



2010 Annual Report



ARI-WE CREATE CONNECTIONS

Our business is to make your business grow

A solution is only as good as the company behind it. That is why we are committed to customer satisfaction, superior value, and innovation. Our Mission: *Be recognized as the leader in creating, marketing and supporting the best solutions that enhance revenue or reduce costs for our customers.* Our Goal is to help make you stronger, enabling you to solve your most important business challenges.

We dedicate ourselves to continually enhancing the value of our solutions, not only the software, but the consulting, training and support. Deep industry experience – with more than 25 years in the business the ARI Team serves over 125 manufacturers and 150 distributors worldwide. Additionally, ARI provides electronic parts catalogs, dealer websites and/or professional marketing services to more than 18,500 dealers worldwide. Our energy, research and development are well informed, engaged and focused. As your long term business partner, we will work with you to ensure that our solutions grow and adapt to changes in your business.

Together we can do more – ARI brings more to this relationship than eCatalogs and eCommerce tools. We bring insight. We bring experience. That is the difference between our industry specific applications and mere automation.

Some individual efforts might produce the appearance of more efficiency... other solutions might produce the illusion of improved performance... but the combined power of our industry relationships ensures that our solutions will meet your needs long term. Together we create connections that specialize in the unique needs of our profession.

Unlock the Power of ARI Today

Today Manufacturers and Dealers have to become more efficient than ever, managing costs in an environment of economic turmoil, increased operational costs and budget cuts. Fortunately ARI's solutions are up to the challenge. Regardless of the size of your organization, it's your people who drive results. Business success depends on providing everyone in your organization – from management and teams to individuals – with access to the information, systems, and tools they need to work at peak performance.

With ARI you can enjoy a seamless integration between your dealership management system, Website, e-Commerce, CRM, Lead Generation, Lead Management, Parts Finder, Inventory and Marketing automation. With our award winning technology built by the profession for the profession, the seamless integration fuels your team's productivity by eliminating double or triple entry of information. You have all the resources you need to maximize your profitability. Don't miss any more opportunities – contact ARI today.

LEAD GENERATION AND MANAGEMENT |

AUTOMATE MUCH OF YOUR SALES & MARKETING ACTIVITY BY DOING MORE WITH LESS.

ARI offers a way to streamline the sales process boosting conversion rates, transaction sizes, and customer loyalty. Streamline the sales process and accelerate the buying cycle, turning more prospects into customers. Whether you're a manufacture or dealership, ARI makes it easy to route, segment, market and work leads from ALL sources.

WEBSITES AND ECOMMERCE |

INTEGRATED ELECTRONIC COMMERCE CREATES SALES OPPORTUNITIES.

ARI is the award winning platform for powering highly personalized, efficient and effective e-commerce sites. As you know, competition among eCommerce websites is fierce. Fortunately, we've put our eCommerce clients at the top of the search rankings, above their competitors, enabling them to bask in high-volume traffic.

ELECTRONIC CATALOGS |

SIMPLIFY: USE RESOURCES WISELY, REDUCE EXPENDITURES, AND IMPROVE EFFICIENCY.

ARI: a trusted name in electronic parts catalogs with a reputation for having the deepest manufacturer relationships and content management system in the industry. We deliver a solution with the power to match your passion, and the adaptability to meet your changing business needs.



LEAD GENERATION & MANAGEMENT |

It's about making things work better, it's about making your life easier.

Bring order to chaos with the visibility and control you need to succeed. ARI enables you to configure the applications based on your unique workflow and we help you get it set up, so you can hit the ground running and benefit from increased conversion rates and revenue.

ARI lets you automate much of your sales & marketing activity. Keep customer interactions consistent across the sales cycle. ARI drives every interaction from a centralized customer profile and interaction repository, so you can leverage what you know about your customers to ensure a satisfying experience at every turn.

ARI helps you build brand strength and customer loyalty by giving you the tools to develop personalized, multi-stage campaigns that closely integrate your website with your eMail blasts. As a result, you can ensure that every campaign is consistent, relevant, and cost effective, while showing your customers that you understand and respect their preferences.

SEE THE STORY
FOCUS YOUR ACTIVITY
CLOSE THE LOOP

WEBSITES AND ECOMMERCE |

It's about making your business more profitable, more efficient, and more successful.

ARI offers web solutions built for rapid installation and ease of use, packaged and priced for companies on a growth path. Designed to help people accomplish more from the start, it is designed to streamline and connect information, processes, and reporting capabilities across your entire organization. And, as you change and grow, ARI offers a cost-effective path for adding functionality and solutions.

ARI specializes in website development and the implementation of the most highly advanced search engine optimization techniques in the industry. With over a decade of Internet marketing experience, combined with our extensive background in the industry, we provide each of our customers with a strategy fully customized for their individual store and brand needs.

Rely on a single mature, highly scalable platform to drive your entire ecommerce operation. Infuse every customer interaction with consistency and relevance; as shoppers move around the Web, eMail, mobile devices, social media, and physical stores.

MORE CONVERSIONS
LARGER TRANSACTION SIZES
STRONGER CUSTOMER LOYALTY

ELECTRONIC CATALOGS |

It's about gaining control over your business and automating critical tasks.

Your customers have needs and desires that need to be met with a variety of content solutions. To help meet this demand ARI provides Parts, Garments and Accessory catalogs. Claim your share of this growing market with a single consistent, integrated platform. ARI increases efficiency, boosts productivity, and strengthens ties that keep customers coming back for more.

Whether you represent one line or multiple lines, ARI offers immense benefits: A single sign on (login) to relevant information helps people focus on their key responsibilities and reduce time spent chasing information. Bottom line - increased revenue.

Electronic catalogs with automated updates, increase the effectiveness of service technicians and parts managers by enabling them to quickly locate relevant information, including pricing and inventory. Improve order accuracy by displaying only the parts information for a particular configuration of equipment and by directly integrating with inventory, procurement and order management processes.

IMPROVE ORDER ACCURACY
INCREASE PARTS REVENUES
REDUCE SERVICE AND SUPPORT COSTS



COMPLETE SOLUTIONS EQUIPPING YOU WITH EVERY ADVANTAGE.



TO OUR SHAREHOLDERS

Last year was a very tough year for many of our valued customers. Manufacturers cut production dramatically, distributors struggled, and dealerships slashed their spending to the bone, with more than a few being forced to lock their doors. Especially hard hit was our new marine and RV vertical, with major manufacturer bankruptcies and restructurings, dealership closings, and plummeting industry sales.

Yet your Company held its own, growing revenues and remaining profitable.

Fiscal Year 2010 in Review: Growth and Investment

Fiscal year 2010 was a good year for ARI, considering the economic environment. Revenues were up 22%, driven mostly by last year's Channel Blade acquisition, but also by growth in our pre-acquisition ARI offerings. New sales were strong, 60% higher than in fiscal 2009, and overall revenues increased in spite of a rise in our customer churn rates.

As an aside, "churn" is new terminology for ARI, but not for the software-as-a-service ("SaaS") industry of which we are a part. In a subscription-based business model, churn refers to the loss of recurring monthly revenues when customers discontinue or reduce their use of our services. Essentially, it is another way of looking at customer retention, but it is focused on monthly recurring revenue, which is a key driver of your Company's value as an investment. SaaS companies like ARI spend a great deal of time and energy designing a business model that relies on recurring subscription revenue and low churn rates.

Reducing churn is a key focus for us. The #1 driver of churn is actually something we can't do anything about: dealer bankruptcies and discontinuations of individual manufacturers' lines. However, we conducted an extensive investigation of the reasons why our churn was up, and as a result, we gained very valuable insights into our customers' needs and value drivers. We have already used those insights to enhance our development and operational plans so we can deliver even greater value to our customers in the future.

We also made significant investments in integration, infrastructure, and innovation during the year that we believe will enable us to increase profits as well as to scale the business more smoothly when the economy returns to growth.

First, we spent a lot of time and energy integrating the Channel Blade acquisition, which gave us the pole position in websites and lead management for the marine and RV vertical. We drove cost out of the business through operational synergies, made progress toward product upgrades and beat our cross-selling target for the year. There is still work to be done in terms of rationalizing the product offering and our multiple data centers, but much of the integration is now behind us.

Second, we made huge strides in the infrastructure area, under our new operational leadership. Nickolo Villanueva, who joined the Company mid-year as Director of Operations, has upgraded staff, injected greater reliability into the server infrastructure, and re-energized our support team. And he's off to a great start on a major project to consolidate our data centers into a world-class third-party hosting service over the next nine months.

In addition, Darin Janecek, our Vice President of Finance, has overhauled his team with an eye to streamlining operations, reducing re-work, and improving internal forecasting and management reporting. We also have new, re-engineered processes for managing receivables, work-in-process, project management, and other functions outside the finance group. And throughout the organization, decision-making authority and accountability for results has been pushed down, resulting in a stronger, more scalable operation.



Finally, our corporate value of “Innovation” has taken center stage in every corner of the business. During the past year, we delivered innovative upgrades to key products, including:

- PartStream™, our market-leading web delivery system for parts catalog content; and
- FootSteps™, our mission-critical lead management system.

Fresh ideas everywhere are fueling new ways of selling and supporting our customers, developing products, and generally managing the business. Clearly, everything we touched last year didn't turn to gold. But despite the economic maelstrom sweeping down on our customers, we grew revenues, stayed profitable and continued to invest in the future.

A Focused, Three-Pronged Growth Strategy

The coming year will be focused around extensions of the same key strategies we pursued last year:

1. Deepening relationships with our existing customer base to foster organic growth;
2. Continually enhancing our core services to foster new sales and subscription renewals; and
3. Refining our organization and processes to drive innovation and efficiency.

The first two pillars of our strategy – deepening customer relationships and continual enhancement of our core services – are clearly inter-related: by knowing our customers, we know what they need from our services. We mentioned above that we have gained deep insights into the various reasons for customer churn (beyond the number one reason, which is dealer bankruptcies, closures and dealers exiting product lines). During the coming year, we have already put in place a series of initiatives to improve utilization, satisfaction, and ultimately, retention:

- Major new product releases, including the ARI Updater Service (which will allow our PartSmart® customers the ability to automatically update the catalog content to which they subscribe over the Internet), WebSiteSmartPro™ 2.0 and Footsteps 3.0, each of which addresses critical needs that our customers have cited;
- Significant technology, staffing, and third-party data acquisition investments in order to publish even more whole goods, parts, and accessories information and do it faster than ever before; and
- The additions of dedicated customer renewal specialists who will pro-actively monitor the results customers are achieving from the use of our services and help them get the most out of them.

But having customers stick around is only part of our agenda. We also want to sell them new value-added services. To that end, we intend to introduce major new product extensions during the year, each of which is characterized by providing higher value to our customers and a higher gross margin, recurring revenue business model to ARI. Watch for these announcements throughout the year.

The third pillar of our strategy is the relentless, perpetual refinement of our organization and business processes. Last year, we undertook a restructuring and business improvement initiative, the fruits of which we expect to reap this coming year in the form of increased efficiency and profitability.

We also pruned the F&I business. Though the acquisition initially appeared to be very promising and we certainly bought the business at a low price point, continued turmoil in the retail credit market and an inability to innovate effectively within the unit caused us to conclude that at least another two years of net investment would be required. Furthermore, it became clear that the business – even if it were to be ultimately successful – would not meet our desired criteria for technology-enabled services: high recurring revenues and gross margins with the ability to scale without a proportional investment in direct labor costs. For all these reasons, we have decided to invest our capital elsewhere.

You can expect that we will continue to refine our organization and processes to drive increased efficiency and profitability throughout fiscal year 2011 and beyond.

Outlook: Improved Profitability in FY2011 and Accelerated Revenue and Profit Growth in FY2012

As a result of our investments in integration, infrastructure, and innovation during this past year, we expect a significant uptick in profits in FY2011, though we expect revenues to grow only modestly. And as a consequence of our strategy to continue to deepen our customer relationships, enhance our core services, and refine our organization and business processes, we expect to drive significant revenue and profit growth in FY2012 and beyond.

Each of us writing this letter is a shareholder just like you – not simply an option holder drawing a salary from your Company. We stand to gain significantly only when the good work of our management and employees translates into shareholder value. We continue to believe that the best way to achieve that is to build a Company with sustainable, growing profits. In short, the path to value lies not through “financial engineering” but through financial performance, which we are committed to delivering.

As always, we thank you for your continued interest and support.



Roy W. Olivier
President and Chief Executive Officer



Brian E. Dearing
*Chairman of the Board of Directors,
Chief Corporate Development and Strategy
Officer, and Interim Chief Financial Officer*

October 29, 2010

Statements in this letter include "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act. The forward-looking statements can generally be identified by words such as "believes," "anticipates," "expects" or words of similar meaning. Forward-looking statements also include statements relating to the Company's future performance, such as future prospects, revenues, profits and cash flows. The forward-looking statements are subject to risks and uncertainties, which may cause actual results to be materially different from any future performance suggested in the forward-looking statements. Such risks and uncertainties include those factors described in Item 1a of our Form 10-K for the fiscal year ended July 31, 2010 filed with the Securities and Exchange Commission. Readers are cautioned not to place undue reliance on these forward-looking statements. The forward-looking statements are made only as of the date hereof, and the Company undertakes no obligation to publicly release the result of any revisions to these forward-looking statements. For more information, please refer to the Company's filings with the Securities and Exchange Commission.

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

(X) ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934

For the fiscal year ended July 31, 2010

() TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission file number 000-19608

ARI Network Services, Inc.

(Name of small business issuer in its charter)

WISCONSIN
(State or other jurisdiction of
incorporation or organization)

39- 1388360
(IRS Employer Identification No.)

10850 West Park Place, Suite 1200, Milwaukee, Wisconsin 53224
(Address of principal executive office)

Issuer's telephone number (414) 973-4300

Securities registered pursuant to Section 12(b) of the Act: None

Securities registered pursuant to Section 12(g) of the Act:
Common Stock, par value \$0.001 per share
(Title of Class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act
Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Exchange Act.
Yes No

Indicate by check mark whether the registrant (1) filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by checkmark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

Indicate by check if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (S229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. []

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

As of January 31, 2010, the aggregate market value of the Common Stock held by non-affiliates (based on the closing price on the NASDAQ OTC bulletin board) was approximately \$4.8 million.

As of October 15, 2010, there were 7,785,585 shares of the registrant's shares outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Definitive Proxy Statement, to be filed with the Securities and Exchange Commission no later than 120 days after July 31, 2010, for the 2010 Annual Meeting of Shareholders are incorporated by reference in Part III hereof.

ARI Network Services, Inc.

FORM 10-K
FOR THE FISCAL YEAR ENDED JULY 31, 2010
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This Annual Report on Form 10-K, including "Management's Discussion and Analysis of Financial Condition and Results of Operations," contains forward-looking statements regarding future events and our future results that are subject to the safe harbors created under the Securities Act of 1933 (the "Securities Act") and the Securities Exchange Act of 1934 (the "Exchange Act"). All statements other than statements of historical facts are statements that could be deemed to be forward-looking statements. These statements are based on current expectations, estimates, forecasts, and projections about the markets in which we operate and the beliefs and assumptions of our management. Words such as "expects," "anticipates," "targets," "goals," "projects," "intends," "plans," "believes," "seeks," "estimates," "endeavors," "strives," "may," variations of such words, and similar expressions are intended to identify such forward-looking statements. In addition, any statements that refer to projections of our future financial performance, our anticipated growth and trends in our businesses, and other characterizations of future events or circumstances are forward-looking statements. Readers are cautioned that these forward-looking statements are only predictions and are subject to risks, uncertainties, and assumptions that are difficult to predict, estimate, or verify, including those identified below, under "Item 1A. Risk Factors," and elsewhere herein. Therefore, actual results may differ materially and adversely from those expressed in any forward-looking statements. We undertake no obligation to revise or update any forward-looking statements for any reason.

PART I

Item 1. Description of the Business

Overview

ARI Network Services, Inc. ("ARI") provides technology-enabled services that help dealers, distributors and manufacturers worldwide enhance revenue and reduce costs. We deliver our services to companies of all sizes across a dozen vertical markets, with a core emphasis on the outdoor power, power sports, marine, RV, and appliance sectors. Approximately 18,000 equipment dealers, 125 manufacturers, and 150 distributors worldwide leverage our technology to drive revenue, gain efficiencies and increase customer satisfaction. We also develop and offer electronic catalog content for approximately 125 leading equipment manufacturers.

We were incorporated in Wisconsin in 1981, founded on the concept of delivering electronic catalog services to the agriculture industry. In 1996, we evolved our business to focus on delivering electronic parts and service catalogs to a broader range of vertical markets. Since then, we have expanded our service offerings to achieve our mission of being recognized as the leader in creating, marketing and supporting the best solutions that enhance revenue or reduce costs for our customers. Since 2005, we have steadily developed and acquired new technologies to build a core competency around delivering technology-enabled marketing and web-based solutions. Today, we offer a full suite of products, including lead generation and lead management services, website services, and electronic catalogs.

Our principal executive office and headquarters is located in Milwaukee, Wisconsin. The office address is 10850 West Park Place, Suite 1200, Milwaukee, WI 53224, and our telephone number at that location is (414) 973-4300. Our principal website address is www.arinet.com.

Our business segments are internally organized by geographic location of the operating facilities. We have segregated the Netherlands operation and the United States operations into separate reportable segments. Segment revenue for the Netherlands operation includes only revenue generated out of the Netherlands subsidiary and does not include rest of world revenue sold by the United States operation. We evaluate the performance of and allocate resources to each of the segments based on their operating results.

Our Solution

Our technology-enabled services allow customers in a service or distribution network to: (i) increase revenues by selling products online; (ii) efficiently market to their customers and prospects; (iii) manage and nurture customers and prospects; and (iv) conveniently reference parts, service bulletins and other technical information.

Our combined portfolio of services helps the full equipment distribution and service channel – manufacturers, distributors, and dealers – to realize increased revenue, improved efficiency and greater customer satisfaction. Manufacturers and distributors implement our technology-enabled services and leverage our approximately 18,000 dealer relationships to better communicate with and service their dealer networks. Dealers rely on our technology-enabled services and our extensive network of manufacturer and distributor connections to access parts, service and warranty data, as well as important marketing materials. Dealers also rely on our website, lead management and other technology-enabled services to connect with their current and prospective customers, thereby fostering sales.

Today, we realize revenue from three primary categories of technology-enabled services: (i) electronic catalogs for publishing, viewing and interacting with technical reference information about equipment; (ii) lead management services, designed to help dealers grow their businesses and increase profitability through efficient marketing of their products; and (iii) websites with eCommerce capabilities designed to generate sales through the sites and provide information to consumers in the dealers' local areas.

Electronic Catalogs

Our electronic catalog services enable manufacturers to quickly and easily publish and update parts and technical reference information pertaining to their products. Distributors and dealers can in turn view and interact with this information to support the sales and service of equipment. As of July 31, 2010 our electronic catalog services portfolio encompassed three core services: PartSmart®, PartSmart Web™ and PartStream™. We derived 58.0% of our revenues from subscriptions to, and support for, our electronic catalog services in fiscal 2010.

PartSmart®, our CD-based electronic parts catalog, is used by approximately 18,000 dealers worldwide in the outdoor power, power sports, marine and agriculture industries to increase productivity by reducing parts lookup time by more than 50%. PartSmart® integrates with more than 85 of the leading dealer business management systems. We also provide a version of our PartSmart® product to the appliance industry, known as PartSmart® IPL.

PartSmart Web™ is used by distributors and manufacturers to provide their dealers with access to parts and pricing information via the Internet.

PartStream™ is a modular, consumer-focused illustrated parts lookup application that integrates with existing website platforms and shopping carts and allows consumers to quickly identify the desired part, add the part to their electronic shopping cart and check out. It leverages ARI's parts content, delivering it to PartStream users on demand from ARI servers.

Lead Management Services

Our award-winning lead management services are provided through *Footsteps™*. Footsteps™ helps dealers follow-up on incoming leads more quickly and professionally. The product is used as a complete database of customers and prospects, and manages the dealer to customer relationship from generating email campaigns and automated responses, to providing sales teams with a daily follow-up calendar and reminder notices. Footsteps™ accounted for approximately 4.5% of our revenues in fiscal 2010.

Website Solutions

Our website solutions include WebSiteSmart Pro®, eXceleratePro™ and eXceleratePro™ 2, and LeadStorm™, which are used by more than 1000 dealers in the outdoor power, power sports, marine and RV industries to connect with customers and increase revenues 24 hours a day, 7 days a week. eXceleratePro™ and eXceleratePro™ 2 provide dealers and manufacturers in the marine and RV industries with a compelling, informative website that is easy to maintain to engage prospects and generate leads and, ultimately, increase dealership traffic, sales and profits. eXceleratePro™ Mobile allows customers' websites to be fully functional on smart mobile phones. LeadStorm™ is used by marine and RV dealers to showcase their inventory 24 hours a day, 7 days a week with customizable website designs. Website services accounted for 24.7% of revenues in fiscal 2010.

Other Services

In addition to electronic catalog, lead management and website services, we also offer a suite of complementary technology-enabled services. These services include: SearchEngineSmart™, which provides dealer and distributor customers the opportunity for paid advertising on all major search engines so that potential consumers will be directed to the dealers' websites; professional services for the customization of software and website solutions; website hosting; and document transfer and communication services to customers in the manufactured equipment and agricultural inputs industries. On a combined basis, these other services accounted for 12.8% of fiscal 2010 revenues.

Our Strategy

Our mission is to be recognized in each market we serve as the leader in creating, marketing and supporting solutions that enhance revenue and reduce costs for our customers. To do this, our technology-enabled services create connections between manufacturers, distributors, dealers and their end-customers. Key elements of our strategy include:

Deepening relationships with our existing customer base to foster organic growth

We believe there is a significant opportunity to leverage our relationships with existing customers. We believe that our catalog services are highly penetrated in the outdoor power, power sports (including motorcycles), marine, and appliances vertical markets, both in terms of dealers and catalog titles. As dealers continue to realize the benefits of our services, and the ease of doing business with us, we believe we can leverage our presence and these relationships to sell additional services, including websites and lead management services, to these customers. We will also continually seek opportunities to develop and deploy new technology-enabled services that enable our customer to be more successful.

Continually enhancing our core services to foster new sales and subscription renewals

To maintain and enhance the current base of business and to continue to cross-sell and renew service subscriptions for our newer lead management, website, and other technology-enabled services, we target a renewal rate of approximately 90% on existing dealer electronic catalog subscriptions. To facilitate this renewal rate, we designed our services to easily accommodate new features and functions. While we historically have maintained high renewal rates, this fiscal year we saw increased turnover in our client base (commonly referred to as “churn”). We believe that this “churn” reflects poor overall economic conditions and specifically: i) attrition in the dealer body (dealers going out of business); and ii) customers electing to delay renewing or deciding to not renew their subscriptions in an effort to minimize their cost structure. While we cannot control the number of customers going out of business, we are focusing on giving customers even greater value for their money by including an even more robust set of functions and features in our products. As an example, this fiscal year we made a decision to subscribe to the methodologies prescribed by agile software development, and have realigned our internal teams accordingly to enable us to follow an iterative, quick (one to four week), product development process. With more frequent, market-driven, service upgrades, we believe that customers will continue to purchase additional subscriptions, renew their existing subscriptions and upgrades to new releases.

Refining our organization and processes to drive innovation and efficiency

It is critical that we achieve economies of scale and continue to refine our organization and processes to support not only efficiency, but innovation. Specific to this area, and in addition to the implementation of agile software development processes, we made significant upgrades to our publishing and implementation capabilities. Entering into fiscal 2011 we implemented a revised corporate incentive compensation structure, which aligns the compensation paid throughout the entire organization to the Company’s strategic and financial objectives.

Sales, Marketing and Customer Support

We organize our sales and marketing programs by product and by geographic regions, including North America and Europe.

Direct Sales

We sell subscriptions to our services primarily through our direct sales force, which is composed of inside sales, consisting of personnel who sell to dealers primarily by phone, and field sales personnel, who focus their efforts on manufacturers and distributors. Our sales teams are supported by marketing personnel who help to identify leads and execute the organization’s marketing strategy.

Marketing

Our marketing strategy is to continue to elevate and communicate our brand and service offerings, and generate demand. We use a variety of marketing programs to target and build relationships with our prospective and current customers and partners. Our primary marketing activities include:

- participation in dealer meetings, trade shows and industry events to create awareness, build our lead database and develop relationships;
- search engine marketing and online and print direct marketing to generate awareness and action;
- ongoing website development to educate prospects and provide product information, testimonials, live demonstrations and marketing collateral;
- email and phone campaigns used to capture leads;
- use of customer testimonials; and
- sales tool kits and field marketing training to enable our sales organization to more effectively develop leads and close transactions.

Customer Service and Support

Customer support is essential to retaining and growing our customer base. We maintain customer support operations in each of the Company’s four locations. Our support representatives are available via telephone or email, and respond to general customer inquiries.

International Sales

We sell direct into international markets through our Netherlands-based European operation. We also generate international sales indirectly through sales of our services to North American customers with international operations. We expect international markets to provide increased opportunities for our services in the future. Our strategy is to adapt our success in the U.S. electronic catalog services market to our European-based customers through a combination of direct and indirect business relationships with dealers and manufacturers. We believe this will position us for growth, by leveraging what we do well while being responsive to the local operating requirements within the various European countries.

Competition

The markets for our electronic catalog, lead management and website services are competitive, rapidly evolving, and subject to changing technology, shifting customer needs and frequent introduction of new products and services. While the competitive environment is formidable, we benefit from our focus on core vertical markets and our relationships within and expert knowledge of those markets.

Our principal competitive advantages include:

- our direct relationships with approximately 18,000 dealers, 125 manufacturers and 150 distributors;
- our company stability, offering more than 25 years of servicing the equipment industry;
- our core, established electronic catalog service line, which enables multi-line dealers to easily access catalogs from one single software platform;
- the breadth and depth of our published data;
- the eCommerce capabilities of our technology-enabled services; and
- our relationships with more than 85 dealer business management system providers.

We believe that our competitive advantages will enable us to compete effectively and sustainably in our core markets.

Competition for our products and services varies by product and by vertical market. No single competitor today competes with us on every product and service in each of our industry verticals. In electronic catalogs, we compete primarily with Snap-on Business Solutions ("Snap-on"). Snap-on designs and delivers electronic parts catalogs, accessory sales tools, and manufacturer network development services, primarily to the automotive, power sports, outdoor power, construction, agriculture and mining markets. In addition, there are a variety of smaller companies focused on one or two specific industries.

In lead management, websites and eCommerce, our two most direct competitors are PowerSports Network, owned by Dominion Enterprises, and 50 Below. Competition for our website development services also comes from in-house information technology groups that may prefer to build their own web-based proprietary systems, rather than use our common industry solutions. There are also large, general market eCommerce companies, such as IBM, which offer products and services that could address some of our customers' needs. These general eCommerce companies do not typically compete with us directly, but they could decide to do so in the future.

