



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	
	2016	2015	2016	2015
Net revenue	\$ 11,984	\$ 10,280	\$ 35,473	\$ 29,531
Cost of revenue	2,334	1,780	6,467	5,391
Gross profit	9,650	8,500	29,006	24,140
Operating expenses:				
Sales and marketing	2,801	2,718	8,314	7,928
Customer operations and support	2,374	1,831	7,248	5,392
Software development and technical support (net of capitalized software product costs)	1,221	1,102	3,795	3,046
General and administrative	1,732	1,709	5,247	4,901
Depreciation and amortization (exclusive of amortization of software product costs included in cost of revenue)	601	465	1,800	1,245
Net operating expenses	8,729	7,825	26,404	22,512
Operating income	921	675	2,602	1,628
Other income (expense):				
Interest expense	(118)	(123)	(350)	(352)
Other, net	13	30	5	33
Total other income (expense)	(105)	(93)	(345)	(319)
Income before provision for income tax	816	582	2,257	1,309
Income tax expense	(368)	(243)	(972)	(606)
Net income	<u>\$ 448</u>	<u>\$ 339</u>	<u>\$ 1,285</u>	<u>\$ 703</u>
Weighted average common shares outstanding:				
Basic	17,258	14,362	17,199	14,100
Diluted	17,769	14,786	17,689	14,536
Net income per common share:				
Basic	<u>\$ 0.03</u>	<u>\$ 0.02</u>	<u>\$ 0.07</u>	<u>\$ 0.05</u>
Diluted	<u>\$ 0.03</u>	<u>\$ 0.02</u>	<u>\$ 0.07</u>	<u>\$ 0.05</u>



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

	<i>(Unaudited)</i>	<i>(Audited)</i>
	April 30	July 31
	2016	2015
ASSETS		
Cash and cash equivalents	\$ 4,440	\$ 2,284
Trade receivables, less allowance for doubtful accounts of \$392 and \$372 at April 30, 2016 and July 31, 2015, respectively	2,294	2,046
Work in process	185	165
Prepaid expenses and other	851	820
Deferred income taxes	3,495	3,092
<i>Total current assets</i>	11,265	8,407
Equipment and leasehold improvements:		
Computer equipment and software for internal use	3,502	2,800
Leasehold improvements	629	629
Furniture and equipment	2,716	2,981
<i>Total equipment and leasehold improvements</i>	6,847	6,410
Less accumulated depreciation and amortization	(4,637)	(3,989)
<i>Net equipment and leasehold improvements</i>	2,210	2,421
Capitalized software product costs:		
Amounts capitalized for software product costs	27,006	25,463
Less accumulated amortization	(21,908)	(20,337)
<i>Net capitalized software product costs</i>	5,098	5,126
Deferred income taxes	1,135	2,398
Other intangible assets	8,275	10,116
Goodwill	21,639	21,168
<i>Total non-current assets</i>	38,357	41,229
Total assets	\$ 49,622	\$ 49,636
LIABILITIES		
Current portion of long-term debt	\$ 2,172	\$ 1,338
Current portion of contingent liabilities	382	754
Accounts payable	574	708
Deferred revenue	7,135	7,327
Accrued payroll and related liabilities	1,979	1,752
Accrued sales, use and income taxes	182	140
Other accrued liabilities	736	748
Current portion of capital lease obligations	56	174
<i>Total current liabilities</i>	13,216	12,941
Long-term debt	7,281	9,079
Long-term portion of contingent liabilities	124	362
Capital lease obligations	68	106
Other long-term liabilities	176	199
<i>Total non-current liabilities</i>	7,649	9,746
Total liabilities	20,865	22,687
SHAREHOLDERS' EQUITY		
Cumulative preferred stock, par value \$.001 per share, 1,000,000 shares authorized; 0 shares issued and outstanding at April 30, 2016 and July 31, 2015, respectively	—	—
Junior preferred stock, par value \$.001 per share, 100,000 shares authorized; 0 shares issued and outstanding at April 30, 2016 and July 31, 2015, respectively	—	—
Common stock, par value \$.001 per share, 25,000,000 shares authorized; 17,262,940 and 17,097,426 shares issued and outstanding at April 30, 2016 and July 31, 2015, respectively	17	17
Additional paid-in capital	115,243	114,700
Accumulated deficit	(86,508)	(87,793)
Other accumulated comprehensive income	5	25
<i>Total shareholders' equity</i>	28,757	26,949
Total liabilities and shareholders' equity	\$ 49,622	\$ 49,636

