



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

	<b>Three months ended October 31</b>	
	<b>2016</b>	<b>2015</b>
Net revenue	\$ 12,272	\$ 11,737
Cost of revenue	2,289	2,069
Gross profit	9,983	9,668
Operating expenses:		
Sales and marketing	2,687	2,765
Customer operations and support	2,755	2,446
Software development and technical support (net of capitalized software product costs)	1,256	1,255
General and administrative	1,942	1,785
Depreciation and amortization (exclusive of amortization of software product costs included in cost of revenue)	575	609
Net operating expenses	9,215	8,860
Operating income	768	808
Other income (expense):		
Interest expense	(108)	(112)
Other, net	1	(8)
Total other income (expense)	(107)	(120)
Income before provision for income tax	661	688
Income tax expense	(305)	(299)
Net income	\$ 356	\$ 389
Weighted average common shares outstanding:		
Basic	17,424	17,152
Diluted	17,929	17,604
Net income per common share:		
Basic	\$ 0.02	\$ 0.02
Diluted	\$ 0.02	\$ 0.02

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

	<i>(Unaudited)</i> October 31 2016	<i>(Audited)</i> July 31 2016
<b>ASSETS</b>		
Cash and cash equivalents	\$ 5,617	\$ 5,118
Trade receivables, less allowance for doubtful accounts of \$175 and \$211 at October 31, 2016 and July 31, 2016, respectively	1,817	1,942
Work in process	73	132
Prepaid expenses and other	682	781
Deferred income taxes	2,892	3,182
<i>Total current assets</i>	<u>11,081</u>	<u>11,155</u>
Equipment and leasehold improvements:		
Computer equipment and software for internal use	3,579	3,575
Leasehold improvements	639	639
Furniture and equipment	2,591	2,544
<i>Total equipment and leasehold improvements</i>	<u>6,809</u>	<u>6,758</u>
Less accumulated depreciation and amortization	(4,437)	(4,237)
<i>Net equipment and leasehold improvements</i>	<u>2,372</u>	<u>2,521</u>
Capitalized software product costs:		
Amounts capitalized for software product costs	25,384	24,774
Less accumulated amortization	(20,265)	(19,743)
<i>Net capitalized software product costs</i>	<u>5,119</u>	<u>5,031</u>
Deferred income taxes	1,123	1,112
Other intangible assets	7,518	7,890
Goodwill	21,634	21,634
<i>Total non-current assets</i>	<u>37,766</u>	<u>38,188</u>
<b>Total assets</b>	<u>\$ 48,847</u>	<u>\$ 49,343</u>
<b>LIABILITIES</b>		
Current portion of long-term debt	\$ 2,510	\$ 2,417
Current portion of contingent liabilities	273	331
Accounts payable	785	718
Deferred revenue	5,818	6,763
Accrued payroll and related liabilities	2,327	1,817
Accrued sales, use and income taxes	252	297
Other accrued liabilities	707	677
Current portion of capital lease obligations	50	50
<i>Total current liabilities</i>	<u>12,722</u>	<u>13,070</u>
Long-term debt	6,031	6,658
Long-term portion of contingent liabilities	—	60
Capital lease obligations	51	63
Other long-term liabilities	155	166
<i>Total non-current liabilities</i>	<u>6,237</u>	<u>6,947</u>
<b>Total liabilities</b>	18,959	20,017
<b>SHAREHOLDERS' EQUITY</b>		
Cumulative preferred stock, par value \$.001 per share, 1,000,000 shares authorized; 0 shares issued and outstanding at October 31, 2016 and July 31, 2016, respectively	—	—
Junior preferred stock, par value \$.001 per share, 100,000 shares authorized; 0 shares issued and outstanding at October 31, 2016 and July 31, 2016, respectively	—	—
Common stock, par value \$.001 per share, 25,000,000 shares authorized; 17,445,532 and 17,310,763 shares issued and outstanding at October 31, 2016 and July 31, 2016, respectively	17	17
Additional paid-in capital	115,571	115,364
Accumulated deficit	(85,694)	(86,050)
Other accumulated comprehensive income	(6)	(5)
<i>Total shareholders' equity</i>	<u>29,888</u>	<u>29,326</u>
<b>Total liabilities and shareholders' equity</b>	<u>\$ 48,847</u>	<u>\$ 49,343</u>



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

	<b>Three months ended October 31</b>	
	<b>2016</b>	<b>2015</b>
<i>Operating activities:</i>		
Net income	\$ 356	\$ 389
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of software products	522	496
Amortization of deferred loan fees and imputed interest expense	10	5
Depreciation and other amortization	575	610
Gain on change in fair value of earn-out receivable and payable	-	8
Provision for bad debt allowance	(6)	25
Deferred income taxes	279	293
Stock based compensation	149	115
Net change in assets and liabilities:		
Trade receivables	131	(102)
Work in process, prepaid expenses and other	135	115
Accounts payable	67	71
Deferred revenue	(945)	(700)
Accrued payroll and related liabilities	519	435
Accrued taxes and other accrued liabilities	(26)	(25)
<i>Net cash provided by operating activities</i>	\$ 1,766	\$ 1,735
<i>Investing activities:</i>		
Purchase of equipment, software and leasehold improvements	(51)	(167)
Cash paid for contingent liabilities related to acquisitions	(121)	(125)
Software development costs capitalized	(610)	(373)
<i>Net cash used in investing activities</i>	\$ (782)	\$ (665)
<i>Financing activities:</i>		
Payments on long-term debt	\$ (541)	\$ (151)
Payments of capital lease obligations	(12)	(65)
Proceeds from exercise of common stock options and warrants	72	43
<i>Net cash used in financing activities</i>	\$ (481)	\$ (173)
Effect of foreign currency exchange rate changes on cash	(4)	(2)
Net change in cash and cash equivalents	499	895
Cash and cash equivalents at beginning of period	5,118	2,284
Cash and cash equivalents at end of period	\$ 5,617	\$ 3,179
<i>Cash paid for interest</i>	\$ 103	\$ 113
<i>Cash paid for income taxes</i>	\$ 123	\$ 13

**ARI Network Services, Inc.**  
**Reconciliation of Non-GAAP Measures**  
*(Unaudited)*

	<b>Three months ended October 31</b>	
	<b>2016</b>	<b>2015</b>
Net income	\$ 356	\$ 389
Interest expense	108	112
Stock-based compensation expense	149	115
Amortization included in cost of sales	522	496
Depreciation and amortization	575	609
Income tax expense	305	299
Adjusted EBITDA	\$ 2,015	\$ 2,020
Revenue	\$ 12,272	\$ 11,737
Adjusted EBITDA as a % of revenue	16.4 %	17.2 %

*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.*