



Notes for Investors' Conference Call

1st Quarter/Fiscal Year 2010

ARI Network Services, Inc.

Earnings Release

December 15, 2009

3:30 p.m. Central Standard Time

ROY

Thank you, Kevin:

Good afternoon and thank you for participating in ARI Network Services conference call for the fiscal 2010 first quarter, which ended October 31, 2009. My name is Roy Olivier, President and Chief Executive Officer. Also presenting during this call is Brian Dearing, Chairman of the Board of Directors, Chief Corporate Development and Strategy Officer and Interim Chief Financial Officer. With us to help answer any questions you may have are: Darin Janecek, Vice President of Finance, Diane Kurowski, Manager of Financial Reporting and Planning, and Nancy Kafura, Corporate Controller.

I will begin with a brief overview of our business and strategy to help put the financial results in context. Brian will then present some details of ARI's financial results for the quarter and I will conclude the call with additional commentary on the

first quarter results as well as a broad outline of our expectations for the remainder of the fiscal year, which ends July 31, 2010. At that point we'll open it up for questions.

A recording of the call and a copy of the remarks this afternoon will be available on the investor relations page of our website, www.arinet.com, beginning at 7:00 p.m. U.S. Central Time tomorrow. This information will be available until our next quarterly conference call, which is expected to be on March 17, 2010, covering the second quarter of fiscal 2010, which ends January 31, 2010.

The information we are presenting speaks only as of today and we undertake no obligation to update it. If you are listening to this presentation or reading these notes after December 15, 2009, the information may no longer be accurate.

Before we begin our discussion, Diane Kurowski will briefly discuss forward-looking statements and GAAP and non-GAAP measures.

DIANE

Thank you, Roy.

Statements made during this conference call that are not statements of historical fact may be deemed to be “forward-looking statements,” subject to protections under federal law, including, without limitation, statements regarding our forecasts of revenues, profitability and cash. We intend words such as “believes,” “anticipates,” “plans,” “expects” and similar expressions to identify forward-looking statements. A number of important factors could cause our results to differ materially from those indicated by the forward-looking statements, including among others, those factors

described under ARI's "Forward-looking statements disclosure" filed as Exhibit 99.1 to our Form 10-K for the fiscal year ended July 31, 2009.

During this presentation we will discuss GAAP measures such as Net Income, as well as certain non-GAAP measures such as EBITDA. We have posted a reconciliation of these non-GAAP financial measures to our GAAP results on the Investor Relations page of our website.

ROY

Thank you, Diane.

ARI is a leading provider of technology enabled services. These services help our manufacturer, distributor, and dealer customers drive revenue, efficiency, and customer satisfaction. ARI offers four basic types of technology-enabled services:

- (1) Electronic catalogs for publishing and viewing technical reference information about equipment:
- (2) Marketing services, including website creation, lead management, and email and search engine marketing, all of which are designed to allow our customers to grow their businesses and increase profitability through efficient and effective marketing of their products;
- (3) Professional services, including project management, data conversion, software customization, website development and help desk support services; and

(4) Outsourced finance and insurance services (commonly referred to as "F&I"), which facilitate dealers' sales by obtaining financing for their customers and providing them with after-sale products such as extended service agreements.

ARI operates in about a dozen vertical markets worldwide, including outdoor power, power sports, motorcycles, marine, RV, appliances, agricultural equipment, floor maintenance, and construction. ARI currently serves more than 20,000 dealers, 100 manufacturers and 150 distributors in more than 100 countries worldwide.

ARI's overall revenues grew 31% over our first quarter last year, in large part due to our April 2009 acquisition of Channel Blade Technologies. We are very excited about this acquisition, which I will discuss in more detail later in the call.

Our catalog business, which includes catalog subscriptions and catalog professional services, currently represents about 57% of our total revenues, and increased 4% over our fiscal year 2009 first quarter and 2% from the previous quarter.

Our total marketing services business, which currently represents 39% of our total revenues, grew 119% compared to last year's first quarter and approximately 5% compared to last quarter. Much of this growth is attributable to our acquisition of Channel Blade, which provides ARI with a leading share of the marine market as well as lead management services, which is a new offering for the Company.

The remaining 4% of our business is composed of dealer and distributor communication fees and fees charged to dealers for outsourced finance and insurance services.

Additional information about these results will be covered by Brian Dearing in our Financial Details discussion later in this call.

The foundation of our business model is recurring revenue, which today is derived primarily from annual subscriptions to the parts catalogs and marketing services we supply to our customers. An important part of our business is the professional services we provide to customers to support our catalog and marketing services.

Now I will offer a brief overview of our strategy. Our growth strategy is rather simple: leverage our large and satisfied customer base of equipment dealers, distributors and manufacturers by selling them additional services that help them to increase sales, reduce costs and improve customer satisfaction.

