



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	
	2017	2016	2017	2016
Net revenue	\$ 13,425	\$ 11,984	\$ 38,941	\$ 35,473
Cost of revenue	2,612	2,334	7,504	6,467
Gross profit	10,813	9,650	31,437	29,006
Operating expenses:				
Sales and marketing	2,595	2,801	8,104	8,314
Customer operations and support	2,618	2,374	8,258	7,248
Software development and technical support (net of capitalized software product costs)	1,505	1,221	4,321	3,795
General and administrative	1,864	1,732	5,770	5,247
Depreciation and amortization (exclusive of amortization of software product costs included in cost of revenue)	744	601	2,057	1,800
Net operating expenses	9,326	8,729	28,510	26,404
Operating income	1,487	921	2,927	2,602
Other income (expense):				
Interest expense	(200)	(118)	(526)	(350)
Other, net	9	13	11	5
Total other income (expense)	(191)	(105)	(515)	(345)
Income before provision for income tax	1,296	816	2,412	2,257
Income tax expense	129	(368)	(389)	(972)
Net income	<u>\$ 1,425</u>	<u>\$ 448</u>	<u>\$ 2,023</u>	<u>\$ 1,285</u>
Weighted average common shares outstanding:				
Basic	17,493	17,258	17,461	17,199
Diluted	18,010	17,769	17,960	17,689
Net income per common share:				
Basic	<u>\$ 0.08</u>	<u>\$ 0.03</u>	<u>\$ 0.12</u>	<u>\$ 0.07</u>
Diluted	<u>\$ 0.08</u>	<u>\$ 0.03</u>	<u>\$ 0.11</u>	<u>\$ 0.07</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
	2017	2016
ASSETS		
Cash and cash equivalents	\$ 5,555	\$ 5,118
Trade receivables, less allowance for doubtful accounts of \$225 and \$211 at April 30, 2017 and July 31, 2016, respectively	2,944	1,942
Work in process	199	132
Prepaid expenses and other	829	781
Deferred income taxes	3,259	3,182
<i>Total current assets</i>	<u>12,786</u>	<u>11,155</u>
Equipment and leasehold improvements:		
Computer equipment and software for internal use	3,693	3,575
Leasehold improvements	724	639
Furniture and equipment	2,717	2,544
<i>Total equipment and leasehold improvements</i>	<u>7,134</u>	<u>6,758</u>
Less accumulated depreciation and amortization	(4,874)	(4,237)
<i>Net equipment and leasehold improvements</i>	<u>2,260</u>	<u>2,521</u>
Capitalized software product costs:		
Amounts capitalized for software product costs	28,235	24,774
Less accumulated amortization	(21,526)	(19,743)
<i>Net capitalized software product costs</i>	<u>6,709</u>	<u>5,031</u>
Deferred income taxes	664	1,112
Other intangible assets	9,702	7,890
Goodwill	28,037	21,634
<i>Total non-current assets</i>	<u>47,372</u>	<u>38,188</u>
Total assets	<u><u>\$ 60,158</u></u>	<u><u>\$ 49,343</u></u>
LIABILITIES		
Current portion of long-term debt	\$ 2,940	\$ 2,417
Current portion of contingent liabilities	325	331
Accounts payable	832	718
Deferred revenue	6,381	6,763
Accrued payroll and related liabilities	2,370	1,817
Accrued sales, use and income taxes	326	297
Other accrued liabilities	899	677
Current portion of capital lease obligations	47	50
<i>Total current liabilities</i>	<u>14,120</u>	<u>13,070</u>
Long-term debt	12,588	6,658
Long-term portion of contingent liabilities	1,244	60
Capital lease obligations	28	63
Other long-term liabilities	130	166
<i>Total non-current liabilities</i>	<u>13,990</u>	<u>6,947</u>
Total liabilities	<u>28,110</u>	<u>20,017</u>
SHAREHOLDERS' EQUITY		
Cumulative preferred stock, par value \$.001 per share, 1,000,000 shares authorized; 0 shares issued and outstanding at April 30, 2017 and July 31, 2016, respectively	—	—
Junior preferred stock, par value \$.001 per share, 100,000 shares authorized; 0 shares issued and outstanding at April 30, 2017 and July 31, 2016, respectively	—	—
Common stock, par value \$.001 per share, 25,000,000 shares authorized; 17,421,719 and 17,310,763 shares issued and outstanding at April 30, 2017 and July 31, 2016, respectively	17	17
Additional paid-in capital	116,062	115,364
Accumulated deficit	(84,027)	(86,050)
Other accumulated comprehensive income	(4)	(5)
<i>Total shareholders' equity</i>	<u>32,048</u>	<u>29,326</u>
Total liabilities and shareholders' equity	<u><u>\$ 60,158</u></u>	<u><u>\$ 49,343</u></u>



