



Notes for Investors' Conference Call

4th Quarter/Fiscal Year 2009

ARI Network Services, Inc.

Earnings Release

October 29, 2009

3:30 p.m. Central Standard Time

Introduction

Thank you, Darin:

Good afternoon, ladies and gentlemen, and welcome to the Conference Call for ARI's fourth quarter and fiscal year ended July 31, 2009. Thank you for participating. My name is Roy W. Olivier, President and Chief Executive Officer. Also presenting during this call is Mr. 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: Mr. Darin Janecek, Vice President of Finance, Ms. Diane Kurowski, Manager of Financial Reporting and Planning and Ms. 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. To conclude the presentation, I will provide some additional commentary on the business during the quarter and conclude with a broad outline of

our expectations for the next fiscal year which ends July 31, 2010. At that point, we'll open it up for questions.

You or your colleagues may listen to a recording of this conference call and obtain a copy of the notes from our remarks this afternoon, including tables containing the relevant financial data, beginning at 7:00 p.m. U.S. Central Time tomorrow, Friday, October 30, 2009, by accessing our website at www.arinet.com. The replay and notes will be available there until our next quarterly conference call, which is expected to be on December 15, 2009, covering the first quarter of fiscal 2010, which ends October 31, 2009.

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 October 29, 2009, the information may no longer be accurate.

Before we begin discussing our results, I will turn it over to Nancy Kafura, Corporate Controller, for a statement concerning forward-looking statements, and GAAP and non-GAAP measures.

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 “Forward-looking statements disclosure” filed as Exhibit 99.1 to our Form 10-K for the fiscal year ended July 31, 2009.

I also have a general comment regarding GAAP and non-GAAP measures:

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 on the Company-Investor Relations tab of our website, www.arinet.com, a reconciliation of these non-GAAP financial measures to the most comparable financial measures under GAAP.

Now I will turn things over to Roy for a brief business and strategy overview.

Thank you, Nancy.

Business Overview

ARI Network Services, Inc. is a leading provider of technology enabled services that help dealers, distributors and manufacturers reduce costs and increase sales in selected vertical markets.

ARI offers four basic types of products and services, all of which are technology-enabled: (1) electronic catalogs for publishing and viewing technical reference information about equipment; (2) marketing services, including website creation, lead management, and email 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 warranties.

ARI operates in about a dozen vertical markets worldwide, including outdoor power, power sports, motorcycles, marine, recreation vehicles ("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 revenues remained relatively the same in the catalog space, combining catalog subscriptions and catalog professional services, for the three month period ending

July 31, 2009 and decreased for the full fiscal year due to a decline in professional services. For the full fiscal year, catalog represented about 69% of our total revenue.

Our marketing services business, which grew more than 96% compared to last year's fourth quarter and nearly 22% for the full fiscal year – represents 27% of the total business. Our dealer and distributor communications business constitutes the remaining 4%.

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.

Strategy Overview

Our growth strategy is simple: leverage our large and satisfied customer base of equipment dealers, distributors and manufacturers by selling them additional products and services that help them to increase sales, reduce costs and improve customer satisfaction.

During fiscal 2009, we have focused and expect to continue focusing on four key areas:

1. Identifying and commercializing new services – especially those with a recurring revenue model – in order to drive long-term revenue growth. During the year we introduced several new products we believe have significant long term potential to ARI, including SearchEngineSmart™, which provides ARI customers the opportunity for paid advertising on all major search engines so that their 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 simplifying and streamlining our operations to drive productivity and efficiency in all of our critical business processes. In 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. Excluding costs related to our two acquisitions, ARI's non-payroll operating expenses declined over 20% or approximately one million dollars in fiscal 2009 compared to fiscal 2008.

3. Our third key focus area is the identification and completion of strategic acquisitions that fit with our vision of connecting the channel. During fiscal 2009 ARI completed two acquisitions: Channel Blade Technologies Corporation and PowerSports Outsourcing Group which we believe will significantly increase our revenues in fiscal 2010.

Channel Blade is a leading provider of web sites, lead management and marketing automation solutions in the marine and RV markets. We believe the 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 generation 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.