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

	Nine months ended April 30	
	2016	2015
<i>Operating activities:</i>		
Net income	\$ 1,285	\$ 703
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of software products	1,571	1,560
Non-cash interest expense	34	55
Depreciation and other amortization	1,800	1,245
(Gain) loss on change in fair value of earn-out receivable and payable	(5)	(28)
Provision for bad debt allowance	80	131
Deferred income taxes	860	531
Stock based compensation	316	305
Net change in assets and liabilities:		
Trade receivables	(308)	(594)
Work in process, prepaid expenses and other	(51)	(16)
Other long-term assets	-	(139)
Accounts payable	(145)	69
Deferred revenue	(252)	142
Accrued payroll and related liabilities	342	349
Accrued taxes and other accrued liabilities	16	282
<i>Net cash provided by operating activities</i>	<u>\$ 5,543</u>	<u>\$ 4,595</u>
<i>Investing activities:</i>		
Purchase of equipment, software and leasehold improvements	(557)	(469)
Cash received on earn-out from disposition of a component of the business	-	111
Cash paid for contingent liabilities related to acquisitions	(505)	(250)
Cash paid for net assets related to acquisitions	-	(5,950)
Software development costs capitalized	(1,310)	(1,000)
<i>Net cash used in investing activities</i>	<u>\$ (2,372)</u>	<u>\$ (7,558)</u>
<i>Financing activities:</i>		
Borrowings under line of credit, net	\$ -	\$ 1,750
Payments on long-term debt	(912)	(470)
Borrowings under long-term debt	-	2,168
Payments of capital lease obligations	(165)	(184)
Proceeds from exercise of common stock options	66	75
<i>Net cash provided by (used in) financing activities</i>	<u>\$ (1,011)</u>	<u>\$ 3,339</u>
Effect of foreign currency exchange rate changes on cash	(4)	(23)
Net change in cash and cash equivalents	<u>2,156</u>	<u>353</u>
Cash and cash equivalents at beginning of period	2,284	1,808
Cash and cash equivalents at end of period	<u>\$ 4,440</u>	<u>\$ 2,161</u>
<i>Cash paid for interest</i>	<u>\$ 338</u>	<u>\$ 256</u>
<i>Cash paid for income taxes</i>	<u>\$ 45</u>	<u>\$ 25</u>

Reconciliation of Non-GAAP Measures

Earnings before interest, taxes, depreciation and amortization (EBITDA) and Adjusted EBITDA for the three, nine and twelve months ended April 30, 2016 and 2015, respectively:

EBITDA:	FY2016	FY2015	FY2016	FY2015	FY2016	FY2015
	Q3	Q3	YTD	YTD	TTM	TTM
Net Income (loss)	\$ 448	\$ 339	\$ 1,285	\$ 703	\$ 1,653	\$ 877
Interest	118	123	350	352	463	422
Amortization of software products	531	458	1,571	1,560	2,034	2,118
Other depreciation and amortization	601	465	1,800	1,245	2,311	1,553
Loss on impairment of long-lived assets	-	-	-	-	-	35
Income taxes	368	243	972	606	1,177	836
EBITDA	\$ 2,066	\$ 1,628	\$ 5,978	\$ 4,466	\$ 7,638	\$ 5,841
Stock-based compensation	113	95	316	305	457	536
Adjusted EBITDA	\$ 2,179	\$ 1,723	\$ 6,294	\$ 4,771	\$ 8,095	\$ 6,377

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

Quarterly:	4/30/16	1/31/16	10/31/15	7/31/15	4/30/15	1/31/15	10/31/14	7/31/14
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
	2016	2016	2016	2015	2015	2015	2015	2014
Net Income (loss)	\$ 448	\$ 448	\$ 389	\$ 368	\$ 339	\$ 260	\$ 104	\$ 174
Interest	118	120	112	113	123	140	89	70
Amortization of software products	531	544	496	463	458	553	549	558
Other depreciation and amortization	601	590	609	511	465	408	372	308
Loss on impairment of long-lived assets	-	-	-	-	-	-	-	35
Income taxes	368	305	299	205	243	274	89	230
EBITDA	\$ 2,066	\$ 2,007	\$ 1,905	\$ 1,660	\$ 1,628	\$ 1,635	\$ 1,203	\$ 1,375
Stock-based compensation	113	88	115	141	95	107	103	231
Adjusted EBITDA	\$ 2,179	\$ 2,095	\$ 2,020	\$ 1,801	\$ 1,723	\$ 1,742	\$ 1,306	\$ 1,606

Trailing Twelve Months (TTM):

Net Income (loss)	\$ 1,653	\$ 1,544	\$ 1,356	\$ 1,071	\$ 877	\$ 698	\$ (23)	\$ (102)
Interest	463	468	488	465	422	367	305	286
Amortization of software products	2,034	1,961	1,970	2,023	2,118	2,192	2,157	2,052
Other depreciation and amortization	2,311	2,175	1,993	1,756	1,553	1,442	1,373	1,322
Loss on FMV of Warrant Derivatives	-	-	-	-	-	(4)	6	28
Loss on impairment of long-lived assets	-	-	-	-	35	35	35	35
Income taxes	1,177	1,052	1,021	811	836	746	246	241
EBITDA	\$ 7,638	\$ 7,200	\$ 6,828	\$ 6,126	\$ 5,841	\$ 5,476	\$ 4,099	\$ 3,862
Stock-based compensation	457	439	458	446	536	609	627	560
Adjusted EBITDA	\$ 8,095	\$ 7,639	\$ 7,286	\$ 6,572	\$ 6,377	\$ 6,085	\$ 4,726	\$ 4,422