



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	
	2015	2014	2015	2014
Net revenue	\$ 10,139	\$ 8,135	\$ 19,251	\$ 16,295
Cost of revenue	1,862	1,686	3,611	3,246
Gross profit	8,277	6,449	15,640	13,049
Operating expenses:				
Sales and marketing	2,668	2,442	5,210	4,899
Customer operations and support	1,871	1,780	3,561	3,391
Software development and technical support (net of capitalized software product costs)	1,072	781	1,944	1,337
General and administrative	1,588	1,713	3,192	3,201
Depreciation and amortization (exclusive of amortization of software product costs included in cost of revenue)	408	339	780	660
Net operating expenses	7,607	7,055	14,687	13,488
Operating income	670	(606)	953	(439)
Other income (expense):				
Interest expense	(140)	(78)	(229)	(148)
Loss on change in fair value of stock warrants	—	(10)	—	(32)
Gain on change in fair value of estimated contingent liabilities	—	—	—	26
Other, net	4	7	3	15
Total other income (expense)	(136)	(81)	(226)	(139)
Income before provision for income tax	534	(687)	727	(578)
Income tax expense	(274)	226	(363)	142
Net income	\$ 260	\$ (461)	\$ 364	\$ (436)
Weighted-average common shares outstanding:				
Basic	14,393	13,184	14,043	13,154
Diluted	14,861	13,184	14,475	13,154
Net income per common share:				
Basic	\$ 0.02	\$ (0.03)	\$ 0.03	\$ (0.03)
Diluted	\$ 0.02	\$ (0.03)	\$ 0.03	\$ (0.03)



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

	<i>(Unaudited)</i> Jan 31 2015	<i>(Audited)</i> July 31 2014
ASSETS		
Cash and cash equivalents	\$ 1,688	\$ 1,808
Trade receivables, less allowance for doubtful accounts of \$446 and \$359 at January 31, 2015 and July 31, 2014, respectively	2,557	1,212
Work in process	149	294
Prepaid expenses and other	987	1,030
Deferred income taxes	2,481	2,655
<i>Total current assets</i>	7,862	6,999
Equipment and leasehold improvements:		
Computer equipment and software for internal use	2,585	2,382
Leasehold improvements	626	626
Furniture and equipment	2,500	2,327
	5,711	5,335
Less accumulated depreciation and amortization	(3,862)	(3,564)
<i>Net equipment and leasehold improvements</i>	1,849	1,771
Capitalized software product costs:		
Amounts capitalized for software product costs	24,184	22,676
Less accumulated amortization	(19,758)	(18,656)
<i>Net capitalized software product costs</i>	4,426	4,020
Deferred income taxes	3,422	3,507
Other long-term assets	115	72
Other intangible assets	7,233	3,612
Goodwill	17,201	12,367
<i>Total non-current assets</i>	34,246	25,349
Total assets	\$ 42,108	\$ 32,348



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

	<i>(Unaudited)</i> Jan 31 2015	<i>(Audited)</i> July 31 2014
LIABILITIES		
Current borrowings on line of credit	\$ 750	\$ —
Current portion of long-term debt	855	675
Current portion of contingent liabilities	668	295
Accounts payable	999	656
Deferred revenue	7,519	7,415
Accrued payroll and related liabilities	1,648	1,336
Accrued sales, use and income taxes	130	123
Other accrued liabilities	543	472
Current portion of capital lease obligations	263	195
<i>Total current liabilities</i>	<u>13,375</u>	<u>11,167</u>
Long-term debt	7,977	3,375
Long-term portion of contingent liabilities	227	153
Capital lease obligations	159	233
Other long-term liabilities	202	214
<i>Total non-current liabilities</i>	<u>8,565</u>	<u>3,975</u>
Total liabilities	<u>21,940</u>	<u>15,142</u>
SHAREHOLDERS' EQUITY		
Cumulative preferred stock, par value \$.001 per share, 1,000,000 shares authorized; 0 shares issued and outstanding at January 31, 2015 and July 31, 2014, respectively	—	—
Junior preferred stock, par value \$.001 per share, 100,000 shares authorized; 0 shares issued and outstanding at January 31, 2015 and July 31, 2014, respectively	—	—
Common stock, par value \$.001 per share, 25,000,000 shares authorized; 14,348,815 and 13,506,316 shares issued and outstanding at January 31, 2015 and July 31, 2014, respectively	14	14
Additional paid-in capital	108,638	106,077
Accumulated deficit	(88,500)	(88,864)
Other accumulated comprehensive loss	16	(21)
Total shareholders' equity	<u>20,168</u>	<u>17,206</u>
Total liabilities and shareholders' equity	<u>\$ 42,108</u>	<u>\$ 32,348</u>