Given the current pace of technological change, it is possible that unidentified competitors could emerge, existing competitors could merge and/or obtain additional capital, thereby making them more formidable, or new technologies could come on-stream and potentially threaten our position.

Intellectual Property

We rely on various intellectual property laws in the United States and other jurisdictions as well as confidentiality procedures and contractual provisions to protect our proprietary technology and our brand. We also enter into confidentiality and proprietary rights agreements with our employees, consultants and other third parties and control access to software, documentation and other proprietary information. We have two registered trademarks in the U.S. and elsewhere: PartSmart and WebsiteSmart Pro. We also use numerous unregistered trademarks.

Employees

As of July 31, 2010, we had approximately 147 employees. Of these, 54 are involved in customer operations and support, 41 are in sales and marketing, 28 are engaged in maintaining or developing software and providing software customization services and 24 are involved in general and administration functions. None of these employees is represented by a union.

Fiscal Year

ARI's fiscal year ends on July 31st. Any references throughout this document to fiscal 2010 or fiscal 2009 refer to the fiscal years ended July 31, 2010 and 2009, respectively. Also note that the reference to the word "fiscal" has been removed from all tables throughout this document.

Executive Officers of the Registrant

The table below sets forth the names of ARI's executive officers as of October 15, 2010. The officers serve at the discretion of the Board of Directors.

<u>Name</u>	<u>Age</u>	<u>Capacity Served</u>
Roy W. Olivier	51	President, Chief Executive Officer and Director
Brian E. Dearing	55	Chairman of the Board, Chief Corporate Development and Strategy Officer, Interim Chief Financial Officer, Treasurer and Secretary
Michael T. Tenpas	42	Vice President of Global Sales and Marketing

Roy W. Olivier

Mr. Olivier was appointed President and Chief Executive Officer of the Company in May 2008, after having served in the capacity of Vice President of Global Sales and Marketing of the Company since September 2006. Prior to joining ARI in 2006, Mr. Olivier was a consultant to start-up, small and medium-sized businesses. Until December 2001, he was Vice President, Sales & Marketing for ProQuest Media Solutions, a business he founded in 1993 and sold to ProQuest in 2000. Prior to that, Mr. Olivier held various sales and marketing executive and managerial positions with companies in the telecommunications and computer industries, including Multicom Publishing, Inc., BusinessLand and PacTel.

Brian E. Dearing

Mr. Dearing is the Chairman of the Board, Chief Corporate Development and Strategy Officer, Interim Chief Financial Officer, Treasurer and Corporate Secretary of the Company. He has been a director of ARI since 1995 and was elected Chairman of the Board of Directors in 1997. Mr. Dearing served as the Company's President and Chief Executive Officer from 1995 until May 2008. Prior to joining ARI in 1995, Mr. Dearing held a series of executive positions within the U.S. and Europe in the eCommerce business of Sterling Software, Inc. Prior to joining Sterling in 1990, Mr. Dearing held a number of marketing management positions in the EDI business of General Electric Information Services. Mr. Dearing holds a Masters Degree in Industrial Administration from Krannert School of Management at Purdue University and a Bachelor of Arts degree in Political Science from Union College.

Michael T. Tenpas

Mr. Tenpas joined ARI as Vice President of Global Sales and Marketing in July 2008. For the twelve years prior to joining ARI, Mr. Tenpas worked for Norlight Telecommunications, Inc. in Brookfield, Wisconsin, starting as a senior account executive in 1996, and then serving in a number of other sales roles, culminating in his promotion to Executive Vice President and General Manager of Norlight Data Centers, Inc. Mr. Tenpas earned a Bachelor of Science degree in Business Management from the University of Phoenix.

Available Information

You can obtain copies of our 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and other filings with the SEC, and all amendments to these filings, free of charge from our website at www.arinet.com as soon as reasonably practical following our filing of any of these reports with the SEC. You can also obtain copies free of charge by contacting us at our office address listed above.

Item 1A. Risk Factors

The risks and uncertainties described below are not the only ones facing us. Other events that we do not currently anticipate or that we currently deem immaterial also may affect our results of operations and financial condition.

Continued unfavorable economic conditions or reduced investments in technology-enabled services spending may harm our business.

Our business depends on the overall demand for technology services spending, and on the economic health and general willingness of our current and prospective customers to make capital commitments. If the conditions in the U.S. and global economic environment remain uncertain or continue to be volatile, or if they deteriorate further, our business, operating results and financial condition may be adversely affected. Our customers sell capital goods, which is highly dependent on the disposable income of end consumers. Continued weak or volatile economic conditions, or a reduction in consumer spending may weaken our customers' demand for electronic catalogs, websites, lead management or other technology-enabled services, or general information technology spending, which would likely harm our business and operating results in a number of ways, including longer sales cycles, potential lower prices for our services, reduced sales, and reduced subscription renewal rates.

We may become liable to our customers and lose customers if we have defects or disruptions in our service or if we provide poor service.

Because we deliver some of our technology as a service, errors or defects in the software applications underlying our service, or a failure of our hosting infrastructure, may make our services, in particular our eCommerce services, unavailable to our customers. Since our customers use our eCommerce services to facilitate their sales, any errors, defects, disruptions in service or other performance problems with our services, whether in connection with the day-to-day operation of our services, upgrades or otherwise, could damage our customers' businesses.

Despite the implementation of security measures, the core of our network infrastructure is vulnerable to unauthorized access, computer viruses, equipment failure and other disruptive problems, including the following:

- we and our users may experience interruptions in service as a result of the accidental or intentional actions of Internet users, current and former employees or others;
- unauthorized access may jeopardize the security of confidential information stored in our computer systems and our customers' computer systems, which may result in liability to our customers and also may deter potential customers;
- we may face liability for transmitting viruses to third parties that damage or impair their access to computer networks, programs, data or information;
- there may be a systemic failure of Internet communications, leading to claims associated with the general unavailability of some of our products; or
- eliminating computer viruses and alleviating other security or technical problems may require interruptions, delays or cessation of service to our customers.

If we have any errors, defects, disruptions in service or other performance problems with our services, customers could elect not to renew, or delay or withhold payment to us, we could lose future sales or customers may make claims against us, which could result in an increase in our provision for doubtful accounts, an increase in collection cycles for accounts receivable or litigation costs.

Our core markets and verticals are competitive, and if we do not compete effectively, our operating results may be harmed.

The markets for electronic catalog, websites, lead management and other technology-enabled services targeted at the equipment industry are competitive, and the eCommerce area, specifically, is rapidly changing with relatively low barriers to entry. With the introduction of new technologies and market entrants, we expect competition to remain intense. In addition, increased competition generally could result in reduced sales, reduced margin or the failure of our services to achieve or maintain more widespread market acceptance. Competition in our market is based principally upon service breadth and functionality; service performance, security and reliability; ability to tailor and customize services for a specific company, vertical market or industry; ease of use of the service; speed and ease of deployment, integration and configuration; total cost of ownership, including price and implementation and support costs; professional services implementation; strength of customer relationships; and financial resources of the vendor. To compete effectively, we also must be able to more frequently update our services to meet market demand.

Our principal competitors include Snap-on Business Solutions, 50 Below and Powersports Network. Some of our actual and potential competitors enjoy competitive advantages over us, such as greater name recognition within our target vertical markets, larger marketing budgets, as well as substantially greater financial, technical and other resources. If we are not able to compete effectively, our operating results will be harmed.

Our operating results may fluctuate from quarter to quarter.

Because we recognize subscription revenue over the term of the applicable agreement, the lack of subscription renewals or new service agreements may not be reflected immediately in our operating results. The majority of our revenue in any given period is attributable to service agreements entered into during previous periods. A decline in new or renewed service agreements in any one period will not be fully reflected in our revenue in that period but will harm our revenue in future periods. As a result, the effect of significant downturns in sales and market acceptance of our services in a particular period may not be fully reflected in our operating results until future periods. Our subscription model also makes it difficult for us to rapidly increase our revenue through additional sales in any period, because revenue from new customers must be recognized over the applicable subscription term.

We expect that a portion of our revenue in the future will be derived from non-recurring fee income, which consists primarily of revenues from professional services such as software customization and training, software sales and one-time network installation fees. The timing of receipt of this revenue is dependent upon several factors that we cannot predict. These factors include:

- the time required to close large license fee and development agreements (these agreements can be delayed due to customer requirements and decision-making processes);
- the seasonality of certain sectors of the equipment industry in which we operate;
- delays in the introduction of new products or services and their acceptance by customers; and
- delays in delivering customized software to our customers.

Our costs are not entirely predictable and may vary from quarter-to-quarter due to acquisitions or non-recurring expenditures. Cash flows may also vary from quarter to quarter, depending on the timing of disbursements and customer payments, which exhibit considerable seasonality. We believe that period-to-period comparisons of our results of operations will not necessarily be meaningful and should not be relied upon as indicative of our future performance.

Changes in financial accounting standards or practices may cause adverse, unexpected financial reporting fluctuations and harm our operating results.

A change in accounting standards or practices could harm our operating results and may even affect our reporting of transactions completed before the change is effective. New accounting pronouncements and varying interpretations of accounting pronouncements have occurred and may occur in the future. Changes to existing rules or the questioning of current practices may harm our operating results or the way we conduct our business and may increase our compliance costs.

Our business could suffer if we are unable to protect our intellectual property rights or are liable for infringing the intellectual property rights of others.

We regard our trademarks, proprietary technology and similar intellectual property as critical to our success, and we rely upon trademark law, trade secret protection, and confidentiality and license agreements with our employees, strategic partners, and others to protect our proprietary rights, which can have only limited effectiveness. The development of the Internet has also increased the ease with which third parties can distribute our intellectual property without our authorization.

We intend to pursue the registration of our material trademarks as necessary. We may not be entitled to the benefits of any such registration for an extended period due to the cost and delay in effecting such registration. In addition, effective protection may not be available in every country in which our products are available. Further, we may be subject to claims in the ordinary course of our business, including claims of alleged infringement of the trademarks, copyrights and other intellectual property rights of third parties by us and our licensees.

Other parties may assert claims of infringement of intellectual property or other proprietary rights against us. These claims, even if without merit, could require us to expend significant financial and managerial resources. Furthermore, if claims like this were successful, we might be required to change our trademarks, alter our content or pay financial damages, any of which could substantially increase our operating expenses. We also may be required to obtain licenses from others to refine, develop, market and deliver new services. We may be unable to obtain any needed license on commercially reasonable terms or at all, and rights granted under any licenses may not be valid and enforceable. In the future we could be subject to legal proceedings and claims from time to time in the ordinary course of our business, including claims of alleged infringement of trademarks and other intellectual property rights of third parties by us and our licensees. Any such claims could have a material adverse effect on our business, financial condition and operating results.

We are dependent on our management and employees.

We are dependent on the services of our executive officers and other key employees. There can be no assurance, however, that we can obtain executives of comparable expertise and commitment in the event of death or voluntary departure of one of our executive officers or other key employees, or that our business would not suffer material adverse effects as the result of the death or voluntary departure. Further, the loss of the services of any one or more of these employees could have an adverse effect on our business. In addition, we will also need to attract and retain other highly skilled technical and managerial personnel for whom competition is intense. If we are unable to do so, our business, results of operations and financial condition could be materially adversely affected.

Our common stock has a very limited trading market.

Our common stock is traded on the over-the-counter Bulletin Board LLC electronic quotation service, an inter-dealer quotation system that provides significantly less liquidity than the NASDAQ stock market or any other national securities exchange. In addition, trading in our common stock has historically been extremely limited. Because of the thinness of the market for our stock, the price of our common stock may be subject to manipulation. This limited trading may adversely affect the liquidity of our common stock, not only in terms of the number of shares that can be bought and sold at a given price, but also through delays in the timing of transactions and reduction in security analysts' and the media's coverage of us. As a result, there could be a larger spread between the bid and the ask prices of our common stock and you may not be able to sell shares of our common stock when or at prices you desire.

Our shareholder rights plan may permit our board to block a takeover attempt and adversely affect the value of our common stock.

Our board of directors adopted a shareholder rights plan and declared a dividend of an associated right, which together are expected to have the effect of deterring any takeover of the Company that is not preceded by board approval of the proposed transaction. The existence of such shareholder rights plan may deter potential tender offers for our common stock or other acquisition offers and may have the effect of delaying or preventing a change of control.

We may not be able to identify, acquire and successfully integrate acquisitions.

A key component of our growth strategy has been and will continue to be acquisitions and other business development opportunities that solidify or accelerate our market position in our core offerings and vertical markets. The successful implementation of this strategy depends upon our ability to identify suitable acquisition candidates, acquire such businesses on acceptable terms, finance the acquisition and integrate their operations successfully into ARI. There can be no assurance that such candidates will be available or, if such candidates are available, that the price will be attractive or that we will be able to identify, acquire, finance or integrate such businesses successfully. In addition, in pursuing such acquisition opportunities, we may compete with other entities with similar growth strategies; these competitors may be larger and have greater financial and other resources than ARI. Competition for these acquisition targets could also result in increased prices of acquisition targets and/or a diminished pool of companies available for acquisition.

The successful integration of these acquisitions also may involve a number of additional risks, including: (i) the inability to retain the clients of the acquired business; (ii) the lingering effects of poor client relations or service performance by the acquired business, which also may taint our existing business; (iii) the inability to retain the desirable management, key personnel and other employees of the acquired business; (iv) the inability to fully realize the desired efficiencies and economies of scale; (v) the inability to establish, implement or police ARI's existing standards, controls, procedures and policies on the acquired business; (vi) diversion of management attention; and (vii) exposure to client, employee and other legal claims for activities of the acquired business prior to acquisition. In addition, any acquired business could perform significantly worse than expected.

The inability to identify, acquire, finance and successfully integrate acquisitions could have a material adverse effect on ARI or its estimated or desired business, income, growth or other condition and results.

Future acquisitions may result in dilution to existing shareholders.

The timing, size and success of acquisition efforts and any associated capital commitments cannot be readily predicted. Future acquisitions may be financed by issuing shares of common stock, cash, or a combination thereof. To the extent our common stock is used for all or a portion of the consideration to be paid for future acquisitions, dilution may be experienced by existing stockholders.

We face risks with our international strategy.

Our business strategy includes increasing our presence in the non-U.S. equipment markets. This strategy presents a number of special risks, including:

- managing more geographically diverse operations;
- dealing with currency fluctuations;
- the increased costs of operation;
- only having a small number of employees in these markets;
- our dependence on value-added resellers and contractors to sell and service our products;
- a much smaller and more concentrated current customer base; and
- the assumption that U.S. international policy will remain favorable towards the countries in which we sell our products and services.

Our historical losses have resulted in our weak balance sheet.

While we have been profitable in recent years, we have experienced net losses in numerous fiscal years since our organization in 1981, resulting in an accumulated deficit of \$92.0 million at July 31, 2010. We may not be able to maintain profitability or increase profitability in the future. As a result of our historical losses, our financial position has been weakened, and our ability to finance our growth is constrained.

We will require a significant amount of cash to service our indebtedness. Our ability to generate cash depends on certain factors beyond our control.

Our ability to make principal and interest payments on our indebtedness and to fund planned capital expenditures and product development efforts will depend on our ability to generate cash in the future. Our future operating performance and financial results will be subject, in part, to factors beyond our control, including dealer bankruptcies in the vertical markets we serve, and general economic, financial and business conditions. We cannot assure that our business will generate sufficient cash flow from operations or that future financing facilities will be available to us in an amount sufficient to enable us to pay our indebtedness or to fund our other liquidity needs.

If we are unable to generate sufficient cash flow to service our debt, we may be required to:

- refinance all or a portion of our debt or obtain additional financing, neither of which can be assured;
- sell some of our assets or operations;
- reduce or delay capital expenditures, research and development efforts and acquisitions; or
- revise or delay our strategic plans.

If we are required to take any of these actions, it could have a material adverse effect on our business, financial condition and results of operations. In addition, we cannot assure that we would be able to take any of these actions, that these actions would enable us to continue to satisfy our capital requirements or that these actions would be permitted under the terms of the our various debt instruments.

Item 2. Description of Properties

The table below summarizes ARI's current facilities. Management believes that the Company's current facilities are suitable and sufficient to support present operations.

Description of Use	Location	Square Footage	Lease Expiration	Operating Segment
Corporate headquarters	Milwaukee, WI	16,300	July 2021	North America
Product development and professional services team	Cypress, CA	6,000	August 2011	North America
Marine and RV sales and support	Virginia Beach, VA	9,800	April 2011	North America
Vacant space (1)	Colorado Springs, CO	5,200	March 2011	North America
European sales and support	Leiden, The Netherlands	200 m ²	April 2015	Netherlands

(1) All future rents have been fully accrued as of July 31, 2010.

Item 3. Legal Proceedings

None.

Item 4. [Removed and Reserved for Future Use]

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

ARI's common stock is currently quoted on the NASDAQ over the counter bulletin board ("OTCBB") under the symbol ARIS. The following table sets forth the high and low sales price for the periods indicated. OTCBB quotations reflect inter-dealer prices, without retail mark-up, mark-down or commission and may not necessarily reflect actual transactions.

<u>Fiscal</u> <u>Quarter Ended:</u>	<u>High</u>	<u>Low</u>
10/31/2008	\$ 1.42	\$ 0.60
1/31/2009	\$ 1.18	\$ 0.60
4/30/2009	\$ 1.01	\$ 0.60
7/31/2009	\$ 1.16	\$ 0.62
10/31/2009	\$ 1.07	\$ 0.55
1/31/2010	\$ 1.10	\$ 0.63
4/30/2010	\$ 1.00	\$ 0.70
7/31/2010	\$ 0.84	\$ 0.61

As of October 15, 2010, there were approximately 897 holders of record of ARI common stock. We have not paid cash dividends to date and have no current intention to pay cash dividends.

During fiscal 2010, the Company did not repurchase any of its equity securities.

On April 27, 2009, the Company acquired substantially all of the assets of Channel Blade Technologies ("Channel Blade"). Pursuant to the terms of the Asset Purchase Agreement, the Company issued 615,385 shares of common stock as a portion of the consideration paid.

The Company believes that this transaction was exempt from registration requirements pursuant to Section 4(2) of the Securities Act, as amended. The recipient of the shares of our common stock in this transaction represented its intention to acquire the shares for investment purposes only and not with a view towards distribution, and appropriate legends were affixed to the share certificates.

Item 6. Selected Financial Data

The following tables set forth certain financial information with respect to the Company for each of the previous five fiscal years, which includes information derived from ARI's audited financial statements and notes thereto for fiscal 2010 and fiscal 2009. The reports, thereon, of Wipfli LLP are included elsewhere in this report. The selected financial data should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operation" and the aforementioned Financial Statements and Notes. All amounts are in thousands, except per share data.

Statement of Income Data

	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
Net revenue	\$ 21,484	\$ 17,560	\$ 16,917	\$ 15,435	\$ 14,002
Gross profit	17,131	14,160	14,046	12,716	12,001
Gross margin	79.7%	80.6%	83.0%	82.4%	85.7%
Net operating expenses	<u>16,626</u>	<u>13,051</u>	<u>13,225</u>	<u>12,551</u>	<u>9,932</u>
Operating income	505	1,109	821	165	2,069
Other expense	<u>(630)</u>	<u>(221)</u>	<u>(28)</u>	<u>(60)</u>	<u>(59)</u>
Income (loss) from continuing operations before provision for income taxes	(125)	888	793	105	2,010
Income tax benefit (expense)	<u>1,294</u>	<u>(123)</u>	<u>590</u>	<u>(4)</u>	<u>1,200</u>
Income from continuing operations	1,169	765	1,383	101	3,210
Discontinued operations	<u>(392)</u>	<u>(341)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net income	<u>\$ 777</u>	<u>\$ 424</u>	<u>\$ 1,383</u>	<u>\$ 101</u>	<u>\$ 3,210</u>
Earnings per share:					
Income from continuing operations:					
Basic	\$ 0.15	\$ 0.11	\$ 0.21	\$ 0.02	\$ 0.52
Diluted	\$ 0.15	\$ 0.11	\$ 0.20	\$ 0.02	\$ 0.49
Net income:					
Basic	\$ 0.10	\$ 0.06	\$ 0.21	\$ 0.02	\$ 0.52
Diluted	\$ 0.10	\$ 0.06	\$ 0.20	\$ 0.02	\$ 0.49

Other Financial Data

	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
Amortization of capitalized software products	\$ 1,054	\$ 876	\$ 764	\$ 800	\$ 648
Depreciation and amortization	1,640	1,054	727	631	382
Capital expenditures	541	636	119	639	669
Software development costs	1,340	759	524	358	630

Balance Sheet Data

	As of July 31 st :				
	2010	2009	2008	2007	2006
Cash and cash equivalents	\$ 938	\$ 650	\$ 1,086	\$ 1,050	\$ 3,584
Working capital deficit	(3,692)	(4,246)	(5,475)	(5,221)	(3,357)
Net capitalized software product costs	2,395	2,397	1,596	1,606	1,468
Total assets	19,777	18,607	12,193	9,927	9,436
Current portion of debt and lease obligations	192	226	771	1,031	1,400
Long term debt and lease obligations	5,338	5,115	349	484	580
Total shareholders' equity (deficit)	5,219	4,187	2,896	718	(312)

Cash Flow Data

	2010	2009	2008	2007	2006
Net cash provided by (used for):					
Operating activities	\$ 1,624	\$ 2,745	\$ 2,027	\$ 1,144	\$ 2,375
Investing activities	(1,891)	(2,219)	(1,651)	(2,174)	(1,299)
Financing activities	550	(968)	(353)	(1,491)	(1,143)

Pro Forma Operating Results

The following table compares fiscal 2010's summary results of operations to the fiscal 2009 unaudited pro forma results of operations, which assumes the Channel Blade acquisition occurred at the beginning of fiscal 2009. Refer to Note 5 of the consolidated financial statements for further discussion.

	<i>(Unaudited)</i> Pro Forma	
	2010	2009
Net revenues	\$ 21,484	\$ 20,998
Operating income	505	76
Loss from continuing operations before provision for income taxes	(125)	(670)

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operation

The following discussion of our results of operations and financial condition should be read together with our audited consolidated financial statements for fiscal 2010 and fiscal 2009, including the notes thereto, which appear elsewhere in this Annual Report on Form 10-K. This discussion contains forward-looking statements, which as previously identified are subject to the safe harbors created under the Securities Act and Exchange Act.

Overview

ARI was presented with many challenges during the past year. Through addressing these challenges, management continued to develop a much deeper understanding of the key drivers within our markets as well as our customers' perceptions of value. Despite these challenges, we continued to grow revenues and remain profitable, and we believe we have implemented the right strategy for continued growth and improved profitability into the future. Throughout this analysis, we will discuss these challenges and their impact on fiscal 2010's results of operations, what we learned from these challenges, our plans to address each of them, and our future expectations resulting from our strategy.

One of the challenges over the past year was the integration of our April 2009 acquisition of Channel Blade. As we anticipated, a lot of time, energy, and management attention were given to the integration throughout the year, which reduced the amount of time available for other priorities. Although much of the integration efforts are behind us, our efforts related to the integration of the combined technology infrastructure, which includes the move to one common software platform, will continue into fiscal 2011 and will drive additional cost savings going forward.

During the latter half of fiscal 2010 we began to experience an increase in the rate of customer attrition (known throughout the industry as "churn"), which management attributes to several critical factors, both within and outside of our control. During the year we undertook a study to better understand the reasons for the churn and discovered that a significant portion of the churn was driven by dealer and manufacturer closures and bankruptcies, which are the combined result of the current state of the economy and the nature of the vertical markets we serve. Unfortunately, these factors are outside our span of control. We also discovered reasons ancillary to the current economic conditions that have caused our customers to delay or not renew their subscriptions. Management believes that we can control the amount of churn related to these factors by reinforcing our value proposition to our customers and by further increasing that value proposition through the release of product upgrades and new services. Management has made increasing this value proposition a high priority for fiscal 2011. In an effort to better help ARI focus on these issues, we undertook a workforce reduction and business improvement initiative in our fiscal fourth quarter, which will be discussed in further detail below.

ARI produced net income of \$777,000 in fiscal 2010, compared to \$424,000 in fiscal 2009. The increase in earnings was the result of income tax benefits recognized due to a change in estimate of our deferred tax asset valuation allowance. These tax benefits were offset by losses from ARI F&I Services LLC ("AFIS"), which was sold in July 2010 and has been classified as a discontinued operation, an increase in interest expense, as well as certain restructuring charges incurred in the fiscal fourth quarter. Each of these items will be discussed separately later in this section. We incurred a loss from continuing operations before tax of \$125,000 in fiscal 2010, compared to fiscal 2009 income before tax of \$888,000. This decline was driven by an increase in interest expense, an increase in depreciation and amortization, as well as the restructuring charges incurred in the fourth quarter.

When compared to fiscal 2009's pro forma results of operations, which assumes that the acquisition of Channel Blade occurred August 1, 2008, the Company's operating income increased from \$76,000 in fiscal 2009 to \$505,000 in fiscal 2010, and income from continuing operations before provision for income taxes improved from a loss of \$670,000 in fiscal 2009 to a loss of \$125,000 in fiscal 2010. Management attributes this improvement to the progress made integrating the acquisition. Further integration still remains, particularly with respect to the combined technology infrastructure, and management expects further synergies to result from these efforts.

Net operating expenses increased to \$16,626,000 in fiscal 2010 from \$13,051,000 in fiscal 2009. This increase is due to the addition of Channel Blade's operations, including the amortization of intangible assets recorded as part of the accounting for the purchase, as well as restructuring costs of \$437,000 incurred in the fiscal fourth quarter. When compared to fiscal 2009's pro forma results of operations, operating expenses declined by \$212,000; excluding restructuring charges incurred in the fourth quarter, this decline would have been more significant. Cost control has been an area of increased focus for management over the past fiscal year in light of the challenges we have faced, including the increased in customer churn.

In July 2010 the Company undertook a workforce reduction and business improvement initiative, which included the divestiture of AFIS, the write off of certain assets related to non-core operations, and a headcount reduction. The Company incurred restructuring charges of \$437,000 related to this initiative. The results of operations of AFIS were reclassified as a discontinued operation in the Company's consolidated financial statements. Also in July 2010, we recognized a significant tax benefit resulting from an increase in our estimate of the future realizability of net operating loss carryforwards. Refer to Note 11 of the consolidated financial statement for further discussion.

At July 31, 2010, we had cash balances of \$938,000, versus \$650,000 at July 31, 2009. This increase in cash was primarily the result of additional borrowing on the Company's line of credit in order to help fund our investments in software development and publishing. Due to the nature of our business, the Company typically maintains a working capital deficit. A large percentage of our subscription based revenues is paid in advance, resulting in the recognition of a deferred revenue liability. The Company anticipates continued sufficient cash flow from operations to execute our plans.