4. Our fourth key area of focus, although no less important than the rest, is the recruiting and developing 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 have significantly improved our 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. Finally, key critical fiscal 2008 new hires continue to

make a significant positive impact on the organization as they have had more than a full year with the Company.

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 are reporting that the current global economic downturn is having a substantial negative impact on the revenues, earnings and cash flow of customers within ARI's primary markets. These effects, should they continue, may result in a reduction in industry size, industry consolidation and a weakening in our customers' ability to pay their obligations in a timely manner. In turn, these results could negatively affect the base of ARI's customers and the timing of our cash flows.

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 is expected 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 timely 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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Thanks, Roy.

I'd like to mention 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 currently coincides with our filing date, so please refer to the 10-K filed today by ARI for additional narrative and details about our results.

ARI produced a net loss of \$114,000 for the three months ended July 31, 2009, compared to net income of \$378,000 for the same period in 2008. For the twelve months ended July 31, 2009, net income was \$424,000 compared to \$1.4 million for fiscal 2008. The decrease in earnings was primarily driven by legal, accounting, and integration costs related to the Channel Blade Technologies and Powersports Outsourcing Group acquisitions in April 2009 as well as adjustments to deferred tax assets.

Total revenue increased 23% from \$4.3 million to \$5.3 million for the three month period ended July 31, 2009, compared to the same period last year, due to strong sales of new marketing services and continued high levels of renewals for marketing services and catalog subscriptions, partially offset by a decline in professional services revenue. Revenues increased 4%, from \$16.9 to \$17.6 million on a year to date basis. The increase in revenues for the fiscal year included approximately \$1.2 million from the Channel Blade and Powersports acquisitions and approximately \$525,000 from a series of sales initiatives. These increases were partially offset by a

decline in professional services revenues resulting from the effects of the global recession on ARI's customers.

Cash generated from operations exceeded \$2.7 million for the year. This cash was used for the two acquisitions, investments in equipment and software development and for the repayment of debt and capital lease obligations. Management continues to take prudent steps to react to the changing market conditions while funding the initiatives that will position ARI for the future. We anticipate generating sufficient cash flow from operations to fund the business' needs for the foreseeable future.

Financial Details

Now for some selected detail.

- Total Catalog Subscription revenues for the 4th quarter ended July 31, 2009 increased 5% compared to the fiscal fourth quarter of last year and remained relatively the same over the third quarter of fiscal 2009. For the fiscal year ended July 31, 2009, the increase was 2%. This increase was due to sales to customers related to the Info Access acquisition of July 2008 and a modest price increase, partially offset by the non-renewal of a significant OEM customer which had subscribed to the Company's electronic parts catalog in bulk on behalf of its dealers, the loss of which was not fully replaced by revenue from direct sales to this OEM's dealers.
- Marketing Services revenue, which represents subscriptions and other related professional services fees, increased \$998,000 or 96% in the fourth fiscal quarter of 2009 compared to the same period last year. Marketing services subscriptions increased by 188% over last year's fourth quarter.

For the fiscal year, total marketing services revenue and marketing services subscriptions revenue increased 22% and 67% respectively. The increase was primarily driven by the additional revenues resulting from the acquisition of Channel Blade and the implementation of various initiatives which included our new SearchEngineSmart™ product. The decline in professional services of 45% on a fiscal year over year comparison was mainly caused by one customer's reductions in Professional Services expenditures as a result of its market conditions.

- International or Rest of World revenues accounted for approximately 4% of total revenue for the quarter and 5% for the full fiscal year. Rest of World revenues decreased 24% compared to the 4th quarter of fiscal 2008 due to revenue from new sales being insufficient to offset dealer non-renewals as well as to reduced revenue from an existing OEM contract. On a year to date, year-over-year basis, the decline was 24%
- Total Company Operating Loss for the quarter was \$105,000, compared to \$237,000 last year. For the fiscal year ended July 31, 2009, operating income was \$767,000 compared to \$821,000 for the same period last year.