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

	Six months ended January 31	
	2015	2014
<i>Operating activities:</i>		
Net income	\$ 364	\$ (436)
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of software products	1,102	962
Amortization of discount related to present value of earn-out	(7)	(8)
Amortization of bank loan fees	18	24
Interest expense related to earn-out payable	28	41
Depreciation and other amortization	778	656
Loss on change in fair value of stock warrants	-	32
Gain on change in fair value of earn-out payable	-	(26)
Provision for bad debt allowance	79	92
Deferred income taxes	314	(144)
Stock based compensation	141	89
Stock based director fees	69	72
Net change in assets and liabilities:		
Trade receivables	(842)	(835)
Work in process	145	(26)
Prepaid expenses and other	162	218
Other long-term assets	(112)	(5)
Accounts payable	303	156
Deferred revenue	(144)	(1,048)
Accrued payroll and related liabilities	283	(62)
Accrued sales, use and income taxes	(2)	(13)
Other accrued liabilities	55	288
<i>Net cash provided by operating activities</i>	\$ 2,734	\$ 27
<i>Investing activities:</i>		
Purchase of equipment, software and leasehold improvements	(279)	(523)
Cash received on earn-out from disposition of a component of the business	58	37
Cash paid for contingent liabilities related to acquisitions	(250)	(250)
Cash paid for net assets related to acquisitions	(4,200)	(200)
Software developed for internal use	-	(29)
Software development costs capitalized	(718)	(984)
<i>Net cash used in investing activities</i>	\$ (5,389)	\$ (1,949)
<i>Financing activities:</i>		
Borrowings under line of credit, net	750	\$ 400
Payments on long-term debt	(319)	(224)
Borrowings under long-term debt	2,168	-
Payments of capital lease obligations	(115)	(5)
Proceeds from issuance of common stock	72	141
<i>Net cash provided by financing activities</i>	\$ 2,556	\$ 312
Effect of foreign currency exchange rate changes on cash	(21)	(4)
Net change in cash and cash equivalents	(120)	(1,614)
Cash and cash equivalents at beginning of period	1,808	2,195
Cash and cash equivalents at end of period	\$ 1,688	\$ 581
<i>Cash paid for interest</i>	\$ 176	\$ 150
<i>Cash paid for income taxes</i>	\$ 55	\$ 70
<i>Non-cash investing and financing activities</i>		
Issuance of common stock in connection with acquisitions	\$ 1,980	\$ 131
Debt issued in connection with acquisitions	2,933	-
Capital leases acquired in connection with acquisitions	109	-
Issuance of common stock related to payment of contingent liabilities	42	33
Tax benefit of stock options exercised	55	-
Issuance of common stock related to payment of director compensation	69	234
Issuance of common stock related to payment of employee compensation	38	91
Contingent liabilities incurred in connection with acquisition	711	-

Reconciliation of Non-GAAP Measures

Earnings before interest, taxes, depreciation and amortization (EBITDA) for the three, six and twelve months ended January 31, 2015 and 2014, respectively:

EBITDA:	FY2015	FY2014	FY2015	FY2014	FY2015	FY2014
	Q2	Q2	YTD	YTD	TTM	TTM
Net Income (loss)	\$ 260	\$ (461)	\$ 364	\$ (436)	\$ 698	\$ (1,306)
Interest	140	78	229	148	367	437
Amortization of software products	553	518	1,102	962	2,192	1,843
Other depreciation and amortization	408	339	780	660	1,442	1,322
Loss on debt extinguishment	-	-	-	-	-	682
Loss on FMV of Warrant Derivatives	-	10	-	32	(4)	667
Loss on impairment of long-lived assets	-	-	-	-	35	420
Income taxes	274	(226)	363	(142)	746	(566)
EBITDA	\$ 1,635	\$ 258	\$ 2,838	\$ 1,224	\$ 5,476	\$ 3,499

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

Quarterly	1/31/15	10/31/14	7/31/14	04/30/14	01/31/14	10/31/13	07/31/13	04/30/13
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
	2015	2015	2014	2014	2014	2014	2013	2013
Net Income (loss)	\$ 260	\$ 104	\$ 174	\$ 160	\$ (461)	\$ 25	\$ (299)	\$ (571)
Interest	140	89	70	68	78	70	92	197
Amortization of software products	553	549	558	532	518	444	429	452
Other depreciation and amortization	408	372	308	354	339	321	328	334
Loss on debt extinguishment	0	0	0	0	0	0	0	682
Loss on FMV of Warrant Derivatives	0	0	0	(4)	10	22	635	0
Loss on impairment of long-lived assets	0	0	35	0	0	0	0	420
Income taxes	274	89	230	153	(226)	84	314	(738)
EBITDA	\$ 1,635	\$ 1,203	\$ 1,375	\$ 1,263	\$ 258	\$ 966	\$ 1,499	\$ 776

Trailing 12 months (TTM)								
Net Income (loss)	\$ 698	\$ (23)	\$ (102)	\$ (575)	\$ (1,306)	\$ (841)	\$ (753)	\$ 58
Interest	367	305	286	308	437	628	626	608
Amortization of software products	2,192	2,157	2,052	1,923	1,843	1,789	1,741	1,693
Other depreciation and amortization	1,442	1,373	1,322	1,342	1,322	1,322	1,281	1,245
Loss on debt extinguishment	0	0	0	0	682	682	682	682
Loss on FMV of Warrant Derivatives	(4)	6	28	663	667	657	635	0
Loss on impairment of long-lived assets	35	35	35	0	420	420	420	420
Income taxes	746	246	241	325	(566)	(1,175)	(1,133)	(1,605)
EBITDA	\$ 5,476	\$ 4,099	\$ 3,862	\$ 3,986	\$ 3,499	\$ 3,482	\$ 3,499	\$ 3,101

Management believes 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 EBITDA as a factor in evaluating potential acquisition targets and analyzing the pro forma impact of the acquisition on the Company. However, 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.