



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

	Three months ended July 31		Twelve months ended July 31	
	2016	2015	2016	2015
	<i>(Unaudited)</i>	<i>(Unaudited)</i>	<i>(Unaudited)</i>	<i>(Audited)</i>
Net revenue	\$ 12,220	\$ 10,912	\$ 47,693	\$ 40,443
Cost of revenue	2,339	1,911	8,806	7,302
Gross profit	9,881	9,001	38,887	33,141
Operating expenses:				
Sales and marketing	2,533	2,499	10,847	10,427
Customer operations and support	2,692	2,419	9,940	7,811
Software development and technical support (net of capitalized software product costs)	1,298	1,153	5,093	4,199
General and administrative	1,809	1,731	7,056	6,634
Depreciation and amortization (exclusive of amortization of software product costs included in cost of revenue)	607	513	2,407	1,756
Net operating expenses	8,939	8,315	35,343	30,827
Operating income	942	686	3,544	2,314
Other income (expense):				
Interest expense	(110)	(113)	(460)	(465)
Other, net	5	—	10	33
Total other income (expense)	(105)	(113)	(450)	(432)
Income before provision for income tax	837	573	3,094	1,882
Income tax expense	(379)	(205)	(1,351)	(811)
Net income	\$ 458	\$ 368	\$ 1,743	\$ 1,071
Weighted average common shares outstanding:				
Basic	17,274	16,721	17,218	14,849
Diluted	17,792	17,117	17,710	15,279
Net income per common share:				
Basic	\$ 0.03	\$ 0.02	\$ 0.10	\$ 0.07
Diluted	\$ 0.03	\$ 0.02	\$ 0.10	\$ 0.07

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

	<i>(Unaudited)</i> July 31 2016	<i>(Audited)</i> July 31 2015
<b>ASSETS</b>		
Cash and cash equivalents	\$ 5,118	\$ 2,284
Trade receivables, less allowance for doubtful accounts of \$211 and \$372 at July 31, 2016 and 2015, respectively	1,942	2,046
Work in process	132	165
Prepaid expenses and other	781	820
Deferred income taxes	3,182	3,092
<i>Total current assets</i>	11,155	8,407
Equipment and leasehold improvements:		
Computer equipment and software for internal use	3,575	2,800
Leasehold improvements	639	629
Furniture and equipment	2,544	2,981
<i>Total equipment and leasehold improvements</i>	6,758	6,410
Less accumulated depreciation and amortization	(4,237)	(3,989)
<i>Net equipment and leasehold improvements</i>	2,521	2,421
Capitalized software product costs:		
Amounts capitalized for software product costs	24,774	25,463
Less accumulated amortization	(19,743)	(20,337)
<i>Net capitalized software product costs</i>	5,031	5,126
Deferred income taxes	1,112	2,398
Other intangible assets	7,890	10,116
Goodwill	21,634	21,168
<i>Total non-current assets</i>	38,188	41,229
<b>Total assets</b>	\$ 49,343	\$ 49,636
<b>LIABILITIES</b>		
Current portion of long-term debt	\$ 2,417	\$ 1,338
Current portion of contingent liabilities	331	754
Accounts payable	718	708
Deferred revenue	6,763	7,327
Accrued payroll and related liabilities	1,817	1,752
Accrued sales, use and income taxes	297	140
Other accrued liabilities	677	748
Current portion of capital lease obligations	50	174
<i>Total current liabilities</i>	13,070	12,941
Long-term debt	6,658	9,079
Long-term portion of contingent liabilities	60	362
Capital lease obligations	63	106
Other long-term liabilities	166	199
<i>Total non-current liabilities</i>	6,947	9,746
<b>Total liabilities</b>	20,017	22,687
<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, 2016 and 2015, respectively	—	—
Junior preferred stock, par value \$.001 per share, 100,000 shares authorized; 0 shares issued and outstanding at July 31, 2016 and 2015, respectively	—	—
Common stock, par value \$.001 per share, 25,000,000 shares authorized; 17,310,763 and 17,097,426 shares issued and outstanding at July 31, 2016 and 2015, respectively	17	17
Additional paid-in capital	115,364	114,700
Accumulated deficit	(86,050)	(87,793)
Other accumulated comprehensive income	(5)	25
<i>Total shareholders' equity</i>	29,326	26,949
<b>Total liabilities and shareholders' equity</b>	\$ 49,343	\$ 49,636