Net Revenues and Gross Margins

The table below summarizes the Company's net revenues, gross profit and gross margin by major product category for fiscal 2010 and fiscal 2009.

	2010	2009	Percent Change
<i>Catalog</i>			
Revenue	\$ 12,474	\$ 11,953	4.4%
Cost of revenue	<u>1,621</u>	<u>1,746</u>	<u>-7.2%</u>
Gross profit	10,853	10,207	6.3%
Gross margin percentage	87.0%	85.4%	
<i>Website</i>			
Revenue	5,305	3,156	68.1%
Cost of revenue	<u>1,012</u>	<u>704</u>	<u>43.8%</u>
Gross profit	4,293	2,452	75.1%
Gross margin percentage	80.9%	77.7%	
<i>Lead management</i>			
Revenue	961	64	n/m
Cost of revenue	<u>120</u>	<u>1</u>	<u>n/m</u>
Gross profit	841	63	n/m
Gross margin percentage	87.5%	98.4%	
<i>Other</i>			
Revenue	2,744	2,387	15.0%
Cost of revenue	<u>1,600</u>	<u>949</u>	<u>68.6%</u>
Gross profit	1,144	1,438	-20.4%
Gross margin percentage	41.7%	60.2%	
<i>Total</i>			
Revenue	21,484	17,560	22.3%
Cost of revenue	<u>4,353</u>	<u>3,400</u>	<u>28.0%</u>
Gross profit	<u>\$ 17,131</u>	<u>\$ 14,160</u>	<u>21.0%</u>
Gross margin percentage	79.7%	80.6%	

Summary

We continued our trend of increasing revenues in fiscal 2010. Revenues for the year were \$21,484,000, an increase of 22.3% over fiscal 2009 revenues of \$17,560,000. Since 2006, the Company's revenues have grown at a compounded annual growth rate of 11.3%. The increase in fiscal 2010 revenues primarily resulted from two factors: (i) the realization of a full year of revenues from the April 2009 acquisition of Channel Blade; and (ii) revenues from our SearchEngineSmart™ ("SES") product, which was introduced in fiscal 2009.

When compared to fiscal 2009's pro forma results of operations, which for comparability purposes assumes the Channel Blade acquisition occurred at the beginning of fiscal 2009, revenues in fiscal 2010 grew approximately \$486,000, or 2.3%. Of this increase, \$338,000 resulted from an increase in revenues recognized from the amortization of a deferred revenue liability recorded at the time of the acquisition. We recognized revenues of approximately \$800,000 in fiscal 2010 from the amortization of the liability, versus \$462,000 in fiscal 2009. As of July 31, 2010, substantially all of the deferred revenue liability has been amortized. With the exception of the amortization of the deferred revenue liability, pro forma revenues remained essentially flat year over year. It is important to note, however, that year over year organic growth for non-acquired products was 7.8%.

Despite the current economic conditions, we continued to experience strong new sales growth in fiscal 2010. Unfortunately, much of this growth was offset by the aforementioned customer churn. Management anticipates continued strong sales in fiscal 2011 and anticipates these sales will begin to generate recurring revenue growth as we address the issues impacting our customer churn.

Catalog

Catalog revenues are generated from software license fees, license renewal fees, software maintenance and support fees, catalog subscription fees, and professional services related to data conversion. Catalog revenues increased 4.4% in fiscal 2010, resulting from increased sales of our web-based catalog products, a change in our dealer catalog pricing model, and internal efforts to realize and collect subscription revenues on out of compliance software licenses.

Although catalog subscription renewals remain strong, the Company has experienced several significant trends related to our catalog business. First, the availability of free content has been a source of customer attrition, especially in these tough economic times. Although the free content comes with degradation in content quality and lack of value-added features, many of our dealer customers have been forced to cut significant costs out of their operations to combat the reduction in sales the past several years. Another trend is the movement of our OEM customers from bulk content purchases to a "dealer direct" model. Under the dealer direct model, the OEM provides us with its catalog content for publishing. However, rather than paying ARI a lump sum subscription for all of its dealers, the OEM allows ARI to sell the content directly to its dealers. The full impact of this trend has not been ascertained; however, the dealer direct model can also lead to increased revenues, depending upon the number of dealers to which we are able to sell our catalog products.

Management expects catalog subscriptions to remain the most significant source of revenues to the Company and anticipates modest growth in this category in the foreseeable future.

Websites

Website revenues are generated from start-up and recurring subscription fees on our website products, as well as commissions from our customers' online sales generated via the websites. Website revenues increased 68% in fiscal 2010. This increase was the combined result of the acquisition of Channel Blade in April 2009 as well as organic growth. We recognized twelve months of revenues on former Channel Blade products, or approximately \$2,676,000, in fiscal 2010 versus three months, or \$1,039,000, last year. Revenues from ARI's website products increased nearly 25% in fiscal 2010, which was driven by continued strong sales.

Despite the strong sales and year over year revenue growth, we experienced increased customer churn on our website products in fiscal 2010. The reasons for this churn were previously discussed. Management has begun several key initiatives, including the development and launch of major website product upgrades, to counteract the customer attrition experienced over the recent past. Additionally, our sales and marketing group recently launched an internal customer retention initiative. This internal team will work with existing customers to help the customer better understand and take advantage of the value proposition of our products. Management expects website revenues to remain relatively flat in fiscal 2011, due to the loss of revenues associated with the amortization of the deferred revenue liability, which generated approximately \$800,000 of revenues in fiscal 2010. However, we do expect continued sales growth from the website products and for these products to be a long-term source of growth for the Company.

Lead Management

Lead management revenues are generated from start-up and subscription fees for the use of the Company's lead management product, Footsteps™, which was obtained with the acquisition of Channel Blade. Lead management revenues were just under \$1,000,000 in fiscal 2010. The fiscal 2010 lead management revenue growth was the result of recognizing a full year's worth of revenue, versus three months in fiscal 2009, as well as new sales of the product. Management anticipates continued significant growth in lead management revenues, stemming from both increased year over year sales as well as strong customer renewal rates. Footsteps™ currently enjoys a dominant position in the marine and RV verticals; however, management believes that the product has applicability in ARI's other key vertical markets as well and hopes to leverage this product in those vertical markets going forward.

Other Revenues

Other revenues are generated from the provision of internet marketing campaigns through our SES product, professional services related to software customization and website hosting fees, as well as other services. The growth in other revenues in fiscal 2010 was driven by the increased sales of the SES product, which was new in fiscal 2009. The growth in SES was partially offset by a significant decline in professional service revenues for custom software and website development. Management anticipates significant continued growth from the SES product, as well as a continued decline in professional services revenue from customization projects as we have been focusing our sales efforts on our subscription-based recurring revenue products.

Cost of Revenues, Gross Profit and Gross Margin

We classify as cost of revenues those costs that are directly attributable to the provision of services to our customers. These costs can be generally classified as follows:

Software amortization, which represents the periodic amortization of costs for internally developed or purchased software sold to our customers;

Direct labor, used in the provision of catalog and marketing professional services; and

Other direct costs, which represent amounts paid to third party vendors directly attributable to the services we provide our customers.

The table below breaks out fiscal 2010 and fiscal 2009 cost of revenues into each of these three expense categories (in thousands):

	<u>2010</u>	<u>%</u>	<u>2009</u>	<u>%</u>
Net revenues	\$ 21,484		\$ 17,560	
Cost of revenues:				
Amortization of capitalized software costs	1,054	4.9%	876	5.0%
Direct labor	1,395	6.5%	1,586	9.0%
Other direct costs	<u>1,904</u>	<u>8.9%</u>	<u>938</u>	<u>5.3%</u>
Total cost of revenues	<u>4,353</u>	<u>20.3%</u>	<u>3,400</u>	<u>19.4%</u>
Gross profit	<u>\$ 17,131</u>	<u>79.7%</u>	<u>\$ 14,160</u>	<u>80.6%</u>

Overall gross profit was \$17,131,000 in fiscal 2010, versus \$14,160,000 in fiscal 2009. The gross profit increase was solely the result of the increase in revenues over this same period, as gross margin fell slightly. Overall gross margin was 79.7% in fiscal 2010, which was approximately one percentage point lower than fiscal 2009. This decline resulted from the increase in SES revenues. Gross margin on this product is lower than on ARI's subscription-based business, due to a higher amount of third party vendor costs incurred relative to ARI's other products. Excluding SES, overall gross margin in fiscal 2010 was 82.9%, a 1.6 percentage point increase over fiscal 2009. A large portion of this increase was driven by the decline in direct labor costs. The amount of direct labor costs incurred in fiscal 2009 were atypical and resulted from a significant amount of non-billable work performed, which did not reoccur in fiscal 2010.

Operating Expenses

The table below summarizes the Company's operating expenses by expense category for fiscal 2010 and fiscal 2009 (in thousands).

	<u>2010</u>	<u>% of Revenue</u>	<u>2009</u>	<u>% of Revenue</u>	<u>% Change</u>
Sales and marketing	\$ 4,786	22.3%	\$ 3,419	19.5%	40.0%
Customer operations and support	3,469	16.1%	2,785	15.9%	24.6%
Software development and technical support (1)	1,415	6.6%	1,534	8.7%	-7.8%
General and administrative	4,879	22.7%	4,212	24.0%	15.8%
Restructuring	437	2.0%	-	0.0%	n/a
Depreciation and amortization (2)	<u>1,640</u>	<u>7.6%</u>	<u>1,101</u>	<u>6.3%</u>	<u>49.0%</u>
Net operating expenses	<u>\$ 16,626</u>	<u>77.4%</u>	<u>\$ 13,051</u>	<u>74.3%</u>	<u>27.4%</u>

(1) Net of capitalized software development costs of \$1,328 and \$815 in fiscal 2010 and fiscal 2009, respectively.

(2) Exclusive of amortization of software products of \$1,054 and \$876 in fiscal 2010 and fiscal 2009, respectively, which are included in cost of revenue.

Summary

Overall operating expenses were \$16,626,000 in fiscal 2010, an increase of \$3,575,000, or 27.4%, over fiscal 2009. This increase, which was experienced in essentially every expense classification, was primarily the result of our acquisition of Channel Blade in April 2009. When compared to fiscal 2009's pro forma results of operations, operating expenses declined \$212,000 year over year. Furthermore, excluding the restructuring charges incurred in the fourth quarter of fiscal 2010, the decline was \$649,000. Management attributes this decline to several key factors. First, other than integration efforts related to the combined technology infrastructure, the integration of Channel Blade operations is essentially complete, and resulted in significant cost savings in fiscal 2010. The data center consolidation efforts, which have begun in fiscal 2011, will generate additional cost savings beginning in fiscal 2012.

Second, given the relatively flat organic growth in fiscal 2010 as well as the customer renewal trends previously discussed, management focused on tightly controlling operating costs throughout the year. We anticipate operating expenses to remain relatively flat going into fiscal 2011, as we will continue to seek opportunities for savings and efficiencies.

Sales and Marketing Expenses

Sales and marketing expenses consist primarily of personnel and related costs, including sales commissions, for our sales and marketing employees, and also include the cost of marketing programs and trade show attendance. Marketing programs consist of lead generation and direct marketing, advertising, events and meeting costs, public relations, brand building and product management activities. Sales and marketing expenses increased in fiscal 2010, primarily due to sales labor associated with the Channel Blade operations, but the increase also includes costs associated with a fiscal 2010 marketing and branding campaign. Sales and marketing will continue to be one of our largest expenses, as we intend to continue to invest in sales and marketing to pursue new customers and expand relationships with our existing customers. However, management expects sales and marketing costs to remain flat in fiscal 2011, and to gradually decline as a percentage of revenues over time.

Customer Operations and Support

Customer operations and support expenses are composed of server room operations, software maintenance agreements for our core network, and personnel and related costs for our customer support employees. Customer operations and support costs increased in fiscal 2010, due to the costs associated with the Channel Blade operations. Management expects customer operations and support costs to remain relatively flat in fiscal 2011, and to decline as a percentage of revenue in future years as we continue to consolidate our data centers into one centralized facility, while retaining the appropriate backup facilities.

Software Development and Technical Support

Software development and technical support expenses consist primarily of personnel and related costs for the design and development of our software products and for escalated technical support. Our development and technical support staff have three essential responsibilities, the accounting treatment of which varies dependent upon the work performed. Costs associated with internal software development efforts are typically capitalized as software product costs and amortized over the estimated useful life of the product; professional services performed for customers related to software customization projects are classified as cost of revenues; and all other activities are considered operating expenses and included within the software development and technical support expense category. The table below summarizes our software development and technical support costs in fiscal 2010 and fiscal 2009 (in thousands):

	<u>2010</u>	<u>2009</u>
Total software development and technical support costs	\$ 4,138	\$ 3,935
Less: amount capitalized as software development	(1,328)	(815)
Less: direct labor classified as cost of revenues	<u>(1,395)</u>	<u>(1,586)</u>
Net software development and technical support costs classified as operating expenses	<u>\$ 1,415</u>	<u>\$ 1,534</u>

We expect fluctuations in the amount of software development and technical support costs classified as operating expenses from period to period, as the mix of development and customization activities will change based on customer requirements, even if total software development and technical support departmental costs remain relatively constant.

Although a large focus in fiscal 2010 was the integration of the Channel Blade acquisition, product enhancement and innovation remains a cornerstone of the Company's strategy. During fiscal 2010 we capitalized \$1,328,000 of software development costs, versus \$815,000 in fiscal 2009. As discussed earlier, we anticipate several significant product upgrades and enhancements in fiscal 2011, which we expect will generate additional future revenues for the Company. Management anticipates the level of spending on software development and technical support to remain relatively flat in fiscal 2011, and we will continue to strive to increase the amount of these costs spent on future product development.

General and Administrative

General and administrative expenses primarily consist of personnel and related costs for executive, finance, human resources and administrative personnel, legal and other professional fees and other corporate expenses and overhead. General and administrative costs increased from \$4,212,000 in fiscal 2009 to \$4,879,000 in fiscal 2010. The majority of this increase is due to the addition of Channel Blade operations; however, we also incurred consulting costs related to our Sarbanes Oxley related efforts during the year, elected to increase certain insurance coverages, and experienced increased bad debt expense due to the aforementioned bankruptcies, primarily in the marine industry.

As a percentage of revenues, general and administrative costs declined from 24.0% in fiscal 2009 to 22.7% in fiscal 2010. This decline is due to the cost savings achieved from the integration of Channel Blade into ARI's operations as well as a concerted effort by management throughout fiscal 2010 to manage spending tightly. Management expects general and administrative expenses to remain relatively flat in fiscal 2011 and to continue to decrease, as a percentage of revenues, in fiscal 2011 and beyond as the business continues to grow and the Company leverages its reduced cost structure.

Depreciation and Amortization

Depreciation and amortization expenses consist of depreciation on fixed assets, which are composed of leasehold improvements and information technology assets, and the amortization of acquisition-related intangible assets. Costs associated with the amortization of software assets are a component of cost of revenues. Depreciation and amortization expense increased nearly 50% in fiscal 2010, which was due to the additional depreciation expense recorded on fixed assets related to the Channel Blade operations, as well as the additional amortization expense from intangible assets recorded at the time of the Channel Blade acquisition.

Restructuring

As discussed previously, in July 2010 the Company undertook a workforce reduction and business improvement initiative, which included the divestiture of AFIS, the write off of certain assets related to non-core operations, and a headcount reduction. The Company incurred restructuring charges of \$437,000 related to this initiative. The results of operations of AFIS were reclassified as a discontinued operation in the Company's consolidated financial statements. Details of the fiscal 2010 restructuring expense are below (in thousands):

Severance and related benefits	\$	147
Net future lease costs		101
Software and equipment dispositions		189
Total restructuring costs	\$	437

All remaining cash payments related to severance and net future lease costs will be expended in fiscal 2011.

Interest Expense

Interest expense was \$649,000 in fiscal 2010, versus \$214,000 last year. The increase is primarily the result of the interest incurred on the \$5,000,000 note payable related to the acquisition of Channel Blade, but also stems from an increase in the outstanding line of credit balance.

Income Taxes

We have unused net operating loss carryforwards for federal income tax purposes of approximately \$17,862,000 expiring through 2020 and as such generally only incur alternative minimum taxes. We performed an assessment of the likelihood that net deferred tax assets will be realized from future taxable income at the end of our fiscal year and, as a result of this assessment, we increased the amount of our deferred tax asset, which was the primary reason we realized a tax benefit in fiscal 2010 of \$1,294,000. Refer to Note 11 of the consolidated financial statements for further discussion.

Discontinued Operations

As part of our business improvement initiative at the end of fiscal 2010, AFIS, which offered dealer finance and insurance (“F&I”) services, was sold to F&I Smart LLC. The divestiture resulted in a loss from discontinued operations of \$1,000. The results of operations of AFIS have been reflected as a discontinued operation in our consolidated financial statements for all periods presented. The results of operations of AFIS were previously reported within the United States business segment. The Company will continue to look for opportunities to divest any operations that management deems as non-essential to the Company’s core strategy. The table below summarizes the results of operations of AFIS, by quarter, since the inception of the business in April 2009 (in thousands).

	Quarter Ended:			Quarter Ended:				
	April 30, 2009	July 31, 2009	Fiscal 2009	October 31, 2009	January 31, 2010	April 30, 2010	July 31, 2010	Fiscal 2010
Revenues	\$ 11	\$ 66	\$ 77	\$ 33	\$ 21	\$ 26	\$ 56	\$ 136
Cost of sales	-	12	12	3	2	4	4	13
Operating expenses	24	382	406	193	182	151	250	776
Operating loss	(13)	(328)	(341)	(163)	(163)	(129)	(198)	(653)
Loss on sale	-	-	-	-	-	-	(1)	(1)
Income tax benefit	-	-	-	-	-	-	262	262
Net loss	\$ (13)	\$ (328)	\$ (341)	\$ (163)	\$ (163)	\$ (129)	\$ 63	\$ (392)

Liquidity and Capital Resources

The following table sets forth, for the periods indicated, certain cash flow information derived from the Company’s financial statements (in thousands).

	2010	2009
Net cash provided by operating activities	\$ 1,624	\$ 2,745
Net cash used in investing activities	(1,891)	(2,219)
Net cash provided by (used in) financing activities	550	(968)
Effect of foreign currency exchange rate changes on cash	5	6
Net change in cash	\$ 288	\$ (436)
Cash at end of period	\$ 938	\$ 650

Cash

At July 31, 2010, the Company had a cash balance of \$938,000, compared to \$650,000 at July 31, 2009. Management believes that current cash balances, as well as the existing availability under the Company’s line of credit with JPMorgan Chase, are sufficient to fund the Company’s needs over the next twelve months.

Net cash provided by operations declined in fiscal 2010, compared to fiscal 2009, due to several factors. First, AFIS, which has subsequently been sold and classified as a discontinued operation, incurred an operating loss of approximately \$653,000 in fiscal 2010. Second, we incurred costs related to the integration of Channel Blade. Although many of these costs were incurred in the first half of fiscal 2010, ongoing costs remain related to the consolidation of technology platforms. Although we expect costs related to the integration of Channel Blade to continue throughout the first half fiscal 2011, management believes these efforts will provide the platform for growth in the Company’s core products, and will also provide our customers with a significant improvement in network performance and capacity.

Cash used for investing activities decreased in fiscal 2010, compared to fiscal 2009. In fiscal 2009, ARI completed the acquisition of Channel Blade and AFIS completed the acquisition of PSOG. There were no acquisitions in fiscal 2010. However, we did increase our investment in software development in fiscal 2010. Management expects cash used in investing activities to fluctuate from period to period based on the level of software development activities as well as the timing of acquisitions.

The Company generated cash from financing activities of \$550,000 in fiscal 2010, which resulted from additional borrowings on the line of credit as well as from proceeds from the lease financing for improvements made to our corporate office. In fiscal 2009, the Company used \$968,000 for financing activities, as the Company paid down debt and a portion of the outstanding balance on the line of credit.

Debt

We issued a \$5,000,000 secured promissory note in connection with the April 27, 2009 acquisition of Channel Blade. The annual interest rate on the note was 10% for the first year and 14% thereafter. If we had pre-paid a minimum principal amount of \$3,000,000 on or before April 27, 2010, the interest rate would have remained at 10% for the remainder of the note's term. Accrued interest only is due quarterly commencing July 31, 2009 through April 30, 2011. Twenty equal quarterly payments, which will include principal and interest, will then be due, commencing August 1, 2011. Management anticipates that the Company will be able to make all payments due under the current provisions of the note.

We issued \$700,000 of notes and \$400,000 of future non-interest bearing contingent payments in connection with the January 26, 2007 acquisition of OC-Net, Inc. As of July 31, 2010, all outstanding amounts due on the note and all contingent payments have been made.

On July 9, 2004, ARI entered into a line of credit agreement with JPMorgan Chase, N.A. which, as amended, permits us to borrow an amount equal to 80% of the book value of all eligible accounts receivable plus 45% of the value of all eligible open renewal orders (provided the renewal rate is at least 85%) minus \$75,000, up to \$2,000,000. Eligible accounts include certain non-foreign accounts receivable which are outstanding for fewer than 90 days from the invoice date.

The note bears interest at 1% per annum above the prime rate (effective rate of 4.25% as of July 31, 2010) plus an additional 3%, at the bank's option, upon the occurrence of any default under the note. The interest rate is subject to a floor equal to the sum of (i) 2.5%; plus (ii) the quotient of: (a) the one month LIBOR rate divided by (b) one minus the maximum aggregate reserve requirement imposed under Regulation D of the Board of Governors of the Federal Reserve System (effective floor of 2.8% as of July 31, 2010). The agreement includes a non-usage fee of 0.25% per annum on any unused portion of the line of credit. The line of credit terminates June 30, 2012 and is secured by substantially all of the Company's assets. The line of credit limits repurchases of common stock, the payment of dividends, liens on assets and new indebtedness. It also contains a financial covenant requiring us to maintain a minimum debt service coverage ratio of 1.2 to 1.0, with which we were in compliance at July 31, 2010. There was \$1,025,000 and \$500,000 principal outstanding on the line of credit at July 31, 2010 and July 31, 2009, respectively. There was \$975,000 remaining and eligible per the terms of the agreement on the line of credit at July 31, 2010.

Management believes that funds generated from operations will be adequate to fund the Company's operations, investments and debt payments for the foreseeable future, although additional financing may be necessary if the Company were to complete a material acquisition or to make a large investment in its business.

Acquisitions

Since 1995 the Company has had a formal corporate development program aimed at identifying, evaluating and closing acquisitions that augment and strengthen the Company's market position, product offerings, and personnel resources. Since the program's inception, nine business acquisitions and one software asset acquisition have been completed. All of these acquisitions have been fully integrated into the Company's operations, except Channel Blade, our most recent acquisition, whose operations remain subject to a data center consolidation.

On April 27, 2009, the Company acquired substantially all of the assets of Channel Blade, the leading provider of websites, lead management and marketing automation solutions in the marine and RV markets. Consideration for the acquisition included approximately \$500,000 in cash, 615,385 shares of the Company's common stock at a market price of \$0.75 per share, \$765,000 of assumed liabilities and a \$5,000,000 note payable. The Company included the results of operations of Channel Blade for fiscal 2010 and a portion of fiscal 2009, in its consolidated financial statements.

In connection with the acquisition, the Company entered into one year employment agreements with Jon M. Lintvet and Charles Lewis (the "Employment Agreements") to serve as Director of New Business Development and Director of Strategic Accounts- Marine and RV, respectively. These Employment Agreements have expired and both individuals remain employees of the Company.

On April 17, 2009, AFIS acquired the assets of PSOG, valued at approximately \$85,000, in partial satisfaction of its debt to ARI of approximately \$185,000, \$149,000 of which we purchased from Keybank National Association on April 16, 2009. PSOG, located in Schenectady, NY and then led by Mark L. Taylor, had been offering outsourced F&I services to power sports, marine and RV customers in the Northeast United States since 1998. In connection with the acquisition, AFIS entered into a three year employment agreement with Mr. Taylor to serve as Director of F&I Business Development. Effective March 8, 2010, ARI and Mr. Taylor terminated the employment agreement and entered into an arrangement pursuant to which Mr. Taylor continued to provide any necessary transitional services to the Company for six months following the effective date. This agreement has expired.

On July 27, 2010 ARI sold AFIS to F&I Smart LLC in a membership interest sale agreement (the "Subject Interests"). The sales price of the Subject Interests is a contingent amount based on dealer revenue beginning July 28, 2010 and ending on August 28, 2013. We have not accrued for any future contingent proceeds as we are not able to estimate the amounts at this time. The Company recognized a \$1,000 loss on the sale of AFIS in the fourth quarter of fiscal 2010.

Critical Accounting Judgments

The Company's discussion and analysis of its financial condition and results of operations are based upon its financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States ("GAAP"). The preparation of financial statements in conformance with GAAP requires estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. The SEC has defined a company's critical accounting policies as the ones that are most important to the portrayal of a company's financial condition and results of operations, and which require the company to make its most difficult and subjective judgments, often as a result of the need to make estimates of matters that are inherently uncertain. Based on this definition, we have identified as the most critical accounting policies and judgments those addressed below. We also have other key accounting policies, which involve the use of estimates, judgments, and assumptions that are significant to understanding our results. For additional information, refer to Note 1 of the consolidated financial statements, which appear elsewhere within this report on Form 10-K. Although we believe that our estimates, assumptions, and judgments are reasonable, they are based upon information currently available. Actual results may differ significantly from these estimates under different assumptions, judgments, or conditions.

Revenue Recognition

Arrangements that include professional services are evaluated to determine whether those services are essential to the functionality of other elements of the arrangement. Types of services that are considered essential include customizing complex features and functionality in a product's base software code or developing complex interfaces within a customer's environment. When professional services are not considered essential, the revenue allocable to the professional services is recognized as the services are performed. When professional services are considered essential, revenue under the arrangement is recognized pursuant to contract accounting using the percentage-of-completion method with progress-to-completion measured based upon labor hours incurred. When the current estimates of total contract revenue and contract cost indicate a loss, a provision for the entire loss on the contract is made in the period the amount is determined.

Allowance for Doubtful Accounts

The Company maintains an allowance for doubtful accounts for estimated losses resulting from the inability of its customers to make required payments. The Company currently estimates a reserve for most amounts due over 90 days, unless there is reasonable assurance of collectability. If the financial condition of the Company's customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required. In fiscal 2010 and fiscal 2009 the Company increased its allowance for doubtful accounts due to various factors, including general economic conditions.

Impairment of Long-Lived Assets

Equipment and leasehold improvements, capitalized software product costs and other identifiable assets are reviewed for impairment annually, or whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. If the sum of the expected undiscounted cash flows is less than the carrying value of the related asset or group of assets, a loss is recognized for the difference between the fair value and carrying value of the asset or group of assets. During fiscal 2010 and fiscal 2009, the Company disposed of equipment and leasehold improvements with a cost basis of \$1,220,000 and \$5,309,000, respectively and recorded a loss on disposal of \$10,000 and \$47,000, respectively.