We evaluate our deferred tax assets each quarter and determine whether it is more likely than not that the Company can utilize all or a portion of those deferred tax assets prior to their expiration and record any necessary adjustments. ARI's deferred tax assets consist primarily of net operating loss carryforwards, or NOLs, created by income tax losses in fiscal years 1994 through 2000. Other elements include timing differences between the tax and book value of assets and liabilities as well as alternative minimum tax credits. Actual income taxes paid by the Company are

currently at a low effective tax rate due to the use of these deferred tax assets. The Company made a change in its estimated valuation allowance primarily due to a change in its projections of taxable income for the next twelve quarters, resulting in an income tax charge of \$123,000 in fiscal 2009 compared to an income tax benefit of \$590,000 in fiscal 2008. As we analyze these deferred tax assets each quarter, additional changes to the valuation reserves may occur. For the next several years, these NOLs can be expected to substantially offset our income for tax purposes, meaning that we would pay minimal income tax on any profits we generate for those years.

- Earnings per diluted share decreased to a loss of 2¢ for the fourth quarter of fiscal 2009 compared to income of 5¢ for the fourth quarter of fiscal 2008. For the fiscal year ending July 31, 2009, the decrease was 14¢ per diluted share.
- Earnings per non-diluted share decreased to a loss of 2¢ for the fourth quarter of 6¢ for the fourth quarter of fiscal 2008. For the total fiscal year the change was 15¢ per share, from an income of 21¢ per share in fiscal 2008 to 6¢ per share in fiscal 2009.
- EBITDA (a non-GAAP measure) for the quarter increased to \$568,000 compared to \$182,000 for the 4th quarter of fiscal 2008. For the twelve month period ended July 31, 2009, EBITDA was \$2.7 million, up from \$2.4 million for the same period last year.
- Total Cash Flow for the twelve month period was a use of \$436,000 compared to a generation of \$36,000 for the same period last year. This includes cash from 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 believe that the continued tight control over operating expenses and strong recurring revenue will help the Company maintain operating income during fiscal 2010 despite the difficult economic environment.
- Additionally, our positive Shareholder's Equity balance continues to improve, and is currently \$4.2 million at July 31, 2009, up from \$2.9 million at July 31, 2008.
- Management believes that funds generated from operations will be adequate to fund the Company's operations, investments and debt payments for the foreseeable future. However, the recent turmoil in the capital and credit markets has also increased the difficulty and expense of obtaining financing for many companies. While we are not currently seeking additional financing, if the need were to arise in the short-term due to an unexpected event, it may not be available to us, and if it is, it may be more expensive, dilutive to existing shareholders or may be on terms that are not as favorable as our current capital.
- We have made some assumptions in these remarks that the global credit markets will not significantly deteriorate further and that the relationship Chase Bank has had with ARI for many years will continue. Our line of credit was recently renewed under substantially similar terms.

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 be profitable and to grow our marketing services revenue. We successfully integrated two acquisitions and introduced two new products as previously discussed. One of these products, our new SearchEngineSmart™ service was awarded a “Nifty Fifty” award by Powersports Business Magazine this year.

Additionally, we generated cash from operations, which we used to pay down a significant amount of debt related to the prior acquisitions, and make investments in key initiatives that we think will drive additional revenues and profits in the long term.

However, we continue to face revenue pressure, primarily in our professional services business. We made adjustments to all aspects of the business to respond to the current economic environment. Further changes will be made, as needed, if conditions continue to deteriorate.

There have been some unprecedented shocks to the global economy and we’ve been seeing some effects of them on our business. However, while we are not taking the situation lightly, and we’ve already made some prudent changes, we also continue to see windows of opportunity for ARI.

As a reminder for the audience, the most 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, though we do see some softening in new sales. We face a troubling economic time 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 well during these times.

Summary and Conclusion

In summary, fiscal 2009 was a decent year for ARI. The effects of the global economy had a significant negative impact on our professional services revenues as our customers delayed projects they would otherwise have performed. On a positive note, despite the economy, we experienced double digit growth in our marketing services, introduced two new promising products, closed two acquisitions, remained profitable and grew overall top line revenue. 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, Darin, 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-K filed earlier today. We are adjourned.