



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

	Three months ended July 31		Year ended July 31	
	2014	2013	2014	2013
	<i>(Unaudited)</i>	<i>(Unaudited)</i>	<i>(Unaudited)</i>	<i>(Audited)</i>
Net revenue	\$ 8,548	\$ 8,454	\$ 33,019	\$ 30,102
Cost of revenue	1,572	1,622	6,378	6,636
Gross profit	6,976	6,832	26,641	23,466
Operating expenses:				
Sales and marketing	2,154	2,021	9,344	7,480
Customer operations and support	1,616	1,728	6,645	5,834
Software development and technical support (net of capitalized software product costs)	701	653	2,717	2,648
General and administrative	1,732	1,547	6,222	6,005
Depreciation and amortization (exclusive of amortization of software product costs included in cost of revenue)	308	328	1,322	1,281
Loss on impairment of long-lived assets	35	—	35	420
Net operating expenses	6,546	6,277	26,285	23,668
Operating income (loss)	430	555	356	(202)
Other income (expense):				
Interest expense	(70)	(92)	(286)	(626)
Loss on debt extinguishment	—	—	—	(682)
Loss on change in fair value of stock warrants	—	(635)	(28)	(635)
Gain on change in fair value of estimated contingent liabilities	41	180	67	180
Gain on change in fair value of contingent assets	—	—	—	64
Other, net	3	8	30	15
Total other income (expense)	(26)	(539)	(217)	(1,684)
Income (loss) before provision for income tax	404	16	139	(1,886)
Income tax benefit (expense)	(230)	(314)	(241)	1,133
Net loss	\$ 174	\$ (298)	\$ (102)	\$ (753)
Net loss per common share:				
Basic	\$ 0.01	\$ (0.02)	\$ (0.01)	\$ (0.08)
Diluted	\$ 0.01	\$ (0.02)	\$ (0.01)	\$ (0.08)

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

	<i>(Unaudited)</i> July 31 2014	<i>(Audited)</i> July 31 2013
ASSETS		
Cash and cash equivalents	\$ 1,808	\$ 2,195
Trade receivables, less allowance for doubtful accounts of \$359 and \$220 at July 31, 2014 and 2013, respectively	1,212	945
Work in process	294	154
Prepaid expenses and other	1,030	934
Deferred income taxes	2,655	2,938
<i>Total current assets</i>	6,999	7,166
Equipment and leasehold improvements:		
Computer equipment and software for internal use	2,382	2,641
Leasehold improvements	626	609
Furniture and equipment	2,327	2,561
	5,335	5,811
Less accumulated depreciation and amortization	(3,564)	(3,948)
<i>Net equipment and leasehold improvements</i>	1,771	1,863
Capitalized software product costs:		
Amounts capitalized for software product costs	22,676	20,814
Less accumulated amortization	(18,656)	(16,604)
<i>Net capitalized software product costs</i>	4,020	4,210
Deferred income taxes	3,507	3,451
Other long term assets	72	141
Other intangible assets	3,612	4,099
Goodwill	12,367	12,198
<i>Total non-current assets</i>	25,349	25,962
Total assets	\$ 32,348	\$ 33,128



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

	<i>(Unaudited)</i> July 31 2014	<i>(Audited)</i> July 31 2013
LIABILITIES		
Current portion of long-term debt	\$ 675	\$ 450
Current portion of contingent liabilities	295	303
Accounts payable	656	710
Deferred revenue	7,415	8,571
Accrued payroll and related liabilities	1,336	1,434
Accrued sales, use and income taxes	123	147
Other accrued liabilities	472	316
Current portion of capital lease obligations	195	24
<i>Total current liabilities</i>	11,167	11,955
Long-term debt	3,375	4,050
Common stock warrants at fair value	—	254
Long-term portion of contingent liabilities	153	418
Capital lease obligations	233	169
Other long term liabilities	214	233
<i>Total non-current liabilities</i>	3,975	5,124
Total liabilities	15,142	17,079
SHAREHOLDERS' EQUITY		
Cumulative preferred stock, par value \$.001 per share, 1,000,000 shares authorized; 0 shares issued and outstanding at July 31, 2014 and July 31, 2013, respectively	—	—
Junior preferred stock, par value \$.001 per share, 100,000 shares authorized; 0 shares issued and outstanding at July 31, 2014 and July 31, 2013, respectively	—	—
Common stock, par value \$.001 per share, 25,000,000 shares authorized; 13,506,316 and 12,976,588 shares issued and outstanding at July 31, 2014 and 2013, respectively	14	13
Additional paid-in capital	106,077	104,816
Accumulated deficit	(88,864)	(88,762)
Other accumulated comprehensive loss	(21)	(18)
Total shareholders' equity	17,206	16,049
Total liabilities and shareholders' equity	\$ 32,348	\$ 33,128