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

	Twelve months ended July 31	
	2016	2015
	<i>(Unaudited)</i>	<i>(Audited)</i>
<i>Operating activities:</i>		
Net income	\$ 1,743	\$ 1,071
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of software products	2,108	2,023
Amortization of deferred loan fees and imputed interest expense	42	77
Depreciation and other amortization	2,407	1,756
Gain on change in fair value of earn-out receivable and payable	(5)	(28)
Provision for bad debt allowance	55	168
Deferred income taxes	1,196	720
Stock based compensation	427	446
Net change in assets and liabilities:		
Trade receivables	74	114
Work in process, prepaid expenses and other	68	153
Other long-term assets	-	(50)
Accounts payable	(1)	(75)
Deferred revenue	(618)	(584)
Accrued payroll and related liabilities	167	266
Accrued taxes and other accrued liabilities	62	256
<i>Net cash provided by operating activities</i>	<i>\$ 7,725</i>	<i>\$ 6,313</i>
<i>Investing activities:</i>		
Purchase of equipment, software and leasehold improvements	(1,090)	(692)
Cash received on earn-out from disposition of a component of the business	-	111
Cash paid for contingent liabilities related to acquisitions	(626)	(250)
Cash paid for net assets related to acquisitions	-	(9,700)
Software development costs capitalized	(1,780)	(1,411)
<i>Net cash used in investing activities</i>	<i>\$ (3,496)</i>	<i>\$ (11,942)</i>
<i>Financing activities:</i>		
Payments on long-term debt	(1,298)	(622)
Borrowings under long-term debt	-	2,168
Payments of capital lease obligations	(176)	(253)
Net proceeds from public equity offering	-	4,756
Proceeds from exercise of common stock options and warrants	93	78
<i>Net cash provided by (used in) financing activities</i>	<i>\$ (1,381)</i>	<i>\$ 6,127</i>
Effect of foreign currency exchange rate changes on cash	(14)	(22)
Net change in cash and cash equivalents	2,834	476
Cash and cash equivalents at beginning of period	2,284	1,808
Cash and cash equivalents at end of period	\$ 5,118	\$ 2,284
<i>Cash paid for interest</i>	<i>\$ 442</i>	<i>\$ 350</i>
<i>Cash paid for income taxes</i>	<i>\$ 46</i>	<i>\$ 64</i>

**Reconciliation of Non-GAAP Measures**  
*(Unaudited)*

Earnings before interest, taxes, depreciation and amortization (EBITDA) and Adjusted EBITDA for the three and twelve months ended July 31, 2016 and 2015, respectively:

EBITDA:	FY2016	FY2015	FY2016	FY2015
	Q4	Q4	YTD	YTD
Net Income (loss)	\$ 458	\$ 368	\$ 1,743	\$ 1,071
Interest	110	113	460	465
Amortization of software products	537	463	2,108	2,023
Other depreciation and amortization	607	511	2,407	1,756
Income taxes	379	205	1,351	811
EBITDA	\$ 2,091	\$ 1,660	\$ 8,069	\$ 6,126
Stock-based compensation	111	141	427	446
Adjusted EBITDA	\$ 2,202	\$ 1,801	\$ 8,496	\$ 6,572

*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 depreciation and amortization expense in subsequent periods. The Company uses Adjusted EBITDA as a factor in evaluating potential acquisition targets and analyzing the pro forma impact of the acquisition on the Company. 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 Company began using EBITDA, adjusted to add back non-cash, stock-based compensation, as a performance measure during the fourth quarter of fiscal 2015. All prior periods have been updated to reflect this presentation.*