



**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	
	2016	2015	2016	2015
Net revenue	\$ 11,752	\$ 10,139	\$ 23,489	\$ 19,251
Cost of revenue	2,064	1,862	4,133	3,611
Gross profit	9,688	8,277	19,356	15,640
Operating expenses:				
Sales and marketing	2,748	2,668	5,513	5,210
Customer operations and support	2,428	1,871	4,874	3,561
Software development and technical support (net of capitalized software product costs)	1,319	1,072	2,574	1,944
General and administrative	1,730	1,588	3,515	3,192
Depreciation and amortization (exclusive of amortization of software product costs included in cost of revenue)	590	408	1,199	780
Net operating expenses	8,815	7,607	17,675	14,687
Operating income	873	670	1,681	953
Other income (expense):				
Interest expense	(120)	(140)	(232)	(229)
Other, net	—	4	(8)	3
Total other income (expense)	(120)	(136)	(240)	(226)
Income before provision for income tax	753	534	1,441	727
Income tax expense	(305)	(274)	(604)	(363)
Net income	\$ 448	\$ 260	\$ 837	\$ 364
Weighted average common shares outstanding:				
Basic	17,188	14,393	17,170	14,043
Diluted	17,695	14,861	17,655	14,475
Net income per common share:				
Basic	\$ 0.03	\$ 0.02	\$ 0.05	\$ 0.03
Diluted	\$ 0.03	\$ 0.02	\$ 0.05	\$ 0.03



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

	<i>(Unaudited)</i>	<i>(Audited)</i>
	January 31	July 31
	2016	2015
<b>ASSETS</b>		
Cash and cash equivalents	\$ 3,166	\$ 2,284
Trade receivables, less allowance for doubtful accounts of \$372 at January 31, 2016 and July 31, 2015	2,152	2,046
Work in process	184	165
Prepaid expenses and other	704	820
Deferred income taxes	3,145	3,092
<i>Total current assets</i>	9,351	8,407
Equipment and leasehold improvements:		
Computer equipment and software for internal use	3,356	2,800
Leasehold improvements	629	629
Furniture and equipment	2,624	2,981
<i>Total equipment and leasehold improvements</i>	6,609	6,410
Less accumulated depreciation and amortization	(4,413)	(3,989)
<i>Net equipment and leasehold improvements</i>	2,196	2,421
Capitalized software product costs:		
Amounts capitalized for software product costs	26,523	25,463
Less accumulated amortization	(21,377)	(20,337)
<i>Net capitalized software product costs</i>	5,146	5,126
Deferred income taxes	1,753	2,398
Other intangible assets	8,660	10,116
Goodwill	21,639	21,168
<i>Total non-current assets</i>	39,394	41,229
<b>Total assets</b>	\$ 48,745	\$ 49,636
<b>LIABILITIES</b>		
Current portion of long-term debt	\$ 1,929	\$ 1,338
Current portion of contingent liabilities	470	754
Accounts payable	723	708
Deferred revenue	6,165	7,327
Accrued payroll and related liabilities	1,772	1,752
Accrued sales, use and income taxes	208	140
Other accrued liabilities	787	748
Current portion of capital lease obligations	78	174
<i>Total current liabilities</i>	12,132	12,941
Long-term debt	7,899	9,079
Long-term portion of contingent liabilities	224	362
Capital lease obligations	81	106
Other long-term liabilities	185	199
<i>Total non-current liabilities</i>	8,389	9,746
<b>Total liabilities</b>	20,521	22,687
<b>SHAREHOLDERS' EQUITY</b>		
Cumulative preferred stock, par value \$.001 per share, 1,000,000 shares authorized; 0 shares issued and outstanding at January 31, 2016 and July 31, 2015, respectively	—	—
Junior preferred stock, par value \$.001 per share, 100,000 shares authorized; 0 shares issued and outstanding at January 31, 2016 and July 31, 2015, respectively	—	—
Common stock, par value \$.001 per share, 25,000,000 shares authorized; 17,257,728 and 17,097,426 shares issued and outstanding at January 31, 2016 and July 31, 2015, respectively	17	17
Additional paid-in capital	115,139	114,700
Accumulated deficit	(86,956)	(87,793)
Other accumulated comprehensive income	24	25
<i>Total shareholders' equity</i>	28,224	26,949
<b>Total liabilities and shareholders' equity</b>	\$ 48,745	\$ 49,636