To execute on this growth strategy, we have focused and will continue to focus on four key areas:

1. The identification and commercialization of new services – especially those with a recurring revenue model – that can be sold into our existing base of customers. ARI recently introduced several new products we believe have significant long term potential to the Company, including SearchEngineSmart™, which provides ARI customers the opportunity for paid advertising on all major search engines so that potential customers will be directed to the their websites, and PartStream™, which is a modular consumer-focused illustrated parts lookup application that integrates with existing website platforms and shopping carts, allowing consumers to quickly identify the desired part, add the part to their shopping cart and check out.

2. Our second key focus area is the streamlining of our operations to drive productivity and efficiency in all of our critical business processes. In the fourth quarter of fiscal 2008, ARI underwent a restructuring and office consolidation, which we believe positioned the Company to more easily integrate our two April 2009 acquisitions and provided management additional control over the Company's operating cost structure.
3. Third, we will continue to identify strategic acquisitions that fit with our vision of connecting the channel. During fiscal 2009, ARI completed the acquisitions of Channel Blade Technologies and PowerSports Outsourcing Group. We believe these acquisitions, which provided ARI with new service offerings and a significant stake in the marine market vertical, will continue to increase our revenues in fiscal 2010.

Channel Blade was a leading provider of web sites, lead management and marketing automation solutions in the marine and RV markets. We believe this acquisition has significant growth potential as it will allow Channel Blade's customers access to ARI's e-commerce and website marketing capabilities, while ARI customers will benefit from Channel Blade's fully integrated lead management and marketing automation solutions.

The acquisition of PowerSports Outsourcing Group provides ARI entrance into the dealer outsourced F&I solutions market which we believe provides significant growth potential.

We have now also fully integrated the Info Access acquisition of July 2008 which gave us market share leadership in parts catalogs in the appliance industry.

4. Our fourth key area of focus, although no less important than the rest, is the recruitment and development of the best talent to improve the overall quality and performance of the ARI employee team. We believe ARI made great strides in this area during the past year. We significantly improved the management teams in our sales, marketing and finance operations through the addition of sales managers targeted on specific markets as well as the addition of a new VP of Finance. We also increased our efforts with respect to continuing professional education for our employees.

Of course, we continue to be very mindful of the current state of the global economy and the effects this is having on us and many of our customers. ARI serves customers at all levels of the value chain, including equipment manufacturers, distributors and dealers. Industry trade publications continue to report that the current global economic downturn is having a substantial negative impact on the revenues, earnings and cash flow of our customers, which in turn, may weaken some of our customers' ability to timely pay their obligations. Management believes the Company has adequately reserved against this possibility in its allowance for doubtful accounts. It should be noted that, despite the economic downturn, ARI has continued to grow its business and remained profitable.

ARI sells the majority of its products on a subscription basis with terms of one or more years. These products are considered essential to enabling more efficient operations and enhancing the sale of parts, goods and accessories throughout the channel. The combination of these factors, generally speaking, has and is expected to continue to moderate the effect of the economic downturn on ARI's revenue and earnings, when compared to businesses which manufacture or distribute equipment and other capital goods.

We have taken prudent steps to prepare for and react to the challenging market conditions while funding the initiatives that will position ARI for the future.

I hope this business and strategy overview has given you a context for the financial results Brian is about to present. For more details on our services or the business, please visit our website at www.arinet.com.

Now Brian will present some highlights of the financial results.

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BRIAN

Thanks, Roy.

I'd like to remind the audience that all of the information I share will be posted on our website by tomorrow evening, together with the audio of this entire conference. In addition, our press release and conference call coincide with the release of our 10-Q, which was filed today, and is also available on our website.

ARI produced net income of \$162,000 for the three months ended October 31, 2009, compared to \$256,000 for the same period in 2008. The decrease in earnings was primarily due to an expense recorded during the three months ended October 31, 2009 for an adjustment to the restructuring reserve related to accrued lease obligations, as well as an increase in interest expense resulting from the note payable issued as part of the Channel Blade acquisition.

Total revenue increased 31% from \$4.2 million for the three month period ended October 31, 2008 to \$5.5 million for the three month period ended October 31, 2009,

due to the Channel Blade Technologies acquisition, continued strong sales of new marketing services and high levels of renewals for marketing services and catalog subscriptions, partially offset by a decline in professional services revenue. Revenues increased 12%, from \$16.9 to \$18.9 million on a trailing twelve month basis.

