	1,750	—
Long-term debt	7,587	3,375
Long-term portion of contingent liabilities	477	153
Capital lease obligations	133	233
Other long-term liabilities	194	214
<i>Total non-current liabilities</i>	<u>10,141</u>	<u>3,975</u>
Total liabilities	<u>23,240</u>	<u>15,142</u>
<b>SHAREHOLDERS' EQUITY</b>		
Cumulative preferred stock, par value \$.001 per share, 1,000,000 shares authorized; 0 shares issued and outstanding at April 30, 2015 and July 31, 2014, respectively	—	—
Junior preferred stock, par value \$.001 per share, 100,000 shares authorized; 0 shares issued and outstanding at April 30, 2015 and July 31, 2014, respectively	—	—
Common stock, par value \$.001 per share, 25,000,000 shares authorized; 15,149,055 and 13,506,316 shares issued and outstanding at April 30, 2015 and July 31, 2014, respectively	15	14
Additional paid-in capital	109,356	106,077
Accumulated deficit	(88,161)	(88,864)
Other accumulated comprehensive income (loss)	23	(21)
Total shareholders' equity	<u>21,233</u>	<u>17,206</u>
Total liabilities and shareholders' equity	<u>\$ 44,473</u>	<u>\$ 32,348</u>

**ARI Network Services, Inc.**  
**Consolidated Statements of Cash Flows**  
(Dollars in Thousands)  
(Unaudited)

	<b>Nine months ended April 30</b>	
	<b>2015</b>	<b>2014</b>
<i>Operating activities:</i>		
Net income	\$ 703	\$ (276)
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of software products	1,560	1,494
Amortization of discount related to present value of earn-out	(10)	(12)
Amortization of bank loan fees	28	32
Interest expense related to earn-out payable	37	58
Depreciation and other amortization	1,245	1,014
Gain on change in fair value of earn-out receivable	(28)	-
Loss on change in fair value of stock warrants	-	28
Gain on change in fair value of earn-out payable	-	(26)
Provision for bad debt allowance	131	176
Deferred income taxes	531	(3)
Stock based compensation	198	197
Stock based director fees	107	132
Net change in assets and liabilities:		
Trade receivables	(594)	(1,068)
Work in process	125	(7)
Prepaid expenses and other	(141)	(29)
Other long-term assets	(139)	(56)
Accounts payable	69	(157)
Deferred revenue	142	(722)
Accrued payroll and related liabilities	349	110
Accrued sales, use and income taxes	5	(15)
Other accrued liabilities	277	172
<i>Net cash provided by operating activities</i>	<b>\$ 4,595</b>	<b>\$ 1,042</b>
<i>Investing activities:</i>		
Purchase of equipment, software and leasehold improvements	(469)	(592)
Cash received on earn-out from disposition of a component of the business	111	101
Cash paid for contingent liabilities related to acquisitions	(250)	(250)
Cash paid for net assets related to acquisitions	(5,950)	(200)
Software developed for internal use	-	(29)
Software development costs capitalized	(1,000)	(1,391)
<i>Net cash used in investing activities</i>	<b>\$ (7,558)</b>	<b>\$ (2,361)</b>
<i>Financing activities:</i>		
Borrowings under line of credit, net	\$ 1,750	\$ -
Payments on long-term debt	(470)	(337)
Borrowings under long-term debt	2,168	-
Proceeds from capital lease obligations incurred	-	312
Payments of capital lease obligations, net	(184)	(44)
Proceeds from issuance of common stock	75	237
<i>Net cash provided by financing activities</i>	<b>\$ 3,339</b>	<b>\$ 168</b>
Effect of foreign currency exchange rate changes on cash	(23)	(10)
Net change in cash and cash equivalents	353	(1,161)
Cash and cash equivalents at beginning of period	1,808	2,195
Cash and cash equivalents at end of period	<b>\$ 2,161</b>	<b>\$ 1,034</b>
<i>Cash paid for interest</i>	<b>\$ 256</b>	<b>\$ 222</b>
<i>Cash paid for income taxes</i>	<b>\$ 25</b>	<b>\$ 70</b>
<i>Non-cash investing and financing activities</i>		
Issuance of common stock in connection with acquisitions	\$ 2,780	\$ 131
Debt issued in connection with acquisitions	2,933	-
Capital leases acquired in connection with acquisitions	105	-
Issuance of common stock related to payment of contingent liabilities	42	33
Tax benefit of stock options exercised	55	-
Contingent liabilities incurred in connection with acquisition	911	-