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

	<b>Six months ended January 31</b>	
	<b>2016</b>	<b>2015</b>
<i>Operating activities:</i>		
Net income	\$ 837	\$ 364
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of software products	1,040	1,102
Non-cash interest expense	19	39
Depreciation and other amortization	1,199	778
Loss on change in fair value of earn-out payable	8	-
Provision for bad debt allowance	78	79
Deferred income taxes	592	314
Stock based compensation	147	141
Stock based director fees	56	69
Net change in assets and liabilities:		
Trade receivables	(166)	(842)
Work in process	(19)	145
Prepaid expenses and other	126	162
Other long-term assets	-	(112)
Accounts payable	4	303
Deferred revenue	(1,207)	(144)
Accrued payroll and related liabilities	144	283
Accrued sales, use and income taxes	68	(2)
Other accrued liabilities	25	55
<i>Net cash provided by operating activities</i>	<b>\$ 2,951</b>	<b>\$ 2,734</b>
<i>Investing activities:</i>		
Purchase of equipment, software and leasehold improvements	(324)	(279)
Cash received on earn-out from disposition of a component of the business	-	58
Cash paid for contingent liabilities related to acquisitions	(322)	(250)
Cash paid for net assets related to acquisitions	-	(4,200)
Software development costs capitalized	(827)	(718)
<i>Net cash used in investing activities</i>	<b>\$ (1,473)</b>	<b>\$ (5,389)</b>
<i>Financing activities:</i>		
Borrowings under line of credit, net	\$ -	\$ 750
Payments on long-term debt	(530)	(319)
Borrowings under long-term debt	-	2,168
Payments of capital lease obligations	(121)	(115)
Proceeds from exercise of common stock options	56	72
<i>Net cash provided by (used in) financing activities</i>	<b>\$ (595)</b>	<b>\$ 2,556</b>
Effect of foreign currency exchange rate changes on cash	(1)	(21)
Net change in cash and cash equivalents	882	(120)
Cash and cash equivalents at beginning of period	2,284	1,808
Cash and cash equivalents at end of period	<b>\$ 3,166</b>	<b>\$ 1,688</b>
<i>Cash paid for interest</i>	<b>\$ 227</b>	<b>\$ 176</b>
<i>Cash paid for income taxes</i>	<b>\$ 43</b>	<b>\$ 55</b>



ARI Network Services, Inc.  
Reconciliation of Non-GAAP Measures  
(Dollars in Thousands)  
(Unaudited)

Earnings before interest, taxes, depreciation and amortization (EBITDA) and Adjusted EBITDA for the three, six and twelve months ended January 31, 2016 and 2015, respectively:

EBITDA:	FY2016	FY2015	FY2016	FY2015	FY2016	FY2015
	Q2	Q2	YTD	YTD	TTM	TTM
Net Income (loss)	\$ 448	\$ 260	\$ 837	\$ 364	\$ 1,544	\$ 698
Interest	120	140	232	229	468	367
Amortization of software products	544	553	1,040	1,102	1,961	2,192
Other depreciation and amortization	590	408	1,199	780	2,175	1,442
Loss on debt extinguishment	-	-	-	-	-	-
Loss on FMV of Warrant Derivatives	-	-	-	-	-	(4)
Loss on impairment of long-lived assets	-	-	-	-	-	35
Income taxes	305	274	604	363	1,052	746
EBITDA	\$ 2,007	\$ 1,635	\$ 3,912	\$ 2,838	\$ 7,200	\$ 5,476
Stock-based compensation	88	107	203	210	439	609
Adjusted EBITDA	\$ 2,095	\$ 1,742	\$ 4,115	\$ 3,048	\$ 7,639	\$ 6,085

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

Quarterly	1/31/16	10/31/15	7/31/15	4/30/15	1/31/15	10/31/14	7/31/14	04/30/14
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
	2016	2016	2015	2015	2015	2015	2014	2014
Net Income (loss)	\$ 448	\$ 389	\$ 368	\$ 339	\$ 260	\$ 104	\$ 174	\$ 160
Interest	120	112	113	123	140	89	70	68
Amortization of software products	544	496	463	458	553	549	558	532
Other depreciation and amortization	590	609	511	465	408	372	308	354
Loss on debt extinguishment	-	-	-	-	-	-	-	-
Loss on FMV of Warrant Derivatives	-	-	-	-	-	-	-	(4)
Loss on impairment of long-lived assets	-	-	-	-	-	-	35	-
Income taxes	305	299	205	243	274	89	230	153
EBITDA	\$ 2,007	\$ 1,905	\$ 1,660	\$ 1,628	\$ 1,635	\$ 1,203	\$ 1,375	\$ 1,263
Stock-based compensation	88	115	141	95	107	103	231	168
Adjusted EBITDA	\$ 2,095	\$ 2,020	\$ 1,801	\$ 1,723	\$ 1,742	\$ 1,306	\$ 1,606	\$ 1,431
<b>Trailing 12 months (TTM)</b>								
Net Income (loss)	\$ 1,544	\$ 1,356	\$ 1,071	\$ 877	\$ 698	\$ (23)	\$ (102)	\$ (575)
Interest	468	488	465	422	367	305	286	308
Amortization of software products	1,961	1,970	2,023	2,118	2,192	2,157	2,052	1,923
Other depreciation and amortization	2,175	1,993	1,756	1,553	1,442	1,373	1,322	1,342
Loss on debt extinguishment	-	-	-	-	-	-	-	-
Loss on FMV of Warrant Derivatives	-	-	-	-	(4)	6	28	663
Loss on impairment of long-lived assets	-	-	-	35	35	35	35	-
Income taxes	1,052	1,021	811	836	746	246	241	325
EBITDA	\$ 7,200	\$ 6,828	\$ 6,126	\$ 5,841	\$ 5,476	\$ 4,099	\$ 3,862	\$ 3,986
Stock-based compensation	439	458	446	536	609	627	560	29
Adjusted EBITDA	\$ 7,639	\$ 7,286	\$ 6,572	\$ 6,377	\$ 6,085	\$ 4,726	\$ 4,422	\$ 4,015