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

	Three months ended January 31		Six months ended January 31	
	2017	2016	2017	2016
Net revenue	\$ 13,244	\$ 11,752	\$ 25,516	\$ 23,489
Cost of revenue	2,603	2,064	4,892	4,133
Gross profit	10,641	9,688	20,624	19,356
Operating expenses:				
Sales and marketing	2,822	2,748	5,509	5,513
Customer operations and support	2,885	2,428	5,640	4,874
Software development and technical support (net of capitalized software product costs)	1,560	1,319	2,816	2,574
General and administrative	1,964	1,730	3,906	3,515
Depreciation and amortization (exclusive of amortization of software product costs included in cost of revenue)	738	590	1,313	1,199
Net operating expenses	9,969	8,815	19,184	17,675
Operating income	672	873	1,440	1,681
Other income (expense):				
Interest expense	(218)	(120)	(326)	(232)
Other, net	1	—	2	(8)
Total other income (expense)	(217)	(120)	(324)	(240)
Income before provision for income tax	455	753	1,116	1,441
Income tax expense	(213)	(305)	(518)	(604)
Net income	\$ 242	\$ 448	\$ 598	\$ 837
Weighted average common shares outstanding:				
Basic	17,468	17,188	17,446	17,170
Diluted	18,002	17,695	17,956	17,655
Net income per common share:				
Basic	\$ 0.01	\$ 0.03	\$ 0.03	\$ 0.05
Diluted	\$ 0.01	\$ 0.03	\$ 0.03	\$ 0.05

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

	<i>(Unaudited)</i>	<i>(Audited)</i>
	January 31	July 31
	2017	2016
ASSETS		
Cash and cash equivalents	\$ 4,555	\$ 5,118
Trade receivables, less allowance for doubtful accounts of \$225 and \$211 at January 31, 2017 and July 31, 2016, respectively	2,660	1,942
Work in process	145	132
Prepaid expenses and other	695	781
Deferred income taxes	2,827	3,182
<i>Total current assets</i>	10,882	11,155
Equipment and leasehold improvements:		
Computer equipment and software for internal use	3,648	3,575
Leasehold improvements	724	639
Furniture and equipment	2,643	2,544
<i>Total equipment and leasehold improvements</i>	7,015	6,758
Less accumulated depreciation and amortization	(4,649)	(4,237)
<i>Net equipment and leasehold improvements</i>	2,366	2,521
Capitalized software product costs:		
Amounts capitalized for software product costs	27,801	24,774
Less accumulated amortization	(20,893)	(19,743)
<i>Net capitalized software product costs</i>	6,908	5,031
Deferred income taxes	968	1,112
Other intangible assets	10,225	7,890
Goodwill	28,034	21,634
<i>Total non-current assets</i>	48,501	38,188
Total assets	\$ 59,383	\$ 49,343
LIABILITIES		
Current portion of long-term debt	\$ 2,921	\$ 2,417
Current portion of contingent liabilities	206	331
Accounts payable	1,150	718
Deferred revenue	5,329	6,763
Accrued payroll and related liabilities	2,308	1,817
Accrued sales, use and income taxes	336	297
Other accrued liabilities	1,641	677
Current portion of capital lease obligations	50	50
<i>Total current liabilities</i>	13,941	13,070
Long-term debt	13,319	6,658
Long-term portion of contingent liabilities	1,420	60
Capital lease obligations	39	63
Other long-term liabilities	142	166
<i>Total non-current liabilities</i>	14,920	6,947
Total liabilities	28,861	20,017
SHAREHOLDERS' EQUITY		
Cumulative preferred stock, par value \$.001 per share, 1,000,000 shares authorized; 0 shares issued and outstanding at January 31, 2017 and July 31, 2016, respectively	—	—
Junior preferred stock, par value \$.001 per share, 100,000 shares authorized; 0 shares issued and outstanding at January 31, 2017 and July 31, 2016, respectively	—	—
Common stock, par value \$.001 per share, 25,000,000 shares authorized; 17,526,856 and 17,310,763 shares issued and outstanding at January 31, 2017 and July 31, 2016, respectively	17	17
Additional paid-in capital	115,957	115,364
Accumulated deficit	(85,452)	(86,050)
Other accumulated comprehensive income	—	(5)
<i>Total shareholders' equity</i>	30,522	29,326
Total liabilities and shareholders' equity	\$ 59,383	\$ 49,343

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

	Six months ended January 31	
	2017	2016
<i>Operating activities:</i>		
Net income	\$ 598	\$ 837
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of software products	1,150	1,040
Amortization of deferred loan fees and imputed interest expense	35	19
Depreciation and other amortization	1,310	1,199
Gain on change in fair value of earn-out receivable and payable	-	8
Provision for bad debt allowance	(6)	78
Deferred income taxes	499	592
Stock based compensation	323	203
Net change in assets and liabilities:		
Trade receivables	171	(166)
Work in process, prepaid expenses and other	113	107
Accounts payable	377	4
Deferred revenue	(1,482)	(1,207)
Accrued payroll and related liabilities	606	144
Accrued taxes and other accrued liabilities	121	93
<i>Net cash provided by operating activities</i>	\$ 3,815	\$ 2,951
<i>Investing activities:</i>		
Purchase of equipment, software and leasehold improvements	(117)	(324)
Cash paid for net assets related to acquisitions	(10,205)	-
Cash paid for contingent liabilities related to acquisitions	(191)	(322)
Software development costs capitalized	(1,087)	(827)
<i>Net cash used in investing activities</i>	\$ (11,600)	\$ (1,473)
<i>Financing activities:</i>		
Payments on long-term debt	\$ (935)	\$ (530)
Borrowings under long-term debt	8,081	-
Payments of capital lease obligations	(24)	(121)
Proceeds from exercise of common stock options and warrants	103	56
<i>Net cash provided by (used in) financing activities</i>	\$ 7,225	\$ (595)
Effect of foreign currency exchange rate changes on cash	(3)	(1)
Net change in cash and cash equivalents	(563)	882
Cash and cash equivalents at beginning of period	5,118	2,284
Cash and cash equivalents at end of period	\$ 4,555	\$ 3,166
<i>Cash paid for interest</i>	\$ 200	\$ 227
<i>Cash paid for income taxes</i>	\$ 63	\$ 43

ARI Network Services, Inc.
Non-GAAP Disclosure of EBITDA
(Dollars in Thousands)

	Three months ended January 31		Six months ended January 31		Twelve months ended January 31	
	2017	2016	2017	2016	2017	2016
Net income	\$ 242	\$ 448	\$ 598	\$ 837	\$ 1,504	\$ 1,544
Interest expense	218	120	326	232	554	468
Stock-based compensation expense	174	88	323	203	547	439
Amortization included in cost of sales	628	544	1,150	1,040	2,218	1,961
Depreciation and amortization	738	590	1,313	1,199	2,521	2,175
Income tax expense	213	305	518	604	1,265	1,052
Adjusted EBITDA	\$ 2,213	\$ 2,095	\$ 4,228	\$ 4,115	\$ 8,609	\$ 7,639
Revenue	\$ 13,244	\$ 11,752	\$ 25,516	\$ 23,489	\$ 49,720	\$ 44,681
Adjusted EBITDA as a % of revenue	16.7 %	17.8 %	16.6 %	17.5 %	17.3 %	17.1 %