In fiscal 2010, the Company incurred an impairment charge of \$48,000 on capitalized software, with a cost basis of \$208,000, which was disposed of, and an additional impairment charge of \$141,000 on assets that are still in use. These impairment charges are included in restructuring costs on the statement of operations. The Company did not incur any software impairment charges in fiscal 2009.

Deferred Income Taxes

The tax effect of the temporary differences between the book and tax basis of assets and liabilities and the estimated tax benefit from tax net operating losses is reported as deferred tax assets and liabilities in the balance sheet. An assessment of the likelihood that net deferred tax assets will be realized from future taxable income is performed. Because the ultimate realizability of deferred tax assets is highly subject to the outcome of future events, the amount established as a valuation allowance is considered to be a significant estimate that is subject to change in the near term. To the extent a valuation allowance is established or there is a change in the allowance during a period, the change is reflected with a corresponding increase or decrease in the tax provision in the statement of operations. We recognized a tax benefit of \$1,294,000 from continuing operations in fiscal 2010, and a tax provision of \$123,000 in fiscal 2009, both of which primarily resulted from a change in our estimated tax valuation allowance.

Stock-Based Compensation

The Company uses the Black-Scholes model to value stock options granted. Expected volatility is based on historical volatility of the Company's stock. The expected life of options granted represents the period of time that options granted are expected to be outstanding. The risk-free rate for periods within the contractual term of the options is based on the U.S. Treasury yields in effect at the time of grant. As stock-based compensation expense recognized in our results of operations is based on awards ultimately expected to vest, the amount has been reduced for estimated forfeitures based on our historical experience. Management reviews the critical assumptions used in the Black-Scholes model each quarter and adjusts those assumptions when necessary.

Goodwill and Other Intangible Assets

We periodically review the carrying value of goodwill to determine whether impairment may exist. As fully described in Note 1 to the Consolidated Financial Statements, we test goodwill for impairment using a two-step process prescribed by GAAP. The first step of the test is used to identify potential impairment by comparing the fair value of a reporting unit with its carrying amount, including goodwill. We determined that there is a single reporting unit for the purpose of goodwill impairment tests. We estimate the fair value of the reporting unit using various valuation techniques, with our primary techniques being a discounted cash flow valuation and control premium adjusted market capitalization. There are many estimates and assumptions involved in preparing a discounted cash flow analysis, including estimating future operating results, selecting a weighted average cost of capital to discount estimated future cash flows, anticipated long-term growth rates, and future profit margins.

Estimating the fair value of a reporting unit is an inherently subjective process. Changes in assumptions, estimates, and other inputs could result in the indication of potential impairment of a portion of the recorded goodwill. Management believes the assumptions, estimates, and other inputs used reflect their best efforts and are appropriate for valuing the reporting unit. Step 1 of the goodwill impairment test indicated that goodwill was not impaired in fiscal 2010 or fiscal 2009. As a result, step 2 of the test was not performed.

Impairment tests are also performed for those intangible assets with estimable useful lives if circumstances warrant a review. Due to the restructuring in the fourth quarter of fiscal 2010, the Company performed an impairment test on intangible assets with definite lives using estimated future cash flows from these assets for the remainder of their useful lives. There were no impairments to intangible assets with estimable useful lives in fiscal 2010 or fiscal 2009.

Quarterly Financial Data

The following table sets forth the unaudited results of operations for each of the eight quarterly periods ended July 31, 2010, prepared on a basis consistent with the audited financial statements, reflecting all normal recurring adjustments that are considered necessary. The quarterly information is as follows (in thousands, except per share data):

Quarterly Financial Data
(Unaudited - In thousands, except per share data)

	1st Quarter		2nd Quarter		3rd Quarter		4th Quarter	
	2010	2009	2010	2009	2010	2009	2010	2009
Net revenues	\$ 5,437	\$ 4,169	\$ 5,334	\$ 3,955	\$ 5,352	\$ 4,155	\$ 5,361	\$ 5,281
Gross margin	4,486	3,440	4,361	3,223	4,233	3,387	4,052	4,110
Income from continuing operations	324	256	339	56	155	239	350	214
Discontinued operations	(163)	-	(163)	-	(129)	(13)	63	(328)
Net income (loss)	\$ 162	\$ 256	\$ 176	\$ 56	\$ 26	\$ 226	\$ 413	\$ (114)

Basic and diluted income from continuing operations per common share:

Basic	\$ 0.04	\$ 0.04	\$ 0.04	\$ 0.01	\$ 0.02	\$ 0.03	\$ 0.05	\$ 0.03
Diluted	\$ 0.04	\$ 0.04	\$ 0.04	\$ 0.01	\$ 0.02	\$ 0.03	\$ 0.05	\$ 0.03

Basic and diluted net income per common share:

Basic	\$ 0.02	\$ 0.04	\$ 0.02	\$ 0.01	\$ 0.00	\$ 0.03	\$ 0.05	\$ (0.02)
Diluted	\$ 0.02	\$ 0.04	\$ 0.02	\$ 0.01	\$ 0.00	\$ 0.03	\$ 0.06	\$ (0.02)

Off-Balance Sheet Arrangements

ARI has no significant off-balance sheet arrangements that have or are reasonably likely to have a material current or future effect on its financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources.

Item 8. Financial Statements and Supplementary Data

Reference is made to the consolidated financial statements, the reports thereon and the notes thereto commencing after the signature page of this Report, which are incorporated herein by reference.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures designed to ensure that information required to be disclosed in our reports filed under the Exchange Act, as amended, is recorded, processed, summarized, and reported within the required time periods and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow for timely decisions regarding required disclosure.

As required by Rule 13a-15 under the Exchange Act, we have completed an evaluation, under the supervision and with the participation of our management, including the Chief Executive Officer and the Chief Financial Officer, of the effectiveness and the design and operation of our disclosure controls and procedures as of July 31, 2010. Based upon this evaluation, our management, including the Chief Executive Officer and the Chief Financial Officer, has concluded that our disclosure controls and procedures were effective as of July 31, 2010.

Management's Annual Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act. Under the supervision and with the participation of our management, including our Chief Executive Officer and the Chief Financial Officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in Internal Control over Financial Reporting – Guidance for Smaller Public Companies issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our evaluation under this framework, our management concluded that our internal control over financial reporting was effective as of July 31, 2010.

This annual report on Form 10-K does not include an attestation report of our independent registered public accounting firm regarding internal control over financial reporting. Internal control over financial reporting was not subject to attestation by our independent registered public accounting firm pursuant to the amendments to Rule 2-02(f) of Regulation S-X that exempts us from this attestation requirement based on our status as a non-accelerated filer. We are required to provide only management's report in this annual report on Form 10-K.

Changes in Internal Controls

There were no changes to the Company's internal control over financial reporting during the year ended July 31, 2010 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Limitations on Effectiveness of Controls and Procedures

Our management, including our Chief Executive Officer and Chief Financial Officer, does not expect that our disclosure controls and procedures or our internal controls will prevent all errors and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected. These inherent limitations include, but are not limited to, the realities that judgments in decision-making can be faulty and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the control. The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Over time, controls may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

PART III

Item 10. *Directors, Executive Officers, Promoters and Control Persons; Compliance with Section 16(a) of the Exchange Act*

Information required by Item 10 of Part III is included in our Proxy Statement relating to our 2010 Annual Meeting of Shareholders, and is incorporated herein by reference.

Item 11. *Executive Compensation*

Information required by Item 11 of Part III is included in our Proxy Statement relating to our 2010 Annual Meeting of Shareholders, and is incorporated herein by reference.

Item 12. *Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters*

Information required by Item 12 of Part III is included in our Proxy Statement relating to our 2010 Annual Meeting of Shareholders, and is incorporated herein by reference.

Item 13. *Certain Relationships and Related Transactions*

Information required by Item 13 of Part III is included in our Proxy Statement relating to our 2010 Annual Meeting of Shareholders, and is incorporated herein by reference.

Item 14. *Principal Accountant Fees and Services*

Information required by Item 14 of Part III is included in our Proxy Statement relating to our 2010 Annual Meeting of Shareholders, and is incorporated herein by reference.

PART IV

Item 15. Exhibits

2.1	Stock Purchase Agreement dated January 26, 2007, by and among OC-Net, Inc., the stockholders of OC-Net, Inc. and the Company, incorporated by reference to the Company's Current Report on Form 8-K filed on January 29, 2007.
2.2	Asset Purchase Agreement dated April 27, 2009 by and among the Company, Channel Blade Technologies Corp., Charles Lewis and Michael Sifen, incorporated by reference to Exhibit 2.1 of the Company's Form 8-K filed May 1, 2009.
3.1	Articles of Incorporation of the Company, as amended, incorporated herein by reference to Exhibit 3.1 of the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended April 30, 1999.
3.2	Articles of Amendment of the Company, incorporated herein by reference to Exhibit 3.2 of Form 8-K filed on August 18, 2003.
3.3	By-laws of the Company incorporated herein by reference to Exhibit 3.1 of the Company's Registration Statement on Form S-1 (Reg. No. 33-43148).
4.1	Non-Negotiable Secured Subordinated Promissory Note payable to Channel Blade Technologies Corp., incorporated by reference to the Company's Form 8-K filed May 1, 2009.
4.2	The Company agrees to furnish to the Commission upon request copies of any agreements with respect to long term debt not exceeding 10% of the Company's consolidated assets.
10.1*	1991 Stock Option Plan, as amended, incorporated herein by reference to Exhibit 10.2 of the Company's Form 10-Q for the quarter ended January 31, 1999.
10.2*	1993 Director Stock Option Plan, as amended, incorporated herein by reference to Exhibit 10.3 of the Company's Form 10-Q for the quarter ended January 31, 1999.
10.3	Rights Agreement dated as of August 7, 2003, between the Company and American Stock Transfer & Trust Company, as Rights Agent, incorporated herein by reference to Exhibit 10.1 of Form 8-K filed on August 18, 2003.
10.4*	Summary of Executive Bonus Arrangements (Fiscal 2007), incorporated herein by reference to Exhibit 10.8 of the Company's Form 10-KSB for the fiscal year ended July 31, 2006.
10.5 *	Summary of Executive Bonus Arrangements (Fiscal 2010).
10.6	Credit Agreement dated July 9, 2004 between the Company and Bank One, NA, incorporated by reference to exhibit 10.14 of the Company's Form 10-K for the year ended July 31, 2004.
10.7	Amendment to Credit Agreement dated February 15, 2005, between the Company and JPMorgan Chase Bank, NA, successor by merger to Bank One, NA., incorporated herein by reference to Exhibit 10.14 of the Company's Form 10-KSB for the fiscal year ended July 31, 2005.
10.8	Continuing Security Agreement dated July 9, 2004, between the Company and JPMorgan Chase Bank, NA, successor by merger to Bank One, NA., incorporated by reference to Exhibit 10.15 of the Company's Form 10-KSB for the year ended July 31, 2004.
10.9	Line of credit note dated July 9, 2004 by the Company for \$500,000, incorporated by reference to exhibit 10.16 of the Company's Form 10-KSB for the year ended July 31, 2005.
10.10	Note Modification Agreement dated February 15, 2005 to the Line of Credit Note dated July 9, 2004 by the Company for \$500,000, incorporated herein by reference to Exhibit 10.17 of the Company's Form 10-KSB for the fiscal year ended July 31, 2005.
10.11	Note Modification Agreement dated October 26, 2006, to the Line of Credit Note dated July 9, 2004 by the Company for \$1,000,000, incorporated herein by reference to Exhibit 10.1 of the Company's Form 8-K filed on October 31, 2006.
10.12	Note Modification Agreement dated April 25, 2006 to the Line of Credit Note dated July 9, 2004 by the Company for \$500,000, incorporated herein by reference to Exhibit 10.16 of the Company's Form 10-KSB for the fiscal year ended July 31, 2006.
10.13	First Amendment to Rights Agreement dated November 10, 2005, between the Company and American Stock Transfer & Trust Company, as Rights Agent, incorporated by reference to Exhibit 10.1 of Form 8-K filed on November 14, 2005.

10.14	Amendment to Credit Agreement dated May 10, 2007, between the Company and JP Morgan Chase Bank, NA, successor by merger to Bank One, NA, incorporated by reference to the Company's Form 10-QSB for the quarter ended April 30, 2007.
10.15	Note Modification Agreement dated May 10, 2007, between the Company and JP Morgan Chase Bank, NA, successor by merger to Bank One, NA, incorporated by reference to the Company's Form 10-QSB for the quarter ended April 30, 2007.
10.16	Note Modification Agreement dated April 25, 2008, between the Company and JP Morgan Chase Bank, NA, successor by merger to Bank One, NA.
10.17	Credit Agreement Amendment dated April 6, 2009, incorporated by reference to Form 10-Q for the quarter ended April 30, 2009.
10.18	Credit Agreement Amendment dated April 8, 2010, between the Company and JP Morgan Chase Bank, NA, incorporated by reference to Exhibit 10.1 to the Company's Form 8-K filed on June 18, 2010.
10.19*	Change of Control Agreement dated April 1, 2006 between the Company and Brian E. Dearing, incorporated by reference to Exhibit 10.1 of the Company's Form 10-QSB for the quarter ended October 31, 2007.
10.20*	Change of Control Agreement dated September 13, 2006 between the Company and Roy W. Olivier, incorporated by reference to Exhibit 10.3 of the Company's Form 10-QSB for the quarter ended October 31, 2007.
10.21*	Change of Control Agreement dated July 31, 2008 between the Company and Robert J. Hipp, incorporated by reference to Exhibit 10.24 of the Company's Form 10-K for the year ended July 31, 2008.
10.22*	Employment Agreement dated March 13, 2008 between the Company and Brian E. Dearing, incorporated by reference to Exhibit 10.1 of the Company's Form 10-QSB for the quarter ended January 31, 2008.
10.23*	Amendment to Employment Agreement between the Company and Brian E. Dearing dated May 5, 2010, incorporated by reference to Exhibit 10.1 of the Company's Form 10-Q for the quarter ended April 30, 2010.
10.24*	Employment Agreement dated May 1, 2008 between the Company and Roy W. Olivier, incorporated by reference to Exhibit 10.1 of the Company's Form 8-K filed on May 2, 2008.
10.25*	2000 Stock Option Plan, as amended, incorporated by reference to Exhibit 10.1 of the Company's Form 10-Q for the quarter ended April 30, 2008.
10.26*	Separation and Consulting Agreement dated June 16, 2009 between the Company and Kenneth S. Folberg, incorporated by reference to Exhibit 10.1 of the Company's Form 8-K filed on June 17, 2009.
10.27*	Employment Agreement dated February 25, 2009 between the Company and Michael Tenpas, incorporated by reference to Exhibit 10.31 of the Company's Form 10-K for the year ended July 31, 2009.
10.28*	Change of Control Agreement dated July 31, 2008 between the Company and Michael Tenpas, incorporated by reference to Exhibit 10.31 of the Company's Form 10-K for the year ended July 31, 2009.
21.1	Subsidiaries of the Company.
23.1	Consent of Wipfli LLP.
24.1	Powers of Attorney appear on the signature page hereof.
31.1	Section 302 Certification of Chief Executive Officer.
31.2	Section 302 Certification of Chief Financial Officer.
32.1	Section 906 Certification of Chief Executive Officer.
32.2	Section 906 Certification of Chief Financial Officer.

**Report of Wipfli LLP,
Report of Independent Registered Public Accounting Firm**

To the Board of Directors and Shareholders
ARI Network Services, Inc.

We have audited the accompanying consolidated balance sheets of ARI Network Services, Inc. and Subsidiaries (the Company) as of July 31, 2010 and 2009 and the related consolidated statements of income, shareholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of July 31, 2010 and 2009 and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States.

Wipfli LLP
Milwaukee, Wisconsin
October 29, 2010

Consolidated Financial Statements

ARI Network Services, Inc.
Years ended July 31, 2010 and 2009

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

	<u>July 31 2010</u>	<u>July 31 2009</u>
Current assets:		
Cash and cash equivalents	\$ 938	\$ 650
Trade receivables, less allowance for doubtful accounts of \$565 and \$410 at July 31, 2010 and 2009, respectively	1,359	1,352
Work in process	133	156
Prepaid expenses and other	481	321
Deferred income taxes	<u>2,600</u>	<u>2,544</u>
<i>Total current assets</i>	5,511	5,023
Equipment and leasehold improvements:		
Computer equipment	1,883	1,827
Leasehold improvements	506	463
Furniture and equipment	<u>1,970</u>	<u>2,479</u>
	4,359	4,769
Less accumulated depreciation and amortization	<u>2,433</u>	<u>2,827</u>
<i>Net equipment and leasehold improvements</i>	1,926	1,942
Capitalized software product costs:		
Amounts capitalized for software product costs	15,919	14,886
Less accumulated amortization	<u>13,524</u>	<u>12,489</u>
<i>Net capitalized software product costs</i>	2,395	2,397
Deferred income taxes	1,616	110
Other long term assets	63	59
Other intangible assets	2,827	3,637
Goodwill	<u>5,439</u>	<u>5,439</u>
Total assets	<u>\$ 19,777</u>	<u>\$ 18,607</u>

See accompanying notes

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

	July 31 2010	July 31 2009
Current liabilities:		
Current borrowings on line of credit	\$ 1,025	\$ 500
Current portion of notes payable	-	117
Accounts payable	490	788
Deferred revenue	5,270	5,523
Accrued payroll and related liabilities	1,322	1,421
Accrued taxes	60	82
Other accrued liabilities	844	729
Current portion of capital lease obligations	192	109
<i>Total current liabilities</i>	9,203	9,269
Non-current liabilities:		
Notes payable	5,000	5,000
Long-term portion of accrued compensation	17	36
Capital lease obligations	338	115
<i>Total non-current liabilities</i>	5,355	5,151
Total liabilities	14,558	14,420
Shareholders' equity:		
Cumulative preferred stock, par value \$.001 per share, 1,000,000 shares authorized; 0 shares issued and outstanding at July 31, 2010 and 2009, respectively	-	-
Junior preferred stock, par value \$.001 per share, 100,000 shares authorized; 0 shares issued and outstanding at July 31, 2010 and 2009, respectively	-	-
Common stock, par value \$.001 per share, 25,000,000 shares authorized; 7,768,921 and 7,693,510 shares issued and outstanding at July 31, 2010 and 2009, respectively	8	8
Common stock warrants and options	983	816
Additional paid-in-capital	95,748	95,681
Accumulated deficit	(91,507)	(92,284)
Other accumulated comprehensive loss	(13)	(34)
Total shareholders' equity	5,219	4,187
Total liabilities and shareholders' equity	\$ 19,777	\$ 18,607

See accompanying notes

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

	<u>2010</u>	<u>2009</u>
Net revenue	\$ 21,484	\$ 17,560
Cost of revenue	<u>4,353</u>	<u>3,400</u>
Gross profit	17,131	14,160
Operating expenses:		
Sales and marketing	4,786	3,419
Customer operations and support	3,469	2,785
Software development and technical support (net of capitalized software product costs)	1,415	1,534
General and administrative	4,879	4,212
Restructuring	437	-
Depreciation and amortization (exclusive of amortization of software product costs included in cost of revenue)	<u>1,640</u>	<u>1,101</u>
Net operating expenses	<u>16,626</u>	<u>13,051</u>
Operating income	505	1,109
Other income (expense):		
Interest expense	(649)	(214)
Other, net	<u>19</u>	<u>(7)</u>
Total other income (expense)	<u>(630)</u>	<u>(221)</u>
Income (loss) from continuing operations before provision for income tax	(125)	888
Income tax benefit (expense)	<u>1,294</u>	<u>(123)</u>
Income from continuing operations	1,169	765
Discontinued operations, net of tax	<u>(392)</u>	<u>(341)</u>
Net income	<u>\$ 777</u>	<u>\$ 424</u>
Income from continuing operations per common share:		
Basic	<u>\$ 0.15</u>	<u>\$ 0.11</u>
Diluted	<u>\$ 0.15</u>	<u>\$ 0.11</u>
Net income per common share:		
Basic	<u>\$0.10</u>	<u>\$0.06</u>
Diluted	<u>\$0.10</u>	<u>\$0.06</u>

See accompanying notes

ARI Network Services, Inc.
Consolidated Statements of Shareholders' Equity
(Dollars in Thousands)

	Common Stock			Paid in Capital	Accumulated Deficit	Other Accumulated Comprehensive Loss	Total Shareholders' Equity
	Shares Issued and Outstanding	Par Value	Warrants & Options				
Balance July 31, 2008	6,971,927	\$ 7	\$ 501	\$ 95,148	\$ (92,708)	\$ (52)	\$ 2,896
Stock-based compensation	-	-	315	-	-	-	315
Issuance of common stock under company 401(k) plan	32,955	-	-	45	-	-	45
Issuance of common stock under executive bonus plan	8,642	-	-	8	-	-	8
Issuance of common stock from exercise of stock options	60,242	-	-	16	-	-	16
Issuance of common stock under stock purchase plan	4,359	-	-	4	-	-	4
Issuance of common stock related to acquisitions	615,385	1	-	460	-	-	461
Net Income	-	-	-	-	424	-	424
Foreign currency translation adjustments	-	-	-	-	-	18	18
Comprehensive income	-	-	-	-	424	18	442
Balance July 31, 2009	7,693,510	\$ 8	\$ 816	\$ 95,681	\$ (92,284)	\$ (34)	\$ 4,187
Stock-based compensation	-	-	167	-	-	-	167
Issuance of common stock under company 401(k) plan	58,332	-	-	52	-	-	52
Issuance of common stock under executive bonus plan	10,495	-	-	10	-	-	10
Issuance of common stock under stock purchase plan	6,584	-	-	5	-	-	5
Net Income	-	-	-	-	777	-	777
Foreign currency translation adjustments	-	-	-	-	-	21	21
Comprehensive income	-	-	-	-	777	21	798
Balance July 31, 2010	7,768,921	\$ 8	\$ 983	\$ 95,748	\$ (91,507)	\$ (13)	\$ 5,219

Shareholders' Equity Includes cumulative preferred stock, par value \$.001 per share, 1,000,000 shares authorized; 0 shares issued and outstanding for all periods presented.

Shareholders' Equity includes junior preferred stock, par value \$.001 per share, 100,000 shares authorized; 0 shares issued and outstanding for all periods presented.

See accompanying notes

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

	2010	2009
Operating activities		
Net income	\$ 777	\$ 424
Adjustments to reconcile net income to net cash provided by operating		
Amortization of software products	1,054	876
Impairment of software products	189	-
Amortization of deferred financing costs, debt discount and excess carrying value over face amount of notes payable	-	8
Depreciation and other amortization	1,640	1,054
Loss on disposal of equipment	10	47
Allowance for investment in Bank Note	-	127
Loss on disposal of discontinued operations	1	-
Provision for bad debt allowance	287	111
Deferred income taxes	(1,562)	88
Stock based compensation related to stock options	167	315
Stock issued as contribution to 401(k) plan	52	45
Net change in assets and liabilities:		
Trade receivables	(301)	124
Work in process	10	108
Prepaid expenses and other	(160)	89
Other long term assets	(4)	(5)
Accounts payable	(288)	137
Deferred revenue	(253)	(859)
Accrued payroll and related liabilities	(87)	352
Accrued taxes	(22)	2
Accrued vendor specific liabilities	-	-
Other accrued liabilities	114	(298)
<i>Net cash provided by operating activities</i>	1,624	2,745
Investing activities		
Purchase of equipment, software and leasehold improvements	(541)	(636)
Cash paid for goodwill and intangible assets related to acquisitions	-	(645)
Cash surrendered in disposal of discontinued operations	(10)	-
Cash paid for other net assets related to acquisitions	-	(123)
Software developed for internal use	(99)	(56)
Software development costs capitalized	(1,241)	(759)
<i>Net cash used in investing activities</i>	(1,891)	(2,219)
Financing activities		
Borrowings (repayments) under line of credit	525	(200)
Payments under notes payable	(117)	(684)
Proceeds from capital lease obligations incurred	300	-
Payments of capital lease obligations	(163)	(104)
Proceeds from issuance of common stock	5	20
<i>Net cash provided by (used in) financing activities</i>	550	(968)
Effect of foreign currency exchange rate changes on cash	5	6
Net change in cash and cash equivalents	288	(436)
Cash and cash equivalents at beginning of period	650	1,086
Cash and cash equivalents at end of period	\$ 938	\$ 650
Cash paid for interest	\$ 474	\$ 211
Cash paid for income taxes	\$ 89	\$ 28
Noncash investing and financing activities		
Capital lease obligations incurred for computer equipment	\$ 170	\$ -
Accrued liabilities related to purchase of computer equipment	-	86
Issuance of common stock in connection with acquisitions	-	461
Debt issued in connection with acquisitions	-	5,000
Accrued liabilities assumed in connection with acquisitions	-	1,691
Net current assets and liabilities surrendered in sale of discontinued operations	9	-
Issuance of common stock related to payment of executive compensation	10	8

See accompanying notes

ARI Network Services, Inc.

Notes to Consolidated Financial Statements

1. Description of the Business and Significant Accounting Policies

Description of the Business

ARI Network Services, Inc. ("ARI") provides technology-enabled services that help dealers, distributors and manufacturers worldwide enhance revenue and reduce costs. Our technology-enabled services allow customers in a service or distribution network to: (i) conveniently reference parts, service bulletins and other technical information; (ii) manage and nurture customers and prospects; (iii) efficiently market to their customers and prospects; and (iv) increase revenues by selling products online. We deliver our services to companies of all sizes across a dozen vertical markets, with a core emphasis on the outdoor power, power sports, marine, RV, and appliance sectors. Approximately 18,000 equipment dealers, 125 manufacturers, and 150 distributors worldwide leverage our technology to drive revenue, gain efficiencies and increase customer satisfaction. We also develop and offer electronic catalog content for approximately 125 leading equipment manufacturers.

Our principal executive office and headquarters is located in Milwaukee, Wisconsin. The office address is 10850 West Park Place, Suite 1200, Milwaukee, WI 53224, and our telephone number at that location is (414) 973-4300. Our principal website address is www.arinet.com.

Basis of Presentation

These consolidated financial statements include the financial statements of ARI and its wholly owned subsidiaries. We have eliminated all significant intercompany balances and transactions in consolidation. Certain reclassifications were made to amounts previously reported in our financial statements, including interim reports on Form 10-Q, in order to conform to the current presentation. These reclassifications include: (i) shifting the results of our discontinued operation out of income from continuing operations; (ii) reclassifying product management and design costs from sales and marketing to software development and technical support; and (iii) reclassifying certain components of deferred tax assets from long term to short term.