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

	Year ended July 31	
	2014	2013
	<i>(Unaudited)</i>	<i>(Audited)</i>
<i>Operating activities:</i>		
Net loss	\$ (102)	\$ (753)
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of software products	2,052	1,741
Amortization of discount related to present value of earnout	(15)	(25)
Amortization of bank loan fees	26	160
Interest expense related to earnout payable	76	151
Depreciation and other amortization	1,322	1,281
Loss on impairment of long-lived assets	35	420
Gain on change in fair value of earnout receivable	—	(64)
Loss on debt extinguishment	—	682
Loss on change in fair value of stock warrants	28	635
Gain on change in fair value of earnout payable	(67)	(180)
Provision for bad debt allowance	279	194
Deferred income taxes	227	(1,260)
Stock based compensation	340	193
Stock based director fees	220	127
Net change in assets and liabilities:		
Trade receivables	(545)	98
Work in process	(140)	(3)
Prepaid expenses and other	(41)	(209)
Other long term assets	—	(170)
Accounts payable	(40)	(16)
Deferred revenue	(1,156)	(1,042)
Accrued payroll and related liabilities	(229)	873
Accrued sales, use and income taxes	(24)	(69)
Other accrued liabilities	137	(360)
<i>Net cash provided by operating activities</i>	\$ 2,383	\$ 2,404
<i>Investing activities:</i>		
Purchase of equipment, software and leasehold improvements	(631)	(722)
Cash received on earnout from disposition of a component of the business	101	147
Cash paid for contingent liabilities related to acquisitions	(249)	—
Net cash paid for net assets related to acquisitions	(241)	(2,479)
Software developed for internal use	(29)	(60)
Software development costs capitalized	(1,769)	(1,686)
<i>Net cash used in investing activities</i>	\$ (2,818)	\$ (4,800)
<i>Financing activities:</i>		
Payments on long-term debt	\$ (450)	\$ (8,172)
Borrowings under long-term debt	—	6,000
Proceeds from capital lease obligations incurred	312	—
Payments of capital lease obligations	(100)	(210)
Payment of stock issuance fees	—	(550)
Proceeds from exercise of common stock warrants	—	1,650
Proceeds from issuance of common stock	289	4,531
<i>Net cash provided by financing activities</i>	\$ 51	\$ 3,249
Effect of foreign currency exchange rate changes on cash	(3)	(8)
Net change in cash and cash equivalents	(387)	845
Cash and cash equivalents at beginning of period	2,195	1,350
Cash and cash equivalents at end of period	\$ 1,808	\$ 2,195
<i>Cash paid for interest</i>	\$ 292	\$ 596
<i>Cash paid for income taxes</i>	\$ 106	\$ 91

Reconciliation of Non-GAAP Measures
(Dollars in Thousands)
(Unaudited)

Earnings before interest, taxes, depreciation and amortization ("EBITDA") for the three and twelve months ended July 31, 2014 and 2013, respectively:

	Three months ended July 31		Year ended July 31	
	2014	2013	2014	2013
Net Income (loss)	\$ 174	\$ (299)	\$ (102)	\$ (753)
Interest	70	92	286	626
Amortization of software products	558	429	2,052	1,741
Other depreciation and amortization	308	328	1,322	1,281
Loss on debt extinguishment	—	—	—	682
Loss on FMV of Warrant Derivatives	—	635	28	635
Loss on impairment of long-lived assets	35	—	35	420
Income taxes	230	314	241	(1,133)
EBITDA	<u>\$ 1,375</u>	<u>\$ 1,499</u>	<u>\$ 3,862</u>	<u>\$ 3,499</u>