## Reconciliation of Non-GAAP Measures

Earnings before interest, taxes, depreciation and amortization (EBITDA) for the three, nine and twelve months ended April 30, 2015 and 2014, respectively:

EBITDA:	FY2015	FY2014	FY2015	FY2014	FY2015	FY2014
	Q3	Q3	YTD	YTD	TTM	TTM
Net Income (loss)	\$ 339	\$ 160	\$ 703	\$ (276)	\$ 877	\$ (575)
Interest	123	68	352	216	422	308
Amortization of software products	458	532	1,560	1,494	2,118	1,923
Other depreciation and amortization	465	354	1,245	1,014	1,553	1,342
Loss on debt extinguishment	-	-	-	-	-	-
Loss on FMV of Warrant Derivatives	-	(4)	-	28	-	663
Loss on impairment of long-lived assets	-	-	-	-	35	-
Income taxes	243	153	606	11	836	325
EBITDA	\$ 1,628	\$ 1,263	\$ 4,466	\$ 2,487	\$ 5,841	\$ 3,986

Earnings before interest, taxes, depreciation and amortization (EBITDA) for the following fiscal quarters:

Quarterly	4/30/15	1/31/15	10/31/14	7/31/14	04/30/14	01/31/14	10/31/13	07/31/13
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
	2015	2015	2015	2014	2014	2014	2014	2013
Net Income (loss)	\$ 339	\$ 260	\$ 104	\$ 174	\$ 160	\$ (461)	\$ 25	\$ (299)
Interest	123	140	89	70	68	78	70	92
Amortization of software products	458	553	549	558	532	518	444	429
Other depreciation and amortization	465	408	372	308	354	339	321	328
Loss on debt extinguishment	0	0	0	0	0	0	0	0
Loss on FMV of Warrant Derivatives	0	0	0	0	(4)	10	22	635
Loss on impairment of long-lived assets	0	0	0	35	0	0	0	0
Income taxes	243	274	89	230	153	(226)	84	314
EBITDA	\$ 1,628	\$ 1,635	\$ 1,203	\$ 1,375	\$ 1,263	\$ 258	\$ 966	\$ 1,499

Trailing 12 months (TTM)								
Net Income (loss)	\$ 877	\$ 698	\$ (23)	\$ (102)	\$ (575)	\$ (1,306)	\$ (841)	\$ (753)
Interest	422	367	305	286	308	437	628	626
Amortization of software products	2,118	2,192	2,157	2,052	1,923	1,843	1,789	1,741
Other depreciation and amortization	1,553	1,442	1,373	1,322	1,342	1,322	1,322	1,281
Loss on debt extinguishment	0	0	0	0	0	682	682	682
Loss on FMV of Warrant Derivatives	0	(4)	6	28	663	667	657	635
Loss on impairment of long-lived assets	35	35	35	35	0	420	420	420
Income taxes	836	746	246	241	325	(566)	(1,175)	(1,133)
EBITDA	\$ 5,841	\$ 5,476	\$ 4,099	\$ 3,862	\$ 3,986	\$ 3,499	\$ 3,482	\$ 3,499

Management believes 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 depreciation and amortization expense in subsequent periods. The Company uses EBITDA as a factor in evaluating potential acquisition targets and analyzing the pro forma impact of the acquisition on the Company. However, 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.