In fiscal 2009 ARI acquired Channel Blade Technologies, Inc. ("Channel Blade"). We have included the results of operations for Channel Blade in our consolidated results of operations from the date of acquisition. In fiscal 2009, ARI F&I Services, LLC ("AFIS"), a wholly-owned subsidiary of ARI, acquired Powersports Outsourcing Group ("PSOG"). AFIS was subsequently sold on July 27, 2010. The results of AFIS have been reported as a discontinued operation.

Fiscal Year

Our fiscal year ends on July 31. References to fiscal 2010, for example, refer to the fiscal year ending July 31, 2010, and references to fiscal 2009 refer to the fiscal year ending July 31, 2009.

Foreign Currency Translation

The functional currency of the Company's subsidiary in the Netherlands is the Euro; accordingly, monetary assets and liabilities are translated into U.S. dollars at the rate of exchange existing at the end of the period, and non-monetary assets and liabilities are translated into U.S. dollars at historical exchange rates. Income and expense amounts, except for those related to assets translated at historical rates, are translated at the weighted-average exchange rates during the period. Adjustments resulting from the re-measurement of the financial statements into the functional currency are charged or credited to comprehensive income (loss).

Use of Estimates

The preparation of the Company's financial statements in conformity with accounting principles generally accepted in the U.S. ("GAAP") requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates. The Company considers capitalization and amortization of software product costs, valuation of intangible assets, accruals for anticipated losses on projects, and the deferred tax valuation allowance to be significant estimates that are subject to change in the near term.

Changes in Accounting Estimates

During fiscal 2010 and fiscal 2009, the Company had a change in its estimated valuation allowance related to deferred tax assets due to ongoing revisions and evaluations of the estimated future expected results of operations. The difference between the amounts previously recorded as a valuation allowance and the amount currently recorded was charged to income tax expense, as more fully discussed in Note 11. The amount of this change in accounting estimate was income of \$1,402,000, or \$0.18 per basic and diluted common share in fiscal 2010, and expense of approximately \$88,000, or \$0.01 per basic and diluted common share, in fiscal 2009.

Concentrations

We currently maintain cash deposits in bank accounts in excess of amounts insured by the Federal Deposit Insurance Corporation ("FDIC"). The Company had cash deposits in excess of the FDIC insurance coverage of \$800,000 and \$400,000 as of July 31, 2010 and 2009, respectively. These cash deposits are exposed to loss in the event of nonperformance by the financial institution.

No single customer accounted for 10% or more of ARI's revenue in fiscal 2010 or fiscal 2009.

Revenue Recognition

Revenue for use of the network and for information services is recognized on a straight-line basis over the period of the contract.

Revenue from annual or periodic maintenance fees is recognized ratably over the period the maintenance is provided. Revenue from catalog subscriptions is recognized on a straight-line basis over the subscription term.

Revenue from software licenses, which is included in multiple element arrangements, is recognized ratably over the contractual term of the arrangement. ARI considers all arrangements with payment terms extending beyond twelve months not to be fixed or determinable and evaluates other arrangements with payment terms longer than normal to determine whether the arrangement is fixed or determinable. If the fee is not fixed or determinable, revenue is recognized as payments become due from the customer. Arrangements that include acceptance terms beyond the standard terms are not recognized until acceptance has occurred. If collectability is not considered probable, revenue is recognized when the fee is collected.

Arrangements that include professional services are evaluated to determine whether those services are essential to the functionality of other elements of the arrangement. Types of services that are considered essential to software license arrangements include customizing complex features and functionality in a product's base software code or developing complex interfaces within a customer's environment. When professional services are considered essential to software license arrangements, revenue under the arrangement is recognized pursuant to contract accounting using the percentage-of-completion method with progress-to-completion measured based upon labor hours incurred. Professional services revenue for set-up and integration of hosted websites, or other services considered essential to the functionality of other elements of this type of arrangement, is amortized over the term of the contract. When professional services are not considered essential, the revenue allocable to the professional services is recognized as the services are performed. When the current estimates of total contract revenue and contract cost indicate a loss, a provision for the entire loss on the contract is made in the period the amount is determined.

Revenue for variable transaction fees, primarily for use of the shopping cart feature of our websites, is recognized as it is earned.

Amounts invoiced to customers prior to recognition as revenue as discussed above are reflected in the accompanying balance sheets as deferred revenue.

In conjunction with our acquisition of Channel Blade, we incurred a deferred revenue liability of approximately \$1,310,000 related to setup fees charged for hosted websites. The deferred revenue liability is being amortized over the terms of the customer contracts, of which approximately \$48,000 is remaining as of July 31, 2010. Approximately \$800,000 and \$462,000 of the Channel Blade deferred revenue was recognized during fiscal 2010 and fiscal 2009, respectively.

Revenue received from shipping and handling fees is reflected in net revenue. Costs incurred for shipping and handling are reported in cost of revenue.

Cash and Cash Equivalents

We consider all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents.

Our investment policy, as approved by the Board of Directors, is designed to provide preservation of capital, adequate liquidity to meet projected cash requirements, optimum yields in relationship to risk, market conditions and tax considerations and minimum risk of principal loss through diversified short and medium term investments. Eligible investments include direct obligations of the U.S. Treasury, obligations issued or guaranteed by the U.S. government, certain time deposits, certificates of deposits issued by commercial banks, money market mutual funds, asset backed securities and municipal bonds. Our current investments include money market mutual funds with terms not exceeding ninety days.

Trade Receivables, Credit Policy and Allowance for Doubtful Accounts

Trade receivables are uncollateralized customer obligations due on normal trade terms, most of which require payment within 30 days from the invoice date. Payments of trade receivables are allocated to the specific invoices identified on the customer's remittance advice or, if unspecified, are applied to the earliest unpaid invoices.

The carrying amount of trade receivables is reduced by an allowance that reflects management's best estimate of the amounts that will not be collected. Management individually reviews all receivable balances that exceed 60 days from the invoice date and based on an assessment of current creditworthiness, estimates the portion, if any, of the balance that will not be collected. The allowance for potential credit losses is reflected as an offset to trade receivables in the accompanying balance sheets.

Work in Process

Work in process consists of billable professional services performed by the Company, for which revenue was recognized pursuant to contract accounting primarily using the percentage-of-completion method with progress-to-completion measured based upon labor hours incurred, which have not been invoiced as of the end of the reporting period.

Equipment and Leasehold Improvements

Equipment and leasehold improvements are stated at cost. Depreciation and amortization are computed under the straight-line method for financial reporting purposes and accelerated methods for income tax purposes. Depreciation and amortization have been provided over the estimated useful lives of the assets as follows:

Computer equipment	3 – 7 years
Leasehold improvements	2 – 7 years
Furniture and equipment	3 – 5 years

Leasehold improvements are amortized over the useful lives of the assets or the term of the related lease agreement, whichever is shorter. During fiscal 2010 and fiscal 2009, the Company disposed of equipment and leasehold improvements with a cost basis of \$1,220,000 and \$5,309,000, respectively and recorded a loss on disposal of \$10,000 and \$47,000, respectively.

Capitalized and Purchased Software Product Costs

Certain software development and acquisition costs are capitalized when incurred. Capitalization of these costs begins upon the establishment of technological feasibility. The establishment of technological feasibility and the on-going assessment of recoverability of software costs require considerable judgment by management with respect to certain external factors, including, but not limited to, the determination of technological feasibility, anticipated future gross revenues, estimated economic life and changes in software and hardware technologies.

The annual amortization of software products is the greater of the amount computed using: (a) the ratio that current gross revenues for the network or a software product bear to the total of current and anticipated future gross revenues for the network or a software product, or (b) the straight-line method over the estimated economic life of the product which currently runs from three to five years. Amortization starts when the product is available for general release to customers. All other software development and support expenditures are charged to expense in the period incurred.

Capitalized Interest Costs

Capitalized interest costs were immaterial as a whole to the financial statements in fiscal 2010 and 2009.

Insurance Premiums Receivable

The Company is the beneficiary of the total premiums it paid on a split-dollar life insurance policy at the death of the policy holder. Insurance premiums receivable are recorded at present value based on the average life expectancy of the policy holder and are included in other long term assets. Insurance premiums receivable consisted of \$63,000 and \$59,000 at July 31, 2010 and 2009, respectively, which is the present value of future life insurance premiums receivable of approximately \$237,000 discounted at an average rate of 9% and averaged over 14 to 17 years.

Impairment of Long-Lived Assets

In accordance with GAAP, capitalized software product costs are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. If the sum of the expected undiscounted cash flows is less than the carrying value of the related asset or group of assets, a loss is recognized for the difference between the fair value and carrying value of the asset or group of assets. Such analyses necessarily involve judgment. We evaluated the ongoing value of our long-lived assets as of July 31, 2010 and 2009. In fiscal 2010 we incurred an impairment charge of \$48,000 on capitalized software, with a cost basis of \$208,000, which was disposed of, and an additional impairment charge of \$141,000 on assets that are still in use. These impairment charges are included in restructuring costs on the statement of operations. We did not incur any software impairment charges in fiscal 2009.

Fair Value Measurements

GAAP has established a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value. These tiers include Level 1, defined as observable inputs such as quoted market prices in active markets; Level 2, defined as inputs other than quoted market prices in active markets that are either directly or indirectly observable; and Level 3, defined as unobservable inputs in which little or no market data exists, therefore, requiring an entity to develop its own assumptions. The asset's or liability's fair value measurement level within the hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

We have a limited number of financial instruments which are measured at fair value on a recurring basis. Unrealized gains and losses on items for which the fair value option has been elected are recognized in earnings. In fiscal 2009, we incurred a loss of \$127,000 related to a note receivable as a result of a fair market valuation as follows (in thousands):

	<u>2010</u>	<u>2009</u>
Fair value measurements using:		
Level 1 inputs: quoted prices in active markets for identical assets	\$ -	\$ -
Level 2 inputs: significant other observable inputs	-	-
Level 3 inputs: significant unobservable inputs	-	-
Total fair value	<u>\$ -</u>	<u>\$ -</u>
Total loss recognized	<u>\$ -</u>	<u>\$ 127</u>

ARI also measures non-financial instruments at fair value on a non-recurring basis as required by GAAP. Gains and losses on items which were measured at fair market value on a non-recurring basis were recognized in earnings. In fiscal 2010, we incurred a loss of \$189,000 related to impairment of certain software products as follows (in thousands):

	<u>2010</u>
Fair value measurements using:	
Level 1 inputs: quoted prices in active markets for identical assets	\$ -
Level 2 inputs: significant other observable inputs	-
Level 3 inputs: significant unobservable inputs	<u>2,395</u>
Total fair value	<u>\$ 2,395</u>
Total loss recognized	<u>\$ 189</u>

Goodwill and Other Intangible Assets

GAAP requires that we assess goodwill for impairment annually, or more frequently if circumstances warrant a review. Certain triggering events that may warrant a more frequent impairment test include a significant change in the business climate, legal factors, a decline in operating performance, competition, sale or disposition of a significant portion of the business, or other factors. We tested for goodwill impairment at July 31, 2010 and 2009.

We test goodwill for impairment using a two-step process, as prescribed by GAAP. The first step of the test is used to identify potential impairment by comparing the fair value of a reporting unit with its carrying amount, including goodwill. If the carrying amount of a reporting unit exceeds its fair value, the second step of the goodwill impairment test is performed to measure the amount of impairment loss, if any. The second step of the goodwill impairment test compares the implied fair value of the reporting unit's goodwill with the carrying amount of that goodwill. If the carrying amount of the reporting unit's goodwill exceeds the implied fair value of that goodwill, an impairment loss is recognized in an amount equal to that excess. The implied fair value of goodwill is determined in the same manner as the amount of goodwill recognized in a business combination. That is, the fair value of the reporting unit is allocated to all of the assets and liabilities of that unit as if the reporting unit had been acquired in a business combination and the fair value of the reporting unit was the purchase price paid to acquire the reporting unit.

We determined that there is a single reporting unit for the purpose of goodwill impairment tests. We estimate the fair value of the reporting unit using various valuation techniques, with the primary technique being a discounted cash flow analysis. There are many estimates and assumptions involved in preparing a discounted cash flow analysis, including most significantly the weighted average cost of capital ("WACC") used to discount future cash flows, anticipated long-term growth rates, and future profit margins. Management uses its best efforts to reasonably estimate all of these and other inputs in the cash flow models utilized. We estimated future cash flows using two forecast scenarios and management used its best judgment to assign a weighting to each scenario. Step 1 of the goodwill impairment test indicated that goodwill was not impaired in fiscal 2010 or fiscal 2009. As a result, step 2 of the test was not performed.

Impairment tests are also performed for those intangible assets with estimable useful lives when circumstances warrant testing for impairment. Intangible assets with estimable useful lives consist primarily of customer relationships and trade names, which are amortized over their estimated useful lives of 4-8 years, and employee non-compete agreements, which are amortized over their estimated useful lives of two years. There were no impairments to intangible assets with estimable useful lives in fiscal 2010 or fiscal 2009.

Deferred Income Taxes

The tax effect of the temporary differences between the book and tax bases of assets and liabilities and the estimated tax benefit from tax net operating losses is reported as deferred tax assets and liabilities in the balance sheet. An assessment of the likelihood that net deferred tax assets will be realized from future taxable income is performed semi-annually or when events or changes in circumstances indicate that there may be a change in the valuation allowance. Because the ultimate realizability of deferred tax assets is highly subject to the outcome of future events, the amount established as valuation allowance is considered to be a significant estimate that is subject to change in the near term. To the extent a valuation allowance is established or there is a change in the allowance during a period, the change is reflected with a corresponding increase or decrease in the tax provision in the income statement.

Stock-Based Compensation

ARI uses the Black-Scholes model to value stock options granted. Expected volatility is based on historical volatility of the Company's stock. The expected life of options granted represents the period of time that options granted are expected to be outstanding. The risk-free rate for periods within the contractual term of the options is based on the U.S. Treasury yields in effect at the time of grant. As stock-based compensation expense recognized in our results of operations is based on awards ultimately expected to vest, the amount has been reduced for estimated forfeitures, which were estimated based on our historical experience.

Advertising Costs

Advertising costs are expensed as incurred. Total advertising costs were \$132,000 and \$74,000 in fiscal 2010 and fiscal 2009, respectively.

Comprehensive Income (Loss)

Comprehensive income is a more inclusive financial reporting method that includes disclosure of financial information that historically has not been recognized in the calculation of net income. We reported comprehensive income, which includes net income and foreign currency translation adjustments, in the Consolidated Statements of Shareholders' Equity for fiscal 2010 and fiscal 2009.

Legal Provisions

ARI is periodically involved in legal proceedings arising from contracts, patents or other matters in the normal course of business. We reserve for any material estimated losses if the outcome is probable, in accordance with GAAP. We had no legal provisions in fiscal 2010 or fiscal 2009.

Recently Adopted Accounting Standards

In February 2010 the Financial Accounting Standards Board ("FASB") amended ASC Topic 855, Subsequent Events. The amendment does not change the definition of a subsequent event (i.e. an event or transaction that occurs after the balance sheet date but before the financial statements are issued) but requires SEC filers to evaluate subsequent events through the date that its financial statements are issued. The new standard was effective immediately and we adopted these new requirements in fiscal 2010.

In December 2009 the FASB amended guidance related to fair value measurements and disclosures, which was effective beginning with the fiscal quarter ended April 30, 2010. These amendments prescribe new disclosures and clarify certain existing disclosure requirements related to fair value measurements. The objective of the amendments was to improve these disclosures and, thus, increase the transparency in financial reporting. The adoption of these amendments did not have a material impact on our consolidated financial statements.

In June 2009 the FASB issued ASC 105, Generally Accepted Accounting Principles, effective for interim and annual reporting periods ending after September 15, 2009. This statement established the Accounting Standards Codification (the "Codification") as the single official source of authoritative accounting principles used in the preparation of financial statements in conformity with GAAP. The Codification does not replace or affect guidance issued by the SEC or its staff. The Company adopted ASC 105 on beginning with its fiscal quarter ended October 31, 2009. Since ASC 105 does not change GAAP, adoption of ASC 105 did not impact the results of operations, financial position or cash flows of the Company. Rather, the references to authoritative accounting pronouncements included herein now refer to the Codification topic section rather than a specific accounting rule, as was past practice.

In December 2007, the FASB issued ASC 805, Business Combinations. This standard became effective for ARI business combinations on, or after, the beginning of the first annual reporting period beginning on August 1, 2009. This standard requires the acquiring entity in a business combination to recognize all (and only) the assets acquired and liabilities assumed in the transaction; establishes the acquisition-date fair value as the measurement objective for all assets and liabilities assumed; and requires the acquirer to disclose to investors and other users all of the information they need to evaluate and understand the nature and financial effect of the business combination. This standard was adopted on August 1, 2009. The adoption did not have a material impact on our consolidated financial statements for fiscal 2010.

New Accounting Pronouncements

In October 2009, the FASB amended guidance related to revenue recognition for software with multiple elements that will become effective for the Company beginning August 1, 2010. Under the new guidance on arrangements that include software elements, tangible products that have software components that are essential to the functionality of the tangible product will no longer be within the scope of the software revenue recognition guidance, and software-enabled products will now be subject to other relevant revenue recognition guidance. Additionally, the FASB amended guidance on revenue arrangements with multiple deliverables that are outside the scope of the software revenue recognition guidance. Under the new guidance, when vendor specific objective evidence or third party evidence for deliverables in an arrangement cannot be determined, a best estimate of the selling price is required to separate deliverables and allocate arrangement consideration using the relative selling price method. The new guidance includes new disclosure requirements on how the application of the relative selling price method affects the timing and amount of revenue recognition. We are evaluating the potential impact of adopting these standards on the consolidated financial statements for fiscal 2011 and beyond.

Other recently issued accounting pronouncements are not believed by management to have a material impact on our present or future financial statements.

2. Basic and Diluted Net Income per Common Share

Basic net income per common share is computed by dividing net income by the basic weighted average number of common shares outstanding during the period. Diluted net income per common share is computed by dividing net income by the weighted average number of common shares outstanding during the period and reflects the potential dilution that could occur if all of ARI's outstanding stock options and warrants that are in the money were exercised (calculated using the treasury stock method).

The following table is a reconciliation of basic and diluted net income per common share for fiscal 2010 and fiscal 2009 (in thousands, except per share data):

	<u>2010</u>	<u>2009</u>
Income from continuing operations	\$ 1,169	\$ 765
Loss from discontinued operations	<u>(392)</u>	<u>(341)</u>
Net income	<u>\$ 777</u>	<u>\$ 424</u>
Weighted-average common shares outstanding	7,751	7,203
Effect of dilutive stock options and warrants	<u>15</u>	<u>25</u>
Diluted weighted-average common shares outstanding	<u>7,766</u>	<u>7,228</u>
Earnings per share - basic:		
Income from continuing operations	\$ 0.15	\$ 0.11
Loss from discontinued operations	<u>(0.05)</u>	<u>(0.05)</u>
Net income	<u>\$ 0.10</u>	<u>\$ 0.06</u>
Earnings per share - diluted:		
Income from continuing operations	\$ 0.15	\$ 0.11
Loss from discontinued operations	<u>(0.05)</u>	<u>(0.05)</u>
Net income	<u>\$ 0.10</u>	<u>\$ 0.06</u>
Options and warrants that could potentially dilute net income per share in the future that are not included in the computation of diluted net income per share, as their impact is anti-dilutive	<u>1,504</u>	<u>1,394</u>

3. Capitalized and Purchased Software Product Costs

The balance of capitalized and purchased software product costs consisted of the following (in thousands):

	Software Product Costs	Accumulated Amortization	Net Value
Balance 7/31/08	\$ 13,209	\$ (11,613)	\$ 1,596
Capitalized costs	759		759
Acquisitions	918		918
Amortization expense		(876)	(876)
Balance 7/31/09	\$ 14,886	\$ (12,489)	\$ 2,397
Capitalized costs	1,241		1,241
Disposals	(208)	208	-
Impairments		(189)	(189)
Amortization expense		(1,054)	(1,054)
Balance 7/31/10	\$ 15,919	\$ (13,524)	\$ 2,395

The estimated aggregate amortization expense for each of the five succeeding fiscal years related to capitalized and purchased software product costs consist of the following at July 31, 2010 (in thousands):

2011	\$ 961
2012	787
2013	513
2014	90
2015	44
	<u>\$ 2,395</u>

4. Notes Payable

Notes payable consisted of the following at July 31, 2010 and 2009 (in thousands):

	2010	2009
Notes payable	\$ 5,000	\$ 5,117
Less current maturities	-	117
Notes payable - non-current	\$ 5,000	\$ 5,000

We issued a \$5,000,000 secured promissory note in connection with the April 27, 2009 acquisition of Channel Blade. The annual interest rate on the note was 10% for the first year and 14% thereafter. If we had pre-paid a minimum principal amount of \$3,000,000 on or before April 27, 2010, the interest rate would have remained at 10% for the remainder of the note's term. Accrued interest only is due quarterly commencing July 31, 2009 through April 30, 2011. Twenty equal quarterly payments, which will include principal and interest, will then be due, commencing August 1, 2011.

Principal payments due on the Channel Blade note payable are as follows (in thousands):

2011	\$ -
2012	948
2013	885
2014	1,016
2015	1,165
2016	986
	<u>\$ 5,000</u>

We issued \$700,000 of notes and \$400,000 of future non-interest bearing contingent payments in connection with the January 26, 2007 acquisition of OC-Net, Inc. As of July 31, 2010, all outstanding amounts due on the note and all contingent payments have been made.

5. Acquisitions

On April 17, 2009, AFIS acquired the assets of PSOG, valued at approximately \$85,000, in partial satisfaction of its debt to ARI of approximately \$185,000. This debt consisted of a note with a face value of \$149,000, which was purchased from Keybank National Association on April 16, 2009 for \$125,000 and an additional loan from ARI of \$36,000. PSOG, located in Schenectady, NY and then led by Mark L. Taylor, had been offering outsourced F&I services to power sports, marine and RV customers in the Northeast United States since 1998.

We allocated the acquisition of the PSOG assets as follows (in thousands):

Cash	\$	37
Accounts receivable		37
Other assets		2
Notes receivable		<u>127</u>
Total assets		203
Accounts payable		39
Payroll related accruals		<u>3</u>
Total liabilities		<u>42</u>
Net assets acquired	\$	<u>161</u>

Subsequent to April 16, 2009, we deemed the fair value of the PSOG note receivable to be \$0 and recorded a valuation adjustment of approximately \$127,000 in the fiscal 2009 results from operations.

On July 27, 2010 we sold AFIS to F&I Smart LLC in a membership interest sale agreement (the "Subject Interests"). The sales price of the Subject Interests is a contingent amount based on dealer revenue beginning July 28, 2010 and ending on August 28, 2013. We have not accrued for any future contingent proceeds as we are not able to estimate the amounts at this time. We recognized a \$1,000 loss on the sale of AFIS in the fourth quarter of fiscal 2010. Refer to Note 14 for further discussion of our discontinued operation.

On April 27, 2009, we acquired substantially all of the assets of Channel Blade, the leading provider of websites, lead management and marketing automation solutions in the marine and RV markets. The acquisition makes ARI a marine industry leader with enhanced opportunities for growth. Consideration for the acquisition included approximately \$500,000 in cash, 615,385 shares of common stock at a market price of \$0.75 per share, \$765,000 of assumed net liabilities and a \$5,000,000 note payable.

The purchase price of this acquisition was allocated to the following specific assets and liabilities acquired based on the fair value of those identified tangible and intangible assets and liabilities as determined by an independent valuation (in thousands):

Accounts receivable	\$	253
Prepaid taxes		17
Equipment		613
Software		918
Goodwill		3,243
Other intangible assets		<u>2,712</u>
Total assets		7,756
Accounts payable		242
Deferred revenue		1,311
Accrued payroll and related liabilities		<u>95</u>
Total liabilities		<u>1,648</u>
Net assets acquired	\$	<u>6,108</u>

Other intangible assets include trade names, customer relationships and employee non-compete agreements, which are amortized over 5, 8 and 2 years, respectively. Capitalized software product costs are amortized over 4.1 years. The goodwill recognized as part of the accounting for the acquisition relates to Channel Blade's knowledge of and penetration into the marine and RV vertical markets.

In connection with the acquisition, we entered into one year employment agreements with Jon Lintvet and Charles Lewis to serve as Director of New Business Development and Director of Strategic Accounts - Marine and RV, respectively. The employment agreements expired and both Mr. Lintvet and Mr. Lewis remain employees of the Company.

The following table shows the unaudited pro forma results of operations for fiscal 2009, which assumes the Channel Blade acquisition occurred as of August 1, 2008 (in thousands, except per share data):

	Unaudited 2009
Revenues	\$ 20,998
Cost of revenues	<u>4,084</u>
Gross profit	16,914
Net operating expenses	<u>16,838</u>
Operating income	76
Interest expense	(739)
Other expense, net	<u>(7)</u>
Loss from continuing operations	
before provision for income taxes	(670)
Income tax benefit (provision)	<u>(123)</u>
Loss from continuing operations	(793)
Discontinued operations	<u>(341)</u>
Net loss	<u>\$ (1,134)</u>
Average common shares outstanding:	
Basic	7,780
Diluted	7,780
Loss from continuing operations per common share:	
Basic	<u>\$ (0.10)</u>
Diluted	<u>\$ (0.10)</u>
Net loss per share:	
Basic	<u>\$ (0.15)</u>
Diluted	<u>\$ (0.15)</u>

This pro forma information does not purport to be indicative of the results that actually would have been obtained if the combined operations had been conducted during the periods presented and is not intended to be a projection of future results. We have not disclosed separately Channel Blade's revenue and earnings included within the consolidated financial statements. Disclosure of these amounts was deemed impractical as we have fully integrated into our operations the accounting for the revenues and earnings of Channel Blade.

6. Other Intangible Assets

Amortizable intangible assets include customer relationships, trade names and employee non-compete agreements. Amortizable intangible assets are composed of the following at July 31, 2010 and 2009 (in thousands):

	Customer Relationships	Trade Names	Non-Compete Agreements	Total
Net value 7/31/08	\$ 1,396	\$ -	\$ -	\$ 1,396
Additions	2,274	252	186	2,712
Amortization	<u>(435)</u>	<u>(13)</u>	<u>(23)</u>	<u>(471)</u>
Net value 7/31/09	3,235	239	163	3,637
Additions	-	-	-	-
Amortization	<u>(667)</u>	<u>(50)</u>	<u>(93)</u>	<u>(810)</u>
Net value 7/31/10	<u>\$ 2,568</u>	<u>\$ 189</u>	<u>\$ 70</u>	<u>\$ 2,827</u>
<i>Weighted average remaining useful life</i>	5.48	3.75	0.75	5.25

The estimated amortization expense related to intangible assets for the years subsequent to July 31, 2010 is as follows (in thousands):

2011	\$ 787
2012	602
2013	335
2014	322
2015	284
2016	284
2017	<u>213</u>
	<u>\$ 2,827</u>

7. Capital and Operating Leases

The Company leases office space and certain office equipment under operating lease arrangements expiring through 2021. The Company is generally liable for its share of increases in the landlord's direct operating expenses and real estate taxes related to these leases. Total rental expense for the operating leases was \$738,000 in fiscal 2010 and \$554,000 in fiscal 2009, respectively. An additional \$131,000 of rent costs were incurred in fiscal 2009 but were accrued in fiscal 2008 related to our fiscal 2008 restructuring.