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

	Nine months ended April 30	
	2017	2016
<i>Operating activities:</i>		
Net income	\$ 2,023	\$ 1,285
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of software products	1,783	1,571
Amortization of deferred loan fees and imputed interest expense	59	34
Depreciation and other amortization	2,057	1,800
Gain on change in fair value of earn-out receivable and payable	-	(5)
Provision for bad debt allowance	11	80
Deferred income taxes	371	860
Stock based compensation	476	316
Net change in assets and liabilities:		
Trade receivables	(130)	(308)
Work in process, prepaid expenses and other	(77)	(51)
Accounts payable	59	(145)
Deferred revenue	(425)	(252)
Accrued payroll and related liabilities	608	342
Accrued taxes and other accrued liabilities	217	16
<i>Net cash provided by operating activities</i>	\$ 7,032	\$ 5,543
<i>Investing activities:</i>		
Purchase of equipment, software and leasehold improvements	(235)	(557)
Cash paid for net assets related to acquisitions	(11,066)	-
Cash paid for contingent liabilities related to acquisitions	(261)	(505)
Software development costs capitalized	(1,521)	(1,310)
<i>Net cash used in investing activities</i>	\$ (13,083)	\$ (2,372)
<i>Financing activities:</i>		
Payments on long-term debt	\$ (1,658)	\$ (912)
Borrowings under long-term debt	8,081	-
Payments of capital lease obligations	(38)	(165)
Proceeds from exercise of common stock options and warrants	117	66
<i>Net cash provided by (used in) financing activities</i>	\$ 6,502	\$ (1,011)
Effect of foreign currency exchange rate changes on cash	(14)	(4)
Net change in cash and cash equivalents	437	2,156
Cash and cash equivalents at beginning of period	5,118	2,284
Cash and cash equivalents at end of period	\$ 5,555	\$ 4,440
<i>Cash paid for interest</i>	\$ 392	\$ 338
<i>Cash paid for income taxes</i>	\$ 106	\$ 45



ARI Network Services, Inc.
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, 2017 and 2016, respectively:

EBITDA:	FY2017	FY2016	FY2017	FY2016	FY2017	FY2016
	Q3	Q3	YTD	YTD	TTM	TTM
Net Income (loss)	\$ 1,425	\$ 448	\$ 2,023	\$ 1,285	\$ 2,481	\$ 1,653
Interest	200	118	526	350	636	463
Amortization of software products	633	531	1,783	1,571	2,320	2,034
Other depreciation and amortization	744	601	2,057	1,800	2,664	2,311
Loss on debt extinguishment	-	-	-	-	-	-
Loss on FMV of Warrant Derivatives	-	-	-	-	-	-
Loss on impairment of long-lived assets	-	-	-	-	-	-
Income taxes	(129)	368	389	972	768	1,177
EBITDA	\$ 2,873	\$ 2,066	\$ 6,778	\$ 5,978	\$ 8,869	\$ 7,638
Stock-based compensation	153	113	476	316	587	457
Adjusted EBITDA	\$ 3,026	\$ 2,179	\$ 7,254	\$ 6,294	\$ 9,456	\$ 8,095

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

Quarterly:	4/30/17	1/31/17	10/31/16	7/31/16	4/30/16	1/31/16	10/31/15	7/31/15
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
	2017	2017	2017	2016	2016	2016	2016	2015
Net Income (loss)	\$ 1,425	\$ 242	\$ 356	\$ 458	\$ 448	\$ 448	\$ 389	\$ 368
Interest	200	218	108	110	118	120	112	113
Amortization of software products	633	628	522	537	531	544	496	463
Other depreciation and amortization	744	738	575	607	601	590	609	511
Loss on debt extinguishment	-	-	-	-	-	-	-	-
Loss on FMV of Warrant Derivatives	-	-	-	-	-	-	-	-
Loss on impairment of long-lived assets	-	-	-	-	-	-	-	-
Income taxes	(129)	213	305	379	368	305	299	205
EBITDA	\$ 2,873	\$ 2,039	\$ 1,866	\$ 2,091	\$ 2,066	\$ 2,007	\$ 1,905	\$ 1,660
Stock-based compensation	153	174	149	111	113	88	115	141
Adjusted EBITDA	\$ 3,026	\$ 2,213	\$ 2,015	\$ 2,202	\$ 2,179	\$ 2,095	\$ 2,020	\$ 1,801

Trailing Twelve Months (TTM):

Net Income (loss)	\$ 2,481	\$ 1,504	\$ 1,710	\$ 1,743	\$ 1,653	\$ 1,544	\$ 1,356	\$ 1,071
Interest	636	554	456	460	463	468	488	465
Amortization of software products	2,320	2,218	2,134	2,108	2,034	1,961	1,970	2,023
Other depreciation and amortization	2,664	2,521	2,373	2,407	2,311	2,175	1,993	1,756
Loss on debt extinguishment	-	-	-	-	-	-	-	-
Loss on FMV of Warrant Derivatives	-	-	-	-	-	-	-	-
Loss on impairment of long-lived assets	-	-	-	-	-	-	-	-
Income taxes	768	1,265	1,357	1,351	1,177	1,052	1,021	811
EBITDA	\$ 8,869	\$ 8,062	\$ 8,030	\$ 8,069	\$ 7,638	\$ 7,200	\$ 6,828	\$ 6,126
Stock-based compensation	587	547	461	427	457	439	458	446
Adjusted EBITDA	\$ 9,456	\$ 8,609	\$ 8,491	\$ 8,496	\$ 8,095	\$ 7,639	\$ 7,286	\$ 6,572