Cash used in operations was \$366,000 for the three months ended October 31, 2009 compared to cash provided by operations of \$450,000 for same period last year. Several factors contributed to this swing, the most important of which is the timing of short term obligations for payroll and accounts payable this year versus last year. Other factors include the amortization of deferred revenue from customer set-up activities that had been completed by Channel Blade prior to its acquisition by ARI, customers converting from annual to monthly payment arrangements, and increased interest expense associated with the Channel Blade acquisition. We anticipate that cash flow from operations, combined with available capacity on our line of credit with JP Morgan Chase will be adequate to fund the business' needs for the foreseeable future.

Financial Details

Now for some selected detail from our first quarter operating results.

First, I will discuss key components of our revenue for the quarter:

- Catalog Subscription revenues for the 1st quarter ended October 31, 2009 increased 4% compared to the fiscal first quarter of last year and remained relatively the same over the fourth quarter of fiscal 2009. This increase was the result of several revenue enhancement initiatives that were put in place in the first half of fiscal 2009, for which the benefits are recognized in

revenue over the following twelve months. We will continue to see this year over year growth over the next quarter.

- Catalog professional services revenue was flat compared to the same quarter of last year.
- Marketing Services revenue increased in the first quarter of fiscal 2010 by nearly 205% over last year's first quarter, 7% over the previous quarter and 113% for a trailing twelve month period. The increase was primarily driven by the additional revenues resulting from the acquisition of Channel Blade, as well as 10 % organic revenue growth, which included sales of our new SearchEngineSmart™ product. We expect to leverage the market and product synergies from the Channel Blade acquisition, and continue to see strong organic revenue growth in the marketing services business.
- Marketing Professional Services revenue decreased 53% for both the three and trailing twelve month periods ended October 31, 2009, over the same periods last year. The economic downturn had the largest impact on the Company's marketing professional services revenues, as customers postponed or cancelled projects for which they otherwise would have contracted ARI. We expect marketing professional services revenue to be flat for the remainder of fiscal 2010.
- Total Company Operating Income for the quarter was \$339,000, up 16% from \$291,000 last year. For the trailing twelve month period ended October 31, 2009, operating income was \$815,000 compared to \$839,000 for the same period last year.

- Basic and diluted earnings per share decreased to 2¢ for the first quarter of fiscal 2010 compared to 4¢ for the first quarter of fiscal 2009.
- EBITDA (a non-GAAP measure) for the quarter increased to \$963,000, up 32% from \$728,000 for the 1st quarter of fiscal 2009. For the trailing twelve month period ended October 31, 2009, EBITDA was \$2.7 million, up from \$2.4 million for the same period last year.
- Total Cash Flow for the 1st quarter of fiscal 2010 was a use of \$359,000 compared to a use of \$226,000 for the same period last year. This includes cash used in or provided by operations, offset by cash used for acquisitions, debt and capital lease payments, and investments in product development and infrastructure.
- We expect that revenue will increase in fiscal 2010 as we recognize an entire year of revenue from the April 2009 acquisitions.
- We are continuing to make strategic investments in the Company. We believe that with continued tight controls over operating expenses and our strong recurring revenue, these investments will help the Company to grow its revenues and maintain its operating income during the remainder of fiscal 2010, despite the difficult economic environment, and position us for additional growth when the economy improves.
- Our positive Shareholder's Equity balance continues to improve, and is currently \$4.4 million at October 31, 2009, up from \$3.2 million at October 31, 2008.

Now I'll turn it back over to Roy for a wrap-up.

Commentary

Thank you, Brian.

All in all, despite the dramatics occurring in the global economy, we continue to grow our revenues and remain profitable. We successfully integrated two acquisitions and introduced two new products as previously discussed.

As a reminder for the audience, a very profitable portion of any dealer's business is service repair and parts sales. The products and services related to helping dealers increase their sales and customer satisfaction in those areas represents the bulk of our overall revenues today. We expect our renewal rates on those products to remain strong in this economy, and we expect our revenues to continue to grow. We continue to face troubling economic times, but I believe that the critical nature of our products and services, our long track record of helping our customers capture more parts and service revenue, our innovative marketing initiatives, along with our excellent employees, position ARI for continued success.

Summary and Conclusion

In summary, I am pleased with our first quarter results. Revenue, operating income and EBITDA were all significantly higher than last year, despite the current economic climate, and while incurring costs related to the integration of our two acquisitions. The vibrant growth of our marketing services revenue and high renewal rates are attributable to the strength of our products and the value they bring to our customers.

Furthermore, we believe the combination of our products, recent acquisitions, and streamlined operations position the Company to achieve sustainable and profitable growth, which we believe is the key to building long-term shareholder value.

Q&A

At this time, we'd like to open it up for any questions from the participants on the call.

NOTE: Please listen to the audio for the Q&A Session.

Closing

Thank you for participating in this conference call. As we mentioned earlier, the notes, tables and audio from this conference call will be posted on our website by tomorrow evening. I also refer you to the 10-Q filed earlier today. We are adjourned.