Where applicable, rent expense for leased offices is recognized on a straight-line basis over the lease terms, which differ from the pattern of payments required by the leases. Other accrued liabilities included \$233,000 and \$0 of deferred rent at July 31, 2010 and 2009, respectively. As more fully discussed in Note 13, we recorded a restructuring liability for estimated net future lease costs associated with closed offices. The remaining balance of this restructuring liability was \$80,000 and \$93,000 as of July 31, 2010 and 2009, respectively, which were included in the future minimum lease schedules.

ARI leases approximately 16,300 square feet of office space located at 10850 West Park Place, Milwaukee, Wisconsin 53224. Commencement of the lease occurred on July 17, 2009 and the lease expires July 17, 2021. Over the twelve year lease agreement, annual base rent of \$149,000 increases approximately 2.9% per year. Rent abatement was negotiated for the first fifteen months, and saved us approximately \$187,000. Annual projected operating costs and taxes, which are subject to change, are currently \$8.52 per square foot.

We have certain equipment and leasehold improvements with capital lease obligations of (in thousands):

Fiscal Year Ending July 31:	2010	2009
Equipment and leasehold improvements	\$ 803	\$ 335
Less: accumulated depreciation (1)	271	103
Total cost of equipment and leasehold improvements with outstanding capital lease obligations	\$ 532	\$ 232

(1) amortization of leased equipment and leasehold improvements is included in depreciation and amortization expense

Minimum lease payments under remaining capital and operating leases are as follows (in thousands):

Fiscal Year Ending July 31:	Capital Leases	Operating Leases
2011	\$ 237	\$ 666
2012	165	375
2013	161	361
2014	60	363
2015	-	353
Thereafter	-	1,982
Total minimum lease payments	623	4,100
Less amounts related to interest	93	-
Net minimum lease payments	\$ 530	\$ 4,100

8. Line of Credit

On July 9, 2004, we entered into a line of credit agreement with JPMorgan Chase, N.A. which, as amended, permits us to borrow an amount equal to 80% of the book value of all eligible accounts receivable plus 45% of the value of all eligible open renewal orders (provided the renewal rate is at least 85%) minus \$75,000, up to \$2,000,000. Eligible accounts include certain non-foreign accounts receivable which are outstanding for fewer than 90 days from the invoice date.

The agreement bears interest at 1% per annum above the prime rate (effective rate of 4.25% as of July 31, 2010) plus an additional 3%, at the bank's option, upon the occurrence of any default under the note. The interest rate is subject to a floor equal to the sum of (i) 2.5%; plus (ii) the quotient of: (a) the one month LIBOR rate divided by (b) one minus the maximum aggregate reserve requirement imposed under Regulation D of the Board of Governors of the Federal Reserve System (effective floor of 2.8% as of July 31, 2010). The agreement includes a non-usage fee of 0.25% per annum on any unused portion of the line of credit. The line of credit terminates June 30, 2012 and is secured by substantially all of the Company's assets. The line of credit limits repurchases of common stock, the payment of dividends, liens on assets and new indebtedness. It also contains a financial covenant requiring us to maintain a minimum debt service coverage ratio of 1.2 to 1.0, with which we were in compliance at July 31, 2010. There was \$1,025,000 and \$500,000 principal outstanding on the line of credit at July 31, 2010 and July 31, 2009, respectively. There was \$975,000 remaining and eligible per the terms of the agreement on the line of credit at July 31, 2010.

9. Shareholder Rights Plan

On August 7, 2003, we adopted a Shareholder Rights Plan designed to protect the interests of common shareholders from an inadequate or unfair takeover, but not affect a takeover proposal which the Board of Directors believes is fair to all shareholders. Under the Shareholder Rights Plan adopted by the Board of Directors, all shareholders of record on August 18, 2003 received one Preferred Share Purchase Right for each share of common stock they owned. These Rights trade in tandem with the common stock until and unless they are triggered. Should a person or group acquire more than 10% of ARI's common stock (or if an existing holder of 10% or more of the common stock were to increase its position by more than 1%), the Rights would become exercisable for every shareholder except the acquirer that triggered the exercise. The Rights, if triggered, would give the rest of the shareholders the ability to purchase additional stock of ARI at a substantial discount. The rights will expire on August 18, 2013, and can be redeemed by the Company for \$0.01 per Right at any time prior to a person or group becoming a 10% shareholder.

10. Stock-based Compensation Plans

Total stock compensation expense in fiscal 2010 and fiscal 2009 was approximately \$167,000 and \$315,000, respectively. As of July 31, 2010 and 2009, there was approximately \$134,000 and \$224,000, respectively, of total unrecognized compensation cost related to non-vested options granted under the plans.

The weighted average assumptions in the following table were used to estimate the fair value of options granted:

	2010	2009
Expected life (years)	10 years	10 years
Risk-free interest rate	3.6%	3.5%
Expected volatility	93.5%	77.2%
Expected forfeiture rate	16.0%	13.2%
Expected dividend yield	0.0%	0.0%

Employee Stock Purchase Plans

ARI's 2000 Employee Stock Purchase Plan has 175,000 shares of common stock reserved for issuance, and 165,265 of the shares have been issued as of July 31, 2010. All employees of the Company, other than executive officers, with nine months of service are eligible to participate. Shares may be purchased at the end of a specified period at the lower of 85% of the market value at the beginning or end of the specified period through accumulation of payroll deductions, not to exceed 5,000 shares per employee per year.

1991 Stock Option Plan

Our 1991 Stock Option Plan ("1991 Plan") was terminated on August 14, 2001, except as to outstanding options. Options granted under the 1991 Plan may be either: (a) options intended to qualify as incentive stock options under Section 422 of the Internal Revenue Code of 1986, as amended (the Code), or (b) nonqualified stock options. Any incentive stock option that was granted under the 1991 Plan could not be granted at a price less than the fair market value of the stock on the date of grant (or less than 110% of the fair market value in the case of holders of 10% or more of the voting stock of the Company). Nonqualified stock options were allowed to be granted at the exercise price established by the Compensation Committee, which could be less than, equal to or greater than the fair market value of the stock on the date of grant.

Each option granted under the 1991 Plan is exercisable for a period of ten years from the date of grant (five years in the case of a holder of more than 10% of the voting stock of the Company) or such shorter period as determined by the Compensation Committee and shall lapse upon the expiration of said period, or earlier upon termination of the participant's employment with the Company.

At its discretion, the Compensation Committee may require a participant to be employed by ARI for a designated number of years prior to exercising any options. The Committee may also require a participant to meet certain performance criteria, or that the Company meets certain targets or goals, prior to exercising any options.

Changes in option shares under the 1991 Plan are as follows:

	Number of Options	Wtd. Avg. Exercise Price	Wtd. Avg. Remaining Contractual Period (Years)	Aggregate Intrinsic Value
Outstanding and exercisable at 7/31/08	93,186	\$ 2.27	1.23	\$ -
Granted	-	n/a	n/a	n/a
Exercised	-	n/a	n/a	n/a
Forfeited	(57,686)	2.18	n/a	n/a
Outstanding and exercisable at 7/31/09	35,500	\$ 2.43	\$ 1.09	\$ -
Outstanding and exercisable at 7/31/09	35,500	\$ 2.43	1.09	\$ -
Granted	-	n/a	n/a	n/a
Exercised	-	n/a	n/a	n/a
Forfeited	(500)	9.06	n/a	n/a
Outstanding and exercisable at 7/31/10	35,000	\$ 2.33	0.10	\$ -

The range of exercise prices for options outstanding at July 31, 2010 was \$2.06 to \$2.44 and at July 31, 2009 was \$2.06 to \$9.06.

1993 Director Stock Option Plan

ARI's 1993 Director Stock Option Plan ("Director Plan") has expired and is terminated except for outstanding options. The Director Plan originally had 150,000 shares of common stock reserved for issuance to non-employee directors. Options under the Director Plan were granted at the fair market value of the stock on the grant date. Each option granted under the Director Plan is exercisable one year after the date of grant and cannot be exercised later than ten years from the date of grant.

Changes in option shares under the Director Plan are as follows:

	Number of Options	Wtd. Avg. Exercise Price	Wtd. Avg. Remaining Contractual Period (Years)	Aggregate Intrinsic Value
Outstanding and exercisable at 7/31/08	1,313	\$ 2.65	1.97	\$ -
Granted	-	n/a	n/a	n/a
Exercised	-	n/a	n/a	n/a
Forfeited	-	n/a	n/a	n/a
Outstanding and exercisable at 7/31/09	1,313	\$ 2.65	0.97	\$ -
Outstanding and exercisable at 7/31/09	1,313	\$ 2.65	0.97	\$ -
Granted	-	n/a	n/a	n/a
Exercised	-	n/a	n/a	n/a
Forfeited	(563)	3.46	n/a	n/a
Outstanding and exercisable at 7/31/10	750	\$ 2.05	0.08	\$ -

The range of exercise prices for options outstanding was \$2.00 to \$2.13 at July 31, 2010 and \$2.00 to \$3.56 at July 31, 2009.

2000 Stock Option Plan

Our 2000 Stock Option Plan ("2000 Plan") has 1,950,000 shares of common stock authorized for issuance. Options granted under the 2000 Plan may be either: (a) options intended to qualify as incentive stock options under Section 422 of the Code, or (b) nonqualified stock options.

Any incentive stock option that is granted under the 2000 Plan may not be granted at a price less than the fair market value of the stock on the date of the grant (or less than 110% of the fair market value in the case of a participant who is a 10% shareholder of the Company within the meaning of Section 422 of the Code). Nonqualified stock options may be granted at the exercise price established by the Compensation Committee.

Each incentive stock option granted under the 2000 Plan is exercisable for a period of not more than ten years from the date of grant (five years in the case of a participant who is 10% shareholder of the Company). Nonqualified stock options do not have this restriction.

Stock-based compensation expense is recognized in our results of operations over the vesting period, which is typically four years for nonqualified stock options.

Eligible participants include current and prospective employees, non-employee directors, consultants or other persons who provide services to the Company and whose performance, in the judgment of the Compensation Committee or management of the Company, can have a significant effect on the success of the Company. Changes in option shares under the 2000 Plan are as follows:

	Number of Options	Wtd. Avg. Exercise Price	Wtd. Avg. Remaining Contractual Period (Years)	Aggregate Intrinsic Value
Outstanding at 7/31/08	1,380,538	\$ 1.51	7.36	\$ 150,967
Granted	150,250	1.06	n/a	n/a
Exercised	(60,242)	0.26	n/a	n/a
Forfeited	(257,144)	1.52	n/a	n/a
Outstanding at 7/31/09	1,213,402	\$ 1.51	7.08	\$ 21,337
Exercisable at 7/31/09	871,626	\$ 1.55	6.35	\$ 21,328
Outstanding at 7/31/09	1,213,402	\$ 1.51	7.08	\$ 21,337
Granted	210,250	0.82	n/a	n/a
Exercised	-	n/a	n/a	n/a
Forfeited	(153,671)	1.35	n/a	n/a
Outstanding at 7/31/10	1,269,981	\$ 1.41	6.48	\$ 13,319
Exercisable at 7/31/10	987,453	\$ 1.51	5.82	\$ 13,117

The range of exercise prices for options outstanding at July 31, 2010 and 2009 was \$0.15 to \$2.74

Changes in non-vested option shares under the 2000 Plan are as follows:

	Number of Options	Wtd. Avg. Exercise Price
Non-vested at 7/31/08	443,335	\$ 1.76
Granted	150,250	1.06
Vested	(195,622)	1.47
Forfeited	(56,187)	1.54
Non-vested at 7/31/09	<u>341,776</u>	<u>\$ 1.40</u>
Non-vested at 7/31/09	341,776	\$ 1.40
Granted	210,250	0.82
Vested	(196,812)	1.27
Forfeited	(72,686)	1.23
Non-vested at 7/31/10	<u>282,528</u>	<u>\$ 1.09</u>

The weighted average remaining vesting period was 2.19 years at July 31, 2010

Stock Warrants

On April 24, 2003, in exchange for previously outstanding securities, we issued to a group of investors warrants for 250,000 common shares, exercisable at \$1.00 per share that expire on December 21, 2010.

11. Income Taxes

The provision for income taxes is composed of the following (in thousands):

	<u>2010</u>	<u>2009</u>
Current:		
Federal	\$ -	\$ 6
State	6	29
Change in the beginning deferred tax asset valuation allowance	(1,402)	(502)
Deferred, net	<u>102</u>	<u>590</u>
Income tax (benefit) expense from continuing operations	<u>\$ (1,294)</u>	<u>\$ 123</u>
Income tax benefit from discontinued operations	<u>\$ (262)</u>	<u>\$ -</u>

Provision for income taxes is based on taxes payable under currently enacted tax laws and an analysis of temporary differences between the book and tax bases of our assets and liabilities, including various accruals, allowances, depreciation and amortization. The tax effect of these temporary differences and the estimated tax benefit from tax net operating losses are reported as deferred tax assets and liabilities in the balance sheet. An assessment of the likelihood that net deferred tax assets will be realized from future taxable income is performed. To the extent that management believes it is more likely than not that some portion, or all, of the deferred tax asset will not be realized, a valuation allowance is established. This assessment is based on all available evidence, both positive and negative, in evaluating the likelihood of realizability. Issues considered in the assessment include future reversals of existing taxable temporary differences, estimates of future taxable income (exclusive of reversing temporary differences and carryforwards) and prudent tax planning strategies available in future periods. Because ultimately the realizability of deferred tax assets is highly subject to the outcome of future events, the amount established as valuation allowances is considered to be a significant estimate that is subject to change in the near term. To the extent a valuation allowance is established or there is a change in the allowance during a period, the change is reflected with a corresponding increase or decrease in the tax provision in the statement of operations.

In fiscal 2010 we had a change in our estimated valuation allowance. This change resulted from an extension of the number of years used in the forecast to determine net operating loss utilization. Historically, in determining the amount of net operating loss carryforwards that would be utilized, we projected our taxable income for twelve quarters, with the assumption that any forecast beyond three years was not meaningful. In fiscal 2010 we determined that we were in a position to forecast taxable income for the remaining life of our current net operating loss carryforwards for the following reasons:

- We have experienced six consecutive profitable years of operations, while at the same time integrating four acquisitions. Although we incurred a taxable loss in fiscal 2010, these losses were primarily due to the results of our discontinued operation as well as one-time restructuring costs that are not expected to continue.
- We continued to grow both organically and through acquisitions and is now at a stage where our operating structure and costs are more sustainable.
- We established a strategic plan to focus on our core offerings: electronic catalogs, websites and lead management services. This plan encompassed the discontinuation of several products and the sale of a non-strategic and underperforming subsidiary, thereby reducing our cost structure. This strategic plan is expected to provide more stability going forward.

The Company had a change in its estimated valuation allowance in fiscal 2009 primarily due to a change in its projections of taxable income for the next twelve quarters. We will continue to evaluate the realizability of deferred tax assets on a semi-annual basis.

Significant components of our deferred tax liabilities and assets as of July 31 were as follows (in thousands):

	<u>2010</u>	<u>2009</u>
Deferred tax assets:		
Net operating loss carryforwards	\$ 6,808	\$ 8,235
Alternative minimum tax credit carryforwards	85	96
Deferred revenue	1,918	2,032
Software product costs	214	378
Intangible assets	233	81
Other	<u>1,074</u>	<u>837</u>
Total deferred tax assets	10,332	11,659
Valuation allowance for deferred tax assets	<u>(5,657)</u>	<u>(8,747)</u>
Net deferred tax assets	4,675	2,912
Deferred tax liabilities:		
Software product costs and other	(297)	(208)
Goodwill	<u>(162)</u>	<u>(50)</u>
Net deferred taxes	<u>\$ 4,216</u>	<u>\$ 2,654</u>

As of July 31, 2010, we had unused net operating loss carryforwards for federal income tax purposes of \$17,852,000 expiring in 2011 through 2030. Of these unused federal net operating loss carryforwards, \$2,038,000 expire between 2012 and 2014 and are limited to \$116,000 annually that can be utilized to offset taxable income. Use of these net operating loss carryforwards is restricted under Section 382 of the Code because of changes in ownership in 1997.

In addition, we have net operating loss carryforwards for state income tax purposes totaling approximately \$12,310,000 expiring in 2011 through 2025.

A reconciliation between income tax expense and income taxes computed by applying the statutory federal income tax rate of 34% and the state rate of approximately 6% to U.S. based income before income taxes is as follows (in thousands):

	2010	2009
Computed income taxes at 40%	\$ 14	\$ 395
Permanent items	91	93
Change in the beginning deferred tax asset valuation allowance	(1,402)	(502)
Effective rate adjustments and other	3	137
Income tax expense (benefit) from continuing operations	<u>\$ (1,294)</u>	<u>\$ 123</u>
Income tax benefit from discontinued operations	<u>\$ (262)</u>	<u>\$ -</u>

During fiscal 2010 and fiscal 2009, \$4,231,000 and \$6,047,000, respectively, of federal net operating loss carryforwards expired. These expired net operating loss carryforwards have been included in the calculation of the change in valuation allowance.

We perform an evaluation of uncertain tax positions as a component of income tax expense on an annual basis. We determined that ARI did not have any significant risk related to income tax expense and therefore no amounts were reserved for uncertain tax positions as of July 31, 2010 and 2009. We will accrue and recognize interest and penalties related to uncertain tax positions as a component of income tax expense if it becomes necessary. Fiscal years subsequent to 2006 remain open and subject to examination by state tax jurisdictions and the United States federal tax authorities.

12. Employee Benefit Plan

ARI has a qualified retirement savings plan (the "401(k) Plan") covering its employees. Each employee may elect to reduce his or her current compensation by up to 50%, up to a maximum of \$16,500 (\$22,000 over age 50) in calendar 2010 (subject to adjustment in future years) and have the amount of the reduction contributed to the 401(k) Plan. Company contributions to the 401(k) Plan are at the discretion of the Board of Directors. During fiscal 2010 and fiscal 2009, we issued 58,332 and 32,955 shares of common stock, respectively, as a discretionary contribution to the 401(k) Plan. The amounts charged to expense for the 401(k) contributions, net of forfeitures, were \$62,000 during fiscal 2010 and \$45,000 during fiscal 2009.

13. Restructuring

In July 2008 ARI announced a restructuring that consolidated our data conversion operations in Virginia into our Wisconsin location and consolidated our software development operations in Colorado into our California location. Adjustments were made to the restructuring reserve during fiscal 2010 to reflect changes to our assumptions regarding our ability to sublet the vacant office space in Colorado and the present value of the net future lease costs through March 2011. The following represents changes to the restructuring reserve, which is included in other accrued liabilities on the balance sheet (in thousands):

	Severance and related benefits	Net future lease costs	Software and equipment impairments	Total
Balance at 7/31/08	\$ 292	\$ 204	\$ 33	\$ 529
Payments	(292)	(111)	-	(403)
Disposals	-	-	(33)	(33)
Balance at 7/31/09	\$ -	\$ 93	\$ -	\$ 93
Payments	-	(114)	-	(114)
Adjustments to restructuring charges	-	101	-	101
Balance at 7/31/10	\$ -	\$ 80	\$ -	\$ 80

In July 2010, in an effort to focus on our core business, which includes electronic catalogs, websites, and lead management services, we undertook a workforce reduction and business improvement initiative, which included the divestiture of AFIS and the write off of certain components of capitalized software related to products no longer in use or with limited future cash flows that are no longer considered a part of our core operation.

The following represents restructuring charges incurred in fiscal 2010 from continuing operations (in thousands):

Severance and related benefits	\$ 147
Software impairments	<u>189</u>
Total restructuring costs	<u>\$ 336</u>

The following represents the restructuring charges incurred in fiscal 2010 with respect to the AFIS divestiture, which were included in discontinued operations (in thousands):

Severance and related benefits	\$ 27
Other accrued liabilities	<u>83</u>
Total restructuring costs	<u>\$ 110</u>

The accrued severance and related restructuring reserve from continuing operations, which is included in accrued payroll and related liabilities on the balance sheet, is \$147,000 as of July 31, 2010 and will be fully paid during fiscal 2011. The accrued restructuring from discontinued operations, which is included in other accrued liabilities on the balance sheet, is \$110,000 as of July 31, 2010 and will have payments continuing through fiscal 2013.

14. Discontinued Operations

On July 27, 2010, we divested AFIS, which offered dealer F&I services. The divestiture resulted in a loss from discontinued operations of \$1,000. The results of operations of AFIS have been reflected as a discontinued operation in our consolidated financial statements for all periods presented. The results of operations of AFIS were previously reported within the United States business segment.

	<u>2010</u>	<u>2009</u>
Revenues	\$ 136	\$ 77
Cost of sales	13	12
Operating expenses	<u>776</u>	<u>406</u>
Operating loss	(653)	(341)
Loss on sale	(1)	-
Income tax benefit (1)	<u>262</u>	<u>-</u>
Net loss	<u>\$ (392)</u>	<u>\$ (341)</u>

(1) Net of recorded deferred income tax asset valuation allowance

15. Business Segments

Our business segments are internally organized primarily by geographic location of the operating facilities. In accordance with GAAP regarding disclosures about business segments, we have segregated the Netherlands operation and the United States operations into separate reportable segments. Segment revenue for the Netherlands operation includes only revenue generated out of the Netherlands subsidiary and does not include rest of world revenue sold by the United States operation. We evaluate the performance of and allocate resources to each of the segments based on their operating results.

Information concerning our operating business segments for fiscal 2010 and fiscal 2009 is as follows (in thousands):

	<u>2010</u>	<u>2009</u>
Revenue from continuing operations:		
Netherlands	\$ 689	\$ 652
United States	20,795	16,908
Consolidated	<u>\$ 21,484</u>	<u>\$ 17,560</u>
Net income (loss) from continuing operations:	<u>2010</u>	<u>2009</u>
Netherlands	\$ (159)	\$ (100)
United States	1,328	865
Consolidated	<u>\$ 1,169</u>	<u>\$ 765</u>
Total Assets	<u>July 31</u> <u>2010</u>	<u>July 31</u> <u>2009</u>
Netherlands	\$ 328	\$ 227
United States	19,449	18,380
Consolidated	<u>\$ 19,777</u>	<u>\$ 18,607</u>

16. Related Party

Briggs & Stratton Corporation ("Briggs") is one of our customers and owns approximately 11% of ARI stock. Briggs has entered into customer contracts with us and has provided vendor services to us in the ordinary course of business. Generally, the customer contracts are for one to three years and renew annually thereafter unless either party elects otherwise. We invoiced Briggs approximately \$371,000 and \$416,000 for products and services provided during fiscal 2010 and fiscal 2009, respectively. Briggs had unpaid net trade receivables of \$15,000, or 1%, and \$201,000, or 15%, of total trade receivables outstanding as of July 31, 2010 and 2009, respectively, \$0 of which was over 90 days at July 31, 2010 or 2009.

The vendor services provided by Briggs are for printing of materials which are generally resold to customers and included in cost of sales. Briggs invoiced us approximately \$55,000 and \$105,000 for printing services during fiscal 2010 and fiscal 2009, respectively, \$2,000 of which were unpaid as of July 31, 2010 and 2009.

Gordon J. Bridge serves on our board of directors. He was assigned by the board to be the lead Director for AFIS, for which he was paid \$57,050 in fiscal 2010. We had accrued but unpaid expenses of \$17,050 at July 31, 2009. There were no unpaid expenses at July 31, 2010.

17. Litigation

On June 23, 2008, Powersports Complete, LLC ("Powersports") filed a complaint in the U.S. District Court for the Eastern District of Wisconsin against ARI and its wholly-owned subsidiary, AFIS. The complaint claimed, among other things, that the Company and AFIS owe \$56,960 to Powersports in connection with their business arrangements during 2007. The complaint also claimed that Powersports, among other remedies, is entitled to compensatory damages in the amount of \$1,250,000 and punitive damages in the amount of \$2,500,000. We, along with AFIS, filed our answer to the complaint on September 16, 2008. The answer denied that Powersports is entitled to the payments described above, and asserted numerous counterclaims against Powersports. On February 4, 2009, the parties agreed to settle all outstanding claims between them. The settlement had no material effect on our financial statements.

18. Subsequent Events

We evaluated whether any events or transactions occurred after the balance sheet date that would require recognition or disclosure in our financial statements in accordance with GAAP, and determined that there were no events that occurred after July 31, 2010, but prior to October 29, 2010 that would affect the financial statements for the period ending July 31, 2010.

ARI NETWORK SERVICES, INC.
10850 West Park Place, Suite 1200
Milwaukee, Wisconsin 53224

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

December 16, 2010

To the Shareholders of ARI Network Services, Inc.:

The 2010 Annual Meeting of Shareholders of ARI Network Services, Inc. (the "Company") will be held at the Company's headquarters located at 10850 West Park Place, Suite 1200, Milwaukee, Wisconsin, on Thursday, December 16, 2010, at 9:00 a.m., local time, for the following purposes:

1. To elect one director nominated by the Company's Board of Directors to serve until 2013 and until his successor is elected and qualified;
2. To approve the ARI Network Services, Inc. 2010 Equity Incentive Plan;
3. To approve amendments to the ARI Network Services, Inc. 2000 Employee Stock Purchase Plan;
4. To ratify the appointment of Wipfli LLP as the Company's independent auditors for the Company's fiscal year ending July 31, 2011; and
5. To transact such other business as may properly come before the meeting.

Shareholders of record at the close of business on October 15, 2010 are entitled to notice of and to vote at the meeting and at all adjournments thereof.

Holders of a majority of the outstanding shares must be present in person or by proxy in order for the meeting to be held. Shareholders are urged to vote by completing and returning the accompanying proxy in the enclosed envelope, by a telephone vote or by voting electronically via the internet, whether or not they expect to attend the annual meeting in person. Instructions for telephonic and electronic voting are contained in the accompanying proxy. If you attend the meeting and wish to vote your shares personally, you may do so by revoking your proxy at any time prior to the voting thereof. In addition, you may revoke your proxy at any time before it is voted by advising the Secretary of the Company in writing (including executing a later dated proxy or voting via the Internet) or by telephone of such revocation.

If your shares are held in "street name" (through a broker, bank or other nominee), you may receive a separate voting instruction with this proxy statement, or you may need to contact your broker, bank, or other nominee to determine whether you will be able to vote telephonically, electronically using the Internet, or what is required to vote your shares in person at the annual meeting.

By order of the Board of Directors,

Brian E. Dearing, Secretary
November 5, 2010

ARI NETWORK SERVICES, INC.
10850 West Park Place, Suite 1200
Milwaukee, Wisconsin 53224
(414) 973-4300

PROXY STATEMENT

The Board of Directors of ARI Network Services, Inc. (the "Company") submits the enclosed proxy for the annual meeting to be held on the date, at the time and place and for the purposes set forth in the accompanying Notice of Annual Meeting of Shareholders. Each shareholder of record at the close of business on October 15, 2010 will be entitled to one vote for each share of Common Stock registered in such shareholder's name. As of October 15, 2010, the Company had outstanding 7,785,585 shares of common stock, par value \$0.001 (the "Common Stock"). The presence, in person or by proxy, of a majority of the shares of Common Stock outstanding on the record date is required for a quorum at the meeting. This proxy statement and the accompanying proxy and Annual Report to Shareholders are being sent to the Company's shareholders commencing on or about November 5, 2010.

Any shareholder executing and delivering the enclosed proxy may revoke the same at any time before it is voted by advising the Secretary of the Company in writing of such revocation (including executing a later-dated proxy) or by voting via the Internet or by telephone.

Unless otherwise directed, all proxies will be voted as follows:

- **FOR the election of the individual nominated by the Company's Board of Directors to serve as a director;**
- **FOR the approval of the ARI Network Services, Inc. 2010 Equity Incentive Plan;**
- **FOR the approval of amendments to the ARI Network Services, Inc. 2000 Employee Stock Purchase Plan; and**
- **FOR the ratification of the appointment of Wipfli LLP as the Company's independent auditors for the Company's fiscal year ending July 31, 2011.**

Under the Company's Amended and Restated By-Laws, directors are elected by a plurality of votes cast at the meeting (assuming a quorum is present). In other words, the nominee receiving the largest number of votes will be elected. Any shares not voted, whether by withheld authority, broker non-vote or otherwise, will have no effect on the election of directors except to the extent that a failure to vote for an individual results in another individual receiving a larger number of votes. Any votes attempted to be cast "against" a candidate are not given legal effect and are not counted as votes cast in an election of directors. The other proposals will be approved if the affirmative votes exceed the votes cast against. Broker non-votes and abstentions are counted for purposes of determining whether a quorum is present at the meeting but are not affirmative votes or votes against and, therefore, will have no effect on the outcome of the voting.

IMPORTANT NOTICE REGARDING THE INTERNET AVAILABILITY OF PROXY MATERIALS FOR THE SHAREHOLDER MEETING TO BE HELD ON DECEMBER 16, 2010

The Company's annual report to shareholders, including this proxy statement, is available at www.proxyvote.com.

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS

The following table sets forth certain information regarding the beneficial ownership of shares of Common Stock by each person known by the Company to beneficially own 5% or more of the Common Stock, by each director or nominee of the Company, by certain executive officers of the Company, and by all directors and executive officers of the Company as a group as of October 15, 2010 (unless otherwise indicated). The address for each of the persons listed below is 10850 West Park Place, Suite 1200, Milwaukee, Wisconsin 53224, unless otherwise specified.

<u>NAME AND ADDRESS OF BENEFICIAL OWNERS</u>	<u>AMOUNT AND NATURE OF BENEFICIAL OWNERSHIP (1)</u>	<u>PERCENT</u>
Briggs & Stratton Corporation (2) 12301 West Wirth Street Milwaukee, WI 53201	840,000	9.30%
Channel Blade Technologies Corporation (3) 500 Central Drive, Suite 106 Virginia Beach, VA 23454	615,385	6.81%
Douglas M Singer (3) 9833 East Dreyfus Avenue, Scottsdale, AZ 85260	600,000	6.64%
Peter H. Kamin (4) c/o The Nelson Law Firm, LLC 75 South Broadway, 4th Floor White Plains, NY 10601	591,500	6.55%
Roy W. Olivier (5)	754,476	8.35%
Brian E. Dearing (6)	364,975	4.04%
Gordon J. Bridge	212,653	2.35%
Ted C. Feierstein	94,533	1.05%
William C. Mortimore	79,575	*
Michael T. Tenpas	75,637	*
P. Lee Poseidon	17,200	*
All current executive officers and directors as a group (7 persons)	1,599,049	17.70%

* less than 1%

- (1) Except as otherwise noted, the persons named in the above table have sole voting and investment power with respect to all shares shown as beneficially owned by them. Includes options exercisable within 60 days of October 15, 2010 as follows: Mr. Dearing (115,833 shares), Mr. Tenpas (42,500 shares), Mr. Bridge (133,985 shares), Mr. Olivier (275,000 shares), Mr. Feierstein (94,533 shares), Mr. Mortimore (79,575 shares), Mr. Poseidon (17,200 shares), and all executive officers and directors as a group (763,626 shares).
- (2) Stock ownership information is provided as of March 16, 2000 based upon Schedule 13D amendment filed April 3, 2000.
- (3) Stock ownership information is provided as of March 23, 2010 based upon Schedule 13D amendment filed March 29, 2010.
- (4) Stock ownership information is based on the number of shares acquired by Channel Blade Technologies Corporation ("Channel Blade") on April 27, 2009 in connection with the Company's acquisition of substantially all of the assets of Channel Blade.
- (5) Stock ownership information is provided as of December 31, 2004 based upon Schedule 13G amendment filed February 2, 2005. Mr. Kamin's total includes 151,900 shares held by the Peter H. Kamin Children's Trust, 103,200 shares held by the Peter H. Kamin Profit Sharing Plan, 28,100 shares held by the Peter H. Kamin Family Foundation and 25,000 shares held by 3K Limited Partnership.
- (6) Mr. Olivier's total includes 447,507 shares held in the Company's 401(k) plan, of which Mr. Olivier is a trustee with voting power. Mr. Olivier disclaims any beneficial ownership in these shares in excess of his pecuniary interest (9,580 shares).

(7) Mr. Dearing's total includes 81,760 shares which are held in family trust.

PROPOSAL ONE: ELECTION OF DIRECTORS

The Company's directors are divided into three classes, with staggered terms of three years each. At the annual meeting, shareholders will vote on one director, William C. Mortimore, who was nominated by the Company's Board of Directors, to serve until 2013 and until his successor is elected and qualified.

Nominee for Election to Serve Until the Annual Meeting in 2013

William C. Mortimore, age 65; Mr. Mortimore, a director since 2004, has been on the Audit Committee since 2004 and has been the Audit Committee Chair since 2007. Mr. Mortimore was the founder of Merge Technologies Incorporated ("MTI") and its Chief Strategist from September 2000 until July 2006, Interim Chief Executive Officer from May 2006 until July 2006, Chairman of the Board from September 2000 until May 2006, President and Chief Executive Officer from November 1987 through August 2000 and a member of the Board of Directors since its inception in November 1987 until July 2006. MTI is a global healthcare software and services company that trades on the Nasdaq National Market under the symbol MRGE. Mr. Mortimore has served as co-founder and a senior manager of several businesses in the fields of information communications technology, healthcare services and real estate and has been responsible for securing public and private financing for these organizations. Mr. Mortimore is an original member of the American College of Radiology/National Association of Electrical Manufacturers committee responsible for establishing and maintaining the DICOM medical imaging standard. Mr. Mortimore has also served as a member of the Board of Directors of MRI Devices, Inc., a privately held diagnostic imaging manufacturer, from November 2002 until its sale to Intermagnetics General Corporation in mid 2004. Mr. Mortimore received a B.S. in Electrical Engineering from Michigan State University, an M.E.E. from the University of Minnesota and pursued doctoral studies in Electrical Engineering at the University of Minnesota.

The Board of Directors believes that it benefits from Mr. Mortimore's substantial technical and management experience, which he has obtained through his positions with various healthcare and information technology companies, as well as public company leadership and shareholder value growth experience. In addition, Mr. Mortimore's experience as a director of the Company, Chairman of the Audit Committee and the "audit committee financial expert," has provided him with an in-depth understanding of the business of the Company and the markets in which it competes.

Directors Whose Terms Expire at the Annual Meeting in 2011

Brian E. Dearing, age 55; Mr. Dearing is the Chairman of the Board & Chief Corporate Development and Strategy Officer. He has been a director since 1995 and was elected Chairman of the Board of Directors in 1997. He served as President and CEO from 1995 to 2008. He has also served as Chief Financial Officer, Treasurer, and/or Secretary for several interim periods, including most of fiscal year 2008, part of fiscal 2009 and all of fiscal 2010. He currently serves as Secretary. Prior to joining ARI in 1995, Mr. Dearing held a series of electronic commerce executive positions at Sterling Software, Inc. in the U.S. and in Europe. Prior to joining Sterling in 1990, Mr. Dearing held a number of marketing management positions in the EDI business of General Electric Information Services since 1986. Mr. Dearing holds a Masters Degree in Industrial Administration from Krannert School of Management at Purdue University and a B.A. in Political Science from Union College.

The Board of Directors believes that Mr. Dearing's experience as Chief Corporate Development and Strategy Officer and Interim Chief Financial Officer, and other leadership positions within the Company, including his service as Chairman of the Board, his experience as the Company's former Chief Executive Officer and his long tenure with the Company, gives him unique insights into the Company's challenges, opportunities and operations. This experience, along with his extensive business background and financial expertise, make him a valuable member of the Board of Directors.

Roy W. Olivier, age 51; Mr. Olivier joined the Company in September 2006 as Vice President of Global Sales and Marketing, and was appointed as President and CEO in May 2008. He has been a director since 2008. Before joining ARI, Mr. Olivier was a consultant to start-up, small and medium-sized businesses. Prior to that, he was Vice President of Sales and Marketing for ProQuest Media Solutions, a business he founded in 1993 and sold to ProQuest in 2000. Before that, Mr.

Olivier held various sales and marketing executive and managerial positions with several other companies in the telecommunications and computer industries, including Multicom Publishing Inc., BusinessLand and PacTel.

The Board of Directors believes that Mr. Olivier's experience with the Company as its President, Chief Executive Officer, and director, as well as his prior experience as the Company's Vice President of Global Sales and Marketing, as well as his other business and industry background, has given him substantial and valuable knowledge of all aspects of the Company's business.

P. Lee Poseidon, age 55; of Ohio was appointed to the Board of Directors in June of 2008 and has been a member of the Audit Committee since 2009. Mr. Poseidon's business experience includes Chief Operating Officer at Quorum Information Technologies and at the National Automobile Dealers Association. From 2001 to 2003, he served as Senior Vice President and General Manager of ProQuest's Global Automotive business unit. Prior to joining ProQuest, Poseidon spent 15 years in a series of executive positions in marketing, business development, product management and strategic planning at The Reynolds and Reynolds Company. His early career included financial analysis and management positions at NCR Corporation. Poseidon earned his MBA from Xavier University and his B.A. from Ohio Wesleyan University.

The Board of Directors believes that it benefits from Mr. Poseidon's extensive management, business and industry experience which he has obtained through his positions with a number of technology, publishing, manufacturing, distribution, and professional services businesses. In addition, Mr. Poseidon's experience as a director of the Company, and as a member of the Audit Committee and Compensation Committee, has provided him with a deep understanding of the business of the Company and makes him a valuable member of the Board of Directors.

**Directors Whose Term Expires at
the Annual Meeting in 2012**

Gordon J. Bridge, age 68; Mr. Bridge, a director since December 1995, is a retired Information Industry senior executive. From January 2004 to September 2006, Mr. Bridge was president, and from May 2005 to September 2006 was Chief Executive Officer of CM IT Solutions, a nationwide franchise system providing information technology consulting and support services to small and medium sized businesses. From December 1999 to August 2001, Mr. Bridge was Chairman of the Board and Chief Executive Officer of SurferNETWORK. From November 1995 to January 2000, Mr. Bridge was Chairman of the Board and from April 1997 to March 1998 was also Chief Executive Officer of ConnectInc.com, an enterprise software company. Mr. Bridge held various senior executive management positions with AT&T from 1988 to 1995, including president of three business units; Consumer Interactive Services, EasyLink Services and Computer Systems. Prior to joining AT&T, Mr. Bridge was with the IBM Corporation for nearly 23 years, holding the positions of Vice President of Sales and Vice President of Marketing for the U.S. National Accounts Division in the mid 1980's. Mr. Bridge holds a B.A. in Mathematics from Bradley University.

The Board of Directors believes that it benefits from Mr. Bridge's years of executive management experience as a senior executive at several large and small companies and in his current role as an independent consultant. Mr. Bridge's strong leadership experience, his extensive knowledge in the field of information technology and his long tenure as a director also provide valuable experience and insight to the Board of Directors.

Ted C. Feierstein, age 53; Mr. Feierstein, a director since January 2000, is a founding partner in PrimeMetrix, a financial advisory and consulting company for lean technology companies. Prior to that he was a senior technology banker at First Analysis Securities Corporation, and a partner in Ascent Partners, a merchant bank specializing in investments, mergers and acquisitions, and strategic assistance for Internet, software and information technology-focused professional service companies. Mr. Feierstein is also a founding partner of Prism Capital, a private equity fund. Prior to co-founding Ascent, Mr. Feierstein was a senior vice-president with the Corum Group, a firm specializing in merger and acquisition advisory services to the software industry, and was a venture capitalist with Wind Point Partners, a private equity fund. Mr. Feierstein received an MBA from the Harvard Business School in 1989 and a BBA from the University of Wisconsin-Madison in 1979.

The Board of Directors believes that it benefits from Mr. Feierstein's significant expertise in the areas of finance, investment banking, mergers and acquisitions, venture capital and private equity services. In addition, Mr. Feierstein's extensive experience as a director of the Company, as well as his experience as a member of the Compensation Committee, have

provided him with a deep understanding of the business of the Company and make him a valuable member of the Board of Directors.

CORPORATE GOVERNANCE

The Board of Directors held 18 meetings in fiscal 2010. Each incumbent director attended 75 percent or more of the combined number of meetings of the Board and of the committees on which such director served. While the Company has not adopted a formal policy requiring Board members to attend the annual meeting, all directors are encouraged to attend. All of the Company's directors who were members of the Board of Directors on the date of the 2009 annual meeting of shareholders attended the meeting.

The positions of Chairman of the Board and Chief Executive Officer of the Company are currently separate, with Mr. Dearing serving as Chairman of the Board and Mr. Olivier serving as President and Chief Executive Officer. The Company believes this leadership structure is appropriate at this time because it allows the Company to fully benefit from the leadership ability, industry experience and history with the Company that each of these individuals possesses.

The Board of Directors currently does not have a formal process for shareholders to send communications to the Board of Directors. Nevertheless, efforts are made to ensure that the views of shareholders are heard by the Board of Directors or individual directors, as applicable, and that appropriate responses are provided to shareholders on a timely basis. The Board of Directors believes that informal communications are sufficient to communicate questions, comments and observations that could be useful to the Board of Directors. However, shareholders wishing to formally communicate with the Board of Directors may send communications directly to ARI Network Services, Inc., Attention: Chairman, 10850 West Park Place, Suite 1200, Milwaukee, Wisconsin 53224. The Chairman will review such communications and, if appropriate, forward such communications to other Board members.

The Company's Board of Directors has established an Audit Committee that currently is composed of Mr. Mortimore (chairman), Mr. Bridge and Mr. Poseidon. The Board of Directors has adopted a written charter for the Audit Committee, a copy of which is attached as Appendix A. Information regarding the functions performed by the Audit Committee, its membership, and the number of meetings held during fiscal 2010 is set forth in the "Report of the Audit Committee" included in this proxy statement. The members of the Audit Committee are independent under the NASDAQ listing standards regarding the independence of directors, including Audit Committee members. The Board of Directors has determined that Mr. Mortimore is an "audit committee financial expert" and is "independent" as those terms are defined under the Securities and Exchange Commission regulations and NASDAQ listing standards.

The Company's Board of Directors has established a Compensation Committee that currently is composed of Mr. Poseidon, Mr. Bridge and Mr. Feierstein, each of whom is "independent" as such term is defined under the NASDAQ listing standards. The duties of the Compensation Committee are to approve all executive compensation, to administer the Company's 1991 Incentive Stock Option Plan, the 2000 Employee Stock Purchase Plan, the 1993 Director Stock Option Plan, the 2000 Stock Option Plan and, pending shareholder approval, the 2010 Equity Incentive Plan and the 2010 Employee Stock Purchase Plan, and to recommend director compensation for approval by the entire Board. The Compensation Committee does not have a written charter, and does not engage the services of a compensation consultant in determining or recommending the amount or form of executive or director compensation. However, the Compensation Committee does rely on several third party services for compensation information.

The Company's chief executive officer makes recommendations to the Compensation Committee regarding the numbers of options to be granted to the Company's executive officers and other employees based in part on input he receives from the Company's vice president of human resources. The chief executive officer also makes recommendations to the Compensation Committee with respect to other executive compensation, though he recuses himself from portions of Compensation Committee meetings during which his own compensation is discussed. The Company's chief financial officer has historically made recommendations to the Compensation Committee regarding director compensation. The Compensation Committee met four times during fiscal 2010.

The Company's Board of Directors has not established a nominating committee, as decisions regarding Board membership are made by the full Board of Directors. Due to the small size of the Company's Board of Directors, as well as the recent lack of turnover in the Board of Directors, the Board has determined not to have a separate nominating committee. Likewise, the Board of Directors has not adopted a written charter governing director nominating decisions. Messrs. Bridge,

Feierstein, Mortimore and Poseidon are independent under the NASDAQ listing standards, but Mr. Olivier and Mr. Dearing are not because they are executive officers of the Company.

The Board of Directors will consider candidates for director that are nominated by shareholders in accordance with the procedures set forth in the Company's by-laws. Under the by-laws, nominations, other than those made by the Board of Directors, must be made pursuant to timely notice in proper form to the secretary of the Company. To be timely, a shareholder's request to nominate a person for director, together with the written consent of such person to serve as a director, must be received by the secretary of the Company at the principal office not later than 90 days and not earlier than 150 days prior to the anniversary date of the annual meeting of shareholders in the immediately preceding year. To be in proper written form, the notice must contain certain information concerning the nominee and the shareholder submitting the nomination.

The Board of Directors will also consider proposed nominees whose names are submitted to it by shareholders. However, it does not have a formal process for that consideration because it believes that the informal consideration process has been adequate given the historical absence of shareholder director nominations. The Board of Directors intends to review periodically whether a formal policy should be adopted.

The Board of Directors has generally identified nominees based upon suggestions by non-management directors, management members and/or shareholders. The Board of Directors considers factors it deems important for potential members of the Board, including the individual's integrity, general business background and experience, experience with our industry, and the ability to serve on the Board. The Board of Directors does not evaluate proposed nominees differently based on who made the proposal.

Code of Ethics

The Company has adopted a code of ethics that applies to all employees, including our principal executive officer, principal financial officer, principal accounting officer or controller and persons performing similar functions. The code of ethics is designed to promote honest and ethical conduct, including the ethical handling of conflicts of interest, compliance with applicable laws, and full, accurate, timely and understandable disclosure in reports we send to our shareholders or file with the SEC. Violations of the code of ethics are to be reported to the Audit Committee. A copy of the code of ethics may be obtained, without charge, by sending a request to ARI Network Services, Inc., Attention: Chief Financial Officer, 10850 West Park Place, Suite 1200, Milwaukee, Wisconsin 53224.

Board Oversight of Risk

The Audit Committee is responsible for assisting the Board of Directors with its oversight of the performance of the Company's risk management functions including periodically reviewing and discussing with management the Company's major financial risk exposures and the steps that management has taken to assess, monitor and control such exposures and periodically reporting to the Board of Directors on its activities in this oversight role.

EXECUTIVE COMPENSATION

The following table sets forth compensation for the Company's fiscal year ended July 31, 2010 for Mr. Olivier, the Company's Chief Executive Officer, and Mr. Dearing and Mr. Tenpas, the other two most highly compensated executive officers of the Company who were serving as executive officers as of such date (to whom we refer collectively as the "named executive officers").

Summary Compensation Table

Name and Principal Position	Year	Salary	Option Awards (1)	Non-Equity Incentive Plan Compensation (2)	All Other Compensation (3)	Total
Roy W. Olivier	2010	\$ 200,000	\$ -	\$ 98,001	\$ 80,203 (4)	\$ 378,204
President and Chief Executive	2009	\$ 200,000	\$ -	\$ 101,692	\$ 14,482 (4)	\$ 316,174
Brian E. Dearing (6)	2010	\$ 192,687	\$ -	\$ 58,998	\$ 3,691	\$ 255,376
Chairman of the Board and Chief Corporate Development and Strategy Officer and Interim Chief Financial Officer	2009	\$ 192,687	\$ 49,265	\$ 122,044	\$ 3,705	\$ 367,701
Michael T. Tenpas	2010	\$ 232,640 (5)	\$ 14,454	\$ 30,848	\$ 2,849	\$ 280,791
Vice President of Global Sales and Marketing	2009	\$ 226,231 (5)	\$ -	\$ 32,391	\$ 2,114	\$ 260,736

- (1) The values set forth in this column represent the grant date fair values computed in accordance with FASB ASC Topic 718 (which superseded FAS 123(R) on September 15, 2009) for the applicable fiscal year, disregarding the estimate of forfeitures for service-based vesting conditions. The assumptions used to determine these values with respect to fiscal 2010 are described in Note 10 to the consolidated financial statements in the Company's Annual Report on Form 10-K for the fiscal year ended July 31, 2010.
- (2) Amounts shown for fiscal 2010 represent annual, long-term incentive payments in cash and long-term incentive payments in common stock, respectively, earned during fiscal 2010, as follows: Mr. Olivier—\$90,581, \$3,710 and \$3,710; Mr. Dearing—\$47,420, \$5,783 and \$5,789; and Mr. Tenpas—\$30,848 and \$0.
- (3) Except with respect to Mr. Olivier, amounts represent a Company match under the Company's 401(k) plan.
- (4) As part of the relocation package offered to Mr. Olivier when he first began employment with the Company, the Company agreed to pay a housing stipend to Mr. Olivier of \$1,000 per month. For fiscal 2009, the Company paid \$12,000 to Mr. Olivier as a housing stipend, and for fiscal 2010, the Company paid Mr. Olivier \$77,821 as reimbursement for the loss on the sale of his former home under this agreement.
- (5) Amounts include sales commissions paid during fiscal 2009 and fiscal 2010 of \$65,674 and \$67,640, respectively.

Stock Option Grants. All of the Company's stock option grants qualify as incentive stock options up to the \$100,000 per year limitation and vest 25% per year on July 31, provided the participant is an employee of the Company at such date. Options are exercisable up to ten years after the date of grant, one year from the date of a termination of employment upon death or disability of the participant, 90 days from the date of termination for any reason other than "cause" or immediately upon termination for "cause."

Annual Incentive Compensation. The annual component of the Company's Management Incentive Bonus Plan provides for annual cash incentives for the participants, which, in fiscal 2010, included Mr. Olivier, Mr. Dearing and Mr. Tenpas, among others. The amount of the annual incentive opportunity has three equally weighted components for all participants other than Mr. Dearing, who has additional components related to his various management roles: revenue, operating income and other management objectives ("MBOs") agreed upon by the executive officer and the chief executive officer (or Compensation Committee for the CEO) at the beginning of fiscal 2010.

Under the revenue component of the annual incentive plan, participants were eligible for a payout of 15% of the annual incentives based on achievement of 80% of plan target performance. For each 1% over 80% of plan that was achieved up to 90% of the plan, participants could earn an additional 2.5% of the incentive component. Participants would receive payouts of 60% of the annual incentive component for achievement of 90% target plan performance. For each 1% over 90% of plan that is achieved up to 100% of plan, an additional 2.5% of the amount payable would be earned. Participants would receive payouts of 100% of the incentive component based on achievement of 100% of target plan performance, and an additional 1% for each 1% over 100% target plan performance.

Under the operating income component of the annual incentive plan, participants were eligible for a payout of 15% of the annual incentives based on achievement of 90% of plan target performance. For each 1% over 90% of plan that was achieved up to 95% of the plan, participants could earn an additional 5% of the incentive component. Participants would receive payouts of 60% of the annual incentive component for achievement of 95% target plan performance. For each 1% over 95% of plan that is achieved up to 100% of plan, an additional 5% of the amount payable would be earned. Participants would receive payouts of 100% of the incentive component based on achievement of 100% of target plan performance, and an additional 1% for each 1% over 100% target plan performance.

MBO components of the annual plan were earned based upon attainment of the pre-established objectives. All components of the annual incentive plan were limited to 50% if the revenue achievement was less than 100% of the plan target performance in the first quarter of fiscal 2010. This restriction was removed for the remainder of fiscal 2010.

Based on his role as the Company's Chief Corporate Development and Strategy Officer, Mr. Dearing's annual incentive for fiscal 2010 was based on ten elements: one MBO, weighted 25% for an acquisition or alliance; one MBO weighted 25% for the re-financing the Company's debt under more favorable terms; two MBOs, each weighted 5%, based on achievement of specified transitional objectives related to the Chief Financial Officer role; two MBOs, each weighted 5%, for revenue and EBITDA financial results of the F&I business, acquired by the Company in April 2009 and two MBOs, each weighted 7.5%, for revenue and EBITDA financial results of the Channel Blade business, acquired by the Company in April 2009; and 5% each for the Company's revenue and operating income financial performance targets.

Under Mr. Dearing's acquisition performance component, he would earn 15% of the target incentive component for achievement of 80% and 90% of target revenue and EBITDA levels, respectively. For each 1% of achievement over those 80% and 90% revenue and EBITDA levels, he could earn an additional 2.5% and 5.0%, respectively, of the incentive component. He would earn 60% of the target incentive component for achievement of 90% and 95% of target revenue and EBITDA levels, respectively, with an additional 2.5% and 5.0%, respectively, for each 1% of performance in excess of those levels. For performance at 100% for each of the target revenue and EBITDA levels, Mr. Dearing would earn 100% of the target incentive component, with an additional 1% for each 1% of performance in excess of those levels. The Company's financial performance components of Mr. Dearing's annual incentive plan functioned the same as the Management Incentive Bonus Plan described above.

The combined results for the fiscal year ended July 31, 2010 under the annual incentive arrangements described above resulted in payouts ranging from 40% to 77% of the participants' target incentive amounts for the fiscal year ended July 31, 2010, as follows: Mr. Olivier—72%; Mr. Dearing—40%; and Mr. Tenpas—77%.

In addition to being a participant in the Management Incentive Bonus Plan arrangement described above, in his capacity as Vice President of Sales, Mr. Tenpas was eligible for fiscal 2010 to receive a commission achievement of base revenue and revenue growth components, weighted approximately 75% and 25%, respectively.

Long-Term Incentive Compensation. The Company's executive officers were awarded long-term incentive compensation under the long-term component of Company's Management Incentive Bonus Plan until the Plan was terminated at the end of fiscal 2008. These awards were based on a target award equal to the executive's actual annual incentive earned, adjusted based on the Company's performance over three consecutive one-year performance periods. The amount of the payout is adjusted on a sliding scale based on the extent to which the Company's revenue plan is achieved for each of the three years, ranging from a floor of 75% of the target award if the Company's revenue plan is not met to a cap of 200% of the target award if revenue equals or exceeds 150% of plan. One-half of the floor amount (75% of the target award) is paid in Company Common Stock, valued at the time of payment, and the remainder of the award is paid in cash. The award was to be paid in three annual payments following each of the three years in the performance period, provided the participant is employed by the Company at such time.

Since the plan was terminated in fiscal 2008, payouts for fiscal 2008 remain outstanding for Mr. Olivier and Mr. Dearing at October 15, 2010, as they were the only executives included in the plan at the time of termination. The remaining installment will be adjusted as noted above based on the Company's revenue achievement during fiscal year 2011 and paid following that fiscal year, provided the participant is employed by the Company at such time.

Outstanding Equity Awards at Fiscal Year-End

Name	Option Awards				Option Exercise Price	Option Expiration Date
	Number of Securities Underlying Unexercised Options					
	(#) Exercisable	(#) Unexercisable				
Roy W. Olivier	50,000				\$ 2.10	9/15/2016
	225,000	75,000	(1)		\$ 1.53	5/1/2018
Brian E. Dearing	20,000				\$ 1.22	2/21/2011
	20,833				\$ 1.57	5/21/2014
	50,000				\$ 1.35	10/12/2014
	25,000	25,000	(2)		\$ 1.28	9/19/2018
Michael T. Tenpas	37,500	12,500	(3)		\$ 1.39	7/30/2018
	5,000	15,000	(4)		\$ 0.85	9/10/2019

- (1) 100% of unexercisable options will vest on July 31, 2011.
(2) 50% of unexercisable options will vest on each of July 31, 2011 and 2012.
(3) 100% of unexercisable options will vest on July 30, 2011.
(4) 33% of unexercisable options will vest on each of July 31, 2011, 2012 and 2013.

Agreements with Named Executive Officers

Mr. Olivier. In connection with his appointment as the Company's President and Chief Executive Officer, on May 1, 2008, the Company entered into an employment agreement with Mr. Olivier. The term of the Mr. Olivier's agreement is three years, subject to earlier termination in accordance with the terms of the agreement. Following the three-year term, the agreement will automatically be renewed for successive one-year periods unless terminated by Mr. Olivier or the Company's Board of Directors at least 30 days prior to the third year of the employment term or prior to the commencement of each renewal term.

Mr. Olivier's agreement provides that Mr. Olivier will receive an annual salary of at least \$200,000, subject to annual review and adjustment by the Compensation Committee of the Company's Board. Mr. Olivier will continue to be eligible to participate in the Company's Management Incentive Bonus Plan; will be eligible to participate in stock option plans and grants, if any, that are offered to senior executive/officer employees of the Company; and will be entitled to receive perquisites and benefits provided by the Company to its senior executives, subject to applicable eligibility criteria. Also pursuant to the agreement, Mr. Olivier was granted an option to purchase 300,000 shares of the Company's common stock pursuant to the terms of an award agreement between Mr. Olivier and the Company. The agreement also provided for the reimbursement of Mr. Olivier for up to \$30,000 of his actual out-of-pocket moving expenses incurred in accordance with its terms. Mr. Olivier sold his residence at a loss in fiscal 2010 for which the Company reimbursed him \$77,821. This additional amount was approved by the Compensation Committee.

In the event that Mr. Olivier is terminated without "cause," by death or "disability" or for "good reason" (as defined in the agreement), the Agreement provides that Mr. Olivier will have the right to receive any unpaid base salary and any earned but unpaid bonus due to him as of the effective date of the termination. In addition, in the event Mr. Olivier is terminated without "cause" or for "good reason," he will have the right to receive (1) his base salary, at the rate in effect at the time of termination, for one year following the date of termination; (2) a bonus for the remainder of the term of the agreement, calculated in accordance with the agreement; and (3) acceleration of all of his outstanding unvested options as of the date of the termination. If Mr. Olivier is terminated for "cause" or if he resigns from employment with the Company, or if the agreement is not renewed by Mr. Olivier, he will have the right to receive any unpaid base salary and any earned but unpaid bonus due to him as of the effective date of the termination. If Mr. Olivier retires in accordance with any retirement plan or policy for senior executives adopted by the Company, he will have the right to receive any unpaid base salary and

any earned but unpaid bonus due to him as of the effective date of the termination, and any additional benefits provided under the retirement plan or policy.

Mr. Dearing. On March 13, 2008, the Company entered into an employment agreement with Mr. Dearing. Mr. Dearing's agreement provides that he will continue as the executive Chairman of the Board of the Company for a term of three years. The agreement was amended on May 5, 2010 to permit Mr. Dearing to shift from five days (40 hours) to four days (32 hours) worked per week, with his salary, accrual of vacation and sick time and bonus amounts pro-rated accordingly. The agreement provides that Mr. Dearing will receive an annual salary of \$192,686.78; will continue to be eligible to participate in the Company's Management Incentive Bonus Plan; will be eligible to participate in stock option plans and grants, if any, that are offered to senior executive/officer employees of the Company; and will be entitled to receive perquisites and benefits provided by the Company to its senior executives, subject to applicable eligibility criteria. Mr. Dearing's agreement expires on May 26, 2011.

Under Mr. Dearing's agreement, in the event that Mr. Dearing is terminated without "cause," by death or "disability" or for "good reason" (as such terms are defined in the agreement), Mr. Dearing will have the right to receive: (1) any unpaid base salary; (2) any earned but unpaid bonus due to him as of the effective date of the termination; (3) his base salary, at the rate in effect at the time of termination, through the remaining term of the agreement; (4) a bonus for the remainder of the term of the agreement, calculated in accordance with the agreement; and (5) acceleration of all of his outstanding unvested options as of the date of the termination. If Mr. Dearing is terminated for "cause" or if he resigns from employment with the Company, or if the Agreement is not renewed, he will have the right to receive any unpaid base salary and any earned but unpaid bonus due to him as of the effective date of the termination. If Mr. Dearing retires in accordance with the any retirement plan or policy for senior executive adopted by the Company, he will have the right to receive any unpaid base salary and any earned but unpaid bonus due to him as of the effective date of the termination, and any additional benefits provided under the retirement plan or policy.

Mr. Tenpas. In connection with the commencement of his employment with the Company, the Company entered into an employment agreement with Mr. Tenpas in July 2008. The term of Mr. Tenpas's employment under the agreement is indefinite and may be terminated by either party at any time and for any reason or no reason upon written notice to the other party. The agreement provides that Mr. Tenpas will receive an annual salary of \$165,000, subject to annual review and adjustment by the Compensation Committee and the Board of Directors. While employed by the Company, Mr. Tenpas is eligible to participate in the Company's Management Incentive Bonus Plan, under which he was initially eligible to receive a bonus of \$40,000 if 100% of such plan's targets were met, and the Vice President of Sales Compensation Plan, under which he was eligible to receive a bonus of \$65,000 if 100% of such plan's targets were met. Upon commencement of his employment, Mr. Tenpas was granted an option to purchase 50,000 shares of the Company's common stock. He is entitled to receive perquisites and benefits provided by the Company to its senior executive employees, subject to applicable eligibility criteria; paid vacation and a car allowance of \$500 per calendar month.

Change of Control Agreements. The Company has entered into Change of Control Agreements ("Change of Control Agreements") with each of its executive officers. The Change of Control Agreements are intended to reduce the incentive for officers not to support a transaction that is beneficial to shareholders for fear that their employment would be terminated, retain the services of these officers and provide for continuity of management in the event of any "Change of Control," as defined below. These Change of Control Agreements provide that each officer shall receive severance benefits equal to two times the sum of salary and targeted bonuses and medical and dental plan continuation for two years if, within two years following a "Change of Control," as defined below, the officer's employment is terminated without cause or by the executive for good reason. For this purpose, "good reason" is defined to include: (i) a material diminution of or interference with the officer's duties and responsibilities; (ii) a change in the principal workplace of the officer to a location outside of a 50-mile radius from Milwaukee, Wisconsin; (iii) a reduction or adverse change in the salary, bonus, perquisites, benefits, contingent benefits or vacation time previously provided to the officer; or (iv) an unreasonable increase in the workload of the officer. In addition, the officer will receive a prorated portion of the officer's average annual bonus for the preceding three fiscal years. If the officer leaves ARI for any other reason, within two years following a Change of Control, the officer will receive a prorated portion of the officer's average annual bonus for the preceding three fiscal years. The officer is under no obligation to mitigate amounts payable under the Change of Control Agreements. In addition, upon a Change of Control, all stock options and similar awards become immediately vested and all deferred compensation becomes payable.

For purposes of the Change of Control Agreements, a “Change of Control” means any of the following events: the acquisition (other than from the Company) by any individual, entity or group, subject to certain exceptions, of beneficial ownership, directly or indirectly, of 50% or more of the combined voting power of the Company’s then outstanding voting securities; (ii) a merger, consolidation, share exchange, or sale or disposition of substantially all of the assets of the Company; or (iii) approval by the Company’s shareholders of a complete liquidation or dissolution of the Company.

Director Compensation for Fiscal 2010

Name	Fees Earned or Paid in Cash	Option Awards (1)(2)	All Other Compensation	Total
Gordon J. Bridge	\$ 26,500	\$ 4,243	\$ 40,000 (3)	\$ 70,743
Ted C. Feierstein	\$ 20,500	\$ 4,243	\$ -	\$ 24,743
William C. Mortimore	\$ 26,000	\$ 4,243	\$ -	\$ 30,243
P. Lee Poseidon	\$ 26,500	\$ 4,243	\$ -	\$ 30,743

- (1) The values set forth in this column represent the fair market value of the fiscal 2010 option grants in accordance with FASB ASC Topic 718, disregarding the estimate of forfeitures for service-based vesting conditions. The assumptions used to determine these values are described in “Stock-based Compensation Plans”, Note 10 to the consolidated financial statements in the Company’s Annual Report on Form 10-K for the fiscal year ended July 31, 2010.
- (2) Total stock options held as of July 31, 2010 by non-employee directors of the Company during fiscal 2010 were as follows: Mr. Bridge—138,785; Mr. Feierstein—99,333; Mr. Mortimore—84,375; Mr. Poseidon—22,000.
- (3) Includes fees earned by Mr. Bridge in connection with his service as Lead Director for ARI F&I Services, LLC, a subsidiary of the Company.

For fiscal 2010 service, each non-employee director received an annual cash retainer of \$18,000 and an option to purchase 6,000 shares of Company Common Stock, which were granted on December 22, 2009 (50% of which vested on July 31, 2010 and the remaining 50% of which will vest on July 31, 2011). Audit Committee members receive an additional \$6,000 per year (\$8,000 for the chairman) and Compensation Committee members receive an additional \$2,500 per year. The options have a term of ten years and an exercise price equal to the fair market value of the Common Stock on the date of grant.

CERTAIN TRANSACTIONS

Briggs & Stratton Corporation (“Briggs”) is one of the Company’s customers and beneficially owns more than 5% of the Company’s common stock. Briggs has entered into customer contracts with the Company in the ordinary course of business. Generally, the contracts are one to three years and renew annually unless either party elects otherwise. The Company invoiced Briggs approximately \$371,000 for products and services provided during fiscal 2010. In addition, during fiscal 2010, Briggs provided graphic design and printing services to the Company for which the Company was charged approximately \$55,000.

Section 16(a) Beneficial Ownership Reporting Compliance

Based solely upon its review of Forms 3, 4 and 5 and amendments thereto furnished to the Company during fiscal 2010 pursuant to Section 16 of the Securities Exchange Act of 1934, as amended, all of such forms were filed on a timely basis by reporting persons during fiscal 2010.

PROPOSAL TWO: APPROVAL OF THE ARI NETWORK SERVICES, INC. 2010 EQUITY INCENTIVE PLAN

Material Features of the Plan

Introduction and Purpose. The Board of Directors adopted the ARI Network Services, Inc. 2010 Equity Incentive Plan (the "2010 Plan") in November 2010, subject to shareholder approval. The purpose of the 2010 Plan is to attract and retain certain selected officers, key employees, non-employee directors and consultants whose skills and talents are important to the Company's operations, and to reward them for making major contributions to the success of the Company.

The 2010 Plan, if approved by the Company's shareholders, will replace the Company's 2000 Stock Option Plan,. While options previously granted under the 2000 Stock Option Plan will continue to be effective through the balance of their terms, no new options may be granted under the 2000 Stock Option after its expiration date in December 2010.

As further described below, the 2010 Plan provides the Compensation Committee with the ability to award stock options to participants. The Board of Directors believes the continued ability to grant stock options is a valuable tool for ensuring that the interests of participants are directly aligned with those of shareholders, since they recognize the value only if and to the extent that the value of the Company's Common Stock increases. The 2010 Plan also provides the Compensation Committee with the flexibility to grant a variety of other equity-based awards to the extent it determines that doing so would be in the best interests of the Company and its shareholders.

The 2010 Plan includes the following provisions:

- the aggregate number of shares of Common Stock subject to the 2010 Plan is 650,000 shares
- the exercise price for options and stock appreciation rights cannot be less than 100% of the fair market value of the Company's Common Stock on the date of grant;
- the exercise prices for options or stock appreciation rights cannot be repriced without shareholder approval, except to reflect changes to the capital structure of the Company as described in the 2010 Plan;
- a maximum term of ten years for options and stock appreciation rights;
- a maximum of 325,000 of the shares available for issuance under the 2010 Plan can be in the form of restricted shares or restricted stock units, and the 2010 Plan does not have liberal share counting provisions (such as provisions that would permit shares withheld for payment of taxes or the exercise price of stock options to be re-granted under the plan); and
- awards cannot be transferred to third parties, with the exception of certain estate planning transfers, which can be made if the committee that administers the 2010 Plan approves such transfers.

The complete text of the 2010 Plan is set forth in Appendix B. The following summary of the material features of the 2010 Plan is qualified in its entirety by reference to Appendix B.

Eligibility. Persons eligible for awards under the 2010 Plan, if approved, will include current and prospective employees, non-employee directors, consultants or other persons who provide services to the Company and who hold, or will hold, positions of responsibility and whose performance, in the judgment of the Compensation Committee or the management of the Company, can have a significant effect on the success of the Company. As of October 15, 2010, approximately 145 individuals would be eligible to participate in the 2010 Plan.

Administration. If approved, the 2010 Plan will be administered by the Compensation Committee. Except to the extent prohibited by applicable law, the Compensation Committee may delegate to the chief executive officer or to other senior officers of the Company its duties under the 2010 Plan pursuant to such conditions or limitations as the Compensation Committee may establish.

Awards. Awards under the 2010 Plan may include incentive stock options ("ISOs") and non-statutory stock options ("NSOs"), shares of restricted stock or restricted stock units, or stock appreciation rights ("SARs"), each as described below. The Compensation Committee is responsible for determining the type or types of awards to be made to each participant. The terms, conditions and limitations applicable to each award, including any vesting requirements, will be set forth in the related award agreement. Except as otherwise provided in an award agreement, in the event of a change of control (as defined in the 2010 Plan), if a participant's employment is involuntarily terminated (other than for "cause," as defined under the 2010 Plan) within one year following or three months prior to the change of control, all awards held by the participant will become fully vested and immediately exercisable.

The aggregate number of shares of Common Stock subject to the 2010 Plan is 650,000 shares, which may be treasury shares or authorized but unissued shares of Common Stock, or a combination of the two, and all of which may be granted in the form of ISOs. No individual may receive options covering or grants of shares consisting of more than 250,000 shares in any calendar year, and the Company may not issue more than 325,000 shares of restricted stock or restricted stock units during the term of the 2010 Plan. The 2010 Plan will terminate on December 16, 2020, subject to early termination by the Company's Board as described in the 2010 Plan, and no awards may be made under the 2010 Plan after such date.

Stock Options. Stock options are rights to purchase a specified number of shares of Common Stock for a purchase price of not less than 100% of the fair market value of the Common Stock on the date of grant. The Compensation Committee may not reduce the purchase price for Common Stock pursuant to a stock option after the date of grant without the consent of the Company's shareholders, except in accordance with certain exceptions set forth in the 2010 Plan. A stock option may be designated by the Compensation Committee in the award agreement as an NSO for all participants or an ISO for employee participants. An ISO, in addition to being subject to applicable terms, conditions and limitations established by the Compensation Committee, must comply with Section 422 of the Code which, among other limitations, provides that the aggregate fair market value (determined at the time the option is granted) of Common Stock for which ISOs are exercisable for the first time by a participant during any calendar year may not exceed \$100,000; that ISOs must be priced at not less than 100% of the fair market value on the date of the grant (110% in the case of a Participant who is a 10% shareholder of the Company within the meaning of Section 422 of the Code); and that ISOs must be exercisable for a period of not more than ten years (five years in the case of a Participant who is a 10% shareholder of the Company). The other restrictions and conditions relating to an option grant will be established by the Compensation Committee and set forth in the award agreement. At October 15, 2010, the closing price of the Company's Common Stock was \$0.51 per share.

Restricted Stock or Restricted Stock Unit Award. A restricted stock or restricted stock unit award is an award of stock, or in the case of a restricted stock unit, a bookkeeping entry granting a participant the right to a share of Common Stock in the future, for some or no monetary consideration, as the Committee may specify, and which may contain transferability or forfeiture provisions including a requirement of future services and such other restrictions and conditions as may be established by the Compensation Committee and set forth in the award agreement.

SARs. SARs or stock appreciation rights refers to a grant of the right to receive, upon exercise, the difference between the fair market value of a share of Common Stock on the date of exercise, and the grant value of each SAR. The grant value will not be less than 100% of the fair market value of the Common Stock on the date of grant, as set forth in the award agreement. The difference between the fair market value on the date of exercise and the grant value, multiplied by the number of SARs exercised (which we refer to as the "spread"), will be paid in shares of Common Stock with a fair market value equal to the spread. However, the Company may, in the sole discretion of the Compensation Committee at the time of grant, determine to settle its obligation arising out of the exercise of an SAR by the payment of cash equal to the spread, or by the issuance of a combination of shares of Common Stock and cash, in the proportions determined by the Compensation Committee, with a fair market value equal to the spread. The other restrictions and conditions of the SARs will be established by the Compensation Committee and set forth in the award agreement.

Amendment or Termination of the Plan. The Board may, at any time, amend or terminate the 2010 Plan. However, no amendment or termination may adversely affect the rights of any participant or beneficiary under any award granted under the 2010 Plan without the written consent of the affected participant or beneficiary prior to the date such amendment is adopted by the Board, and no amendment may increase the number of shares of Common Stock that may be issued under the 2010 Plan without the approval of the Company's shareholders.

Adjustments. In the event of certain changes in the capital structure of the Company, the Compensation Committee must make proportionate equitable adjustments to outstanding awards such that the net value of the award is not changed. Any adjustment action taken by the Compensation Committee will be conclusive and binding on all participants, the Company and their successors, assigns and beneficiaries.

Termination of Employment or Service. In the event of termination of employment or service of a participant, awards under the 2010 Plan will immediately terminate, unless the award agreement provides otherwise. Notwithstanding the foregoing, the 2010 Plan provides that options will remain exercisable for a period of 90 days following a participant's termination of employment (other than for "cause") and one year following a participant's termination of employment due to death or disability. The Compensation Committee has discretion to provide the period for which, and the extent to which, options remain exercisable in the event of termination of employment resulting from retirement, death, disability or certain

resignations determined to be in the best interests of the Company. Restricted stock and restricted stock units are generally forfeited upon termination of employment or service.

Federal Income Tax Consequences

Counsel for the Company has advised that, under current tax law, the federal income tax consequences of NSOs, ISOs, restricted stock, restricted stock units and SARs proposed to be granted under the 2010 Stock Option Plan are generally as follows:

NSOs. The grant of an NSO will have no federal income tax consequences to the Company or to a participant. A participant will recognize taxable ordinary income at the time of exercise of the option in an amount equal to the excess of the fair market value of the shares acquired at the time of exercise over the option price, and the Company will ordinarily be entitled to a deduction for such amount. Gains recognized on the exercise of options by employees will be subject to income and employment tax withholding. The holder of shares acquired upon exercise of an NSO will, upon a subsequent disposition of such shares, generally recognize a short-term or long-term capital gain or loss, depending upon the holding period of the shares, equal to the difference between the amount realized on the sale and the basis in such shares (the sum of the option price and the amount taxed as ordinary income at the time of exercise).

ISOs. Neither the grant nor exercise of an ISO will generally have any federal income tax consequences for a participant. The amount by which the fair market value of the shares acquired upon the exercise of an ISO exceeds the option price as of the date of exercise, however, is an item of "tax preference" for purposes of computing the alternative minimum tax on individuals. If a participant has held the shares acquired on the exercise of an ISO for at least two years from the date of the grant of the option and at least one year from the date of exercise, the participant will recognize taxable long-term capital gain or loss upon a subsequent disposition of the shares. In such circumstances, no deduction would be allowed to the Company for federal income tax purposes in connection with the grant or exercise of the option or the transfer of shares acquired upon such exercise. If, however, the participant disposes of his or her shares within the holding periods described above, (i) the participant will recognize ordinary income in an amount equal to the difference between the fair market value of such shares on the date of exercise and the option price, provided that, if the disposition is a sale or exchange with respect to which a loss (if sustained) would be recognized by the participant and the amount realized from such sale or exchange is less than the fair market value on the exercise date, then the ordinary income will be limited to the excess of the amount realized upon the sale or exchange of the shares over the option price; (ii) the Company will be entitled to a deduction for such year in the amount of the ordinary income so recognized; and (iii) the participant will recognize capital gain or loss, as the case may be, in an amount equal to the difference between the amount realized upon such sale or exchange of the shares and the sum of the option price plus the amount of ordinary income, if any, recognized upon such disposition.

Restricted Stock. The grant of restricted stock is not a taxable event to a participant, absent an election under Section 83(b) of the Internal Revenue Code (the "Code"). If no election is made, the participant will recognize income, taxable for income tax purposes at ordinary rates, upon the lapse of the restrictions governing the shares. The amount of the income will equal the fair market value of the shares when the restrictions lapse, less any amount paid by the participant for the shares. If the participant makes a Section 83(b) election within 30 days of the date of grant, he or she will be deemed to have received ordinary income at the time of the grant of the restricted shares equal to their fair market value at the date of grant less any amount paid by the participant for the shares, determined without regard to the restrictions imposed thereon. In both cases, the amount taxed as ordinary income will be subject to income and employment tax withholding if the participant is an employee. If the restricted shares are subsequently forfeited after a Section 83(b) election and before the restrictions lapse, the participant is not entitled to claim the loss for income tax purposes. The Company will be entitled to a deduction for income tax purposes when the participant recognizes ordinary income, either as a result of a Section 83(b) election or because of the lapse of the restrictions. The amount of the deduction will generally equal the amount of ordinary income recognized by the participant.

Restricted Stock Units. A participant will not be deemed to have received taxable income upon the grant or vesting of restricted stock units. However, upon vesting, the then fair market value of the units is subject to income and employment tax withholding if the participant is an employee. The participant will recognize taxable ordinary income at such time as shares are distributed with respect to the restricted stock units in an amount equal to the fair market value of the shares distributed to the participant. If the participant is an employee, the ordinary income recognized on distribution is subject to income and employment tax withholding. Upon the distribution of shares to a participant with respect to restricted stock units, the Company will ordinarily be entitled to a deduction for federal income tax purposes in an amount equal to the

taxable ordinary income recognized by the participant. The basis of the shares of Common Stock received will equal the amount of taxable ordinary income recognized by the participant upon receipt of such shares plus any amount paid for the restricted stock units, and a gain or loss recognized by the participant on a subsequent disposition of any such shares will generally be capital gain or loss. A participant's holding period will commence on the date the shares are distributed to the participant.

SARs. A participant will not be deemed to have received taxable income upon the grant or vesting of an SAR. Upon the exercise of an SAR, a participant generally will be deemed to have received income, taxable for federal income tax purposes at ordinary income rates, equal to the fair market value at the time of exercise of any Common Stock received plus the amount of any cash received, and the Company will be entitled to a deduction for federal income tax purposes equal to the amount of ordinary income recognized by the participant as a result of such exercise. Gains recognized on the exercise of SARs by employees will be subject to income and employment tax withholding. The basis of shares received upon the exercise of an SAR will equal the fair market value of the shares at the time of exercise, and a gain or loss recognized by the participant on a subsequent disposition of any such shares will generally be capital gain or loss. A participant's holding period will commence on the date the shares are distributed to such participant.

The foregoing summary does not contain a complete analysis of all the potential tax consequences of the types of awards proposed to be granted under the 2010 Plan, including employment tax and state, local or foreign income tax consequences.

NEW PLAN BENEFITS

As of the date of this Proxy Statement, no awards have been granted under the 2010 Plan, and the amount of awards that will be granted under the 2010 Plan in future periods. However, the table set forth below provides information concerning options awarded to employees and directors in fiscal 2010 under the Company's 2000 Stock Option Plan.

<u>Name</u>	<u>Options</u>
Roy W. Olivier	–
Brian E. Dearing	–
Michael T. Tenpas	20,000
All current executive officers as a group	20,000
All current non-employee directors as a group	24,000
All employees who are not executive officers as a group	166,250

The Board of Directors recommends a vote FOR approval of the 2010 Equity Incentive Plan.

PROPOSAL THREE: APPROVAL OF PROPOSED AMENDMENTS TO THE ARI NETWORK SERVICES, INC. 2000 EMPLOYEE STOCK PURCHASE PLAN

Material Features of the Plan

Introduction and Purpose. The Company is seeking approval of certain amendments to the ARI Network Services 2000 Employee Stock Purchase Plan (the "ESPP"), as described below. The Board of Directors originally adopted the ESPP in 2000, and adopted the proposed amendments to the ESPP in November 2010, subject to shareholder approval. The purpose of the ESPP is to provide eligible employees of the Company and its subsidiaries with an opportunity to purchase Common Stock of the Company through accumulated payroll deductions.

Proposed Amendments. The Company is seeking shareholder approval of amendments to the ESPP for the following purposes:

- increasing the number of shares of Common Stock authorized for sale under the ESPP from 175,000 to 225,000;
- amending the term of the ESPP to continue in effect until all of the shares of Common Stock reserved for issuance under the ESPP, as increased or adjusted from time to time, have been issued, unless sooner terminated in accordance with its terms;
- removing the prohibition on executive officer participation in the ESPP and providing that no executive officer will be eligible to participate in the ESPP unless otherwise determined by the Compensation Committee prior to an offering period (as described below); and

- updating the definition of “Fair Market Value” for offerings commencing on or after January 1, 2011 to relate to the bid and asked prices of the Company’s Common Stock on the NASDAQ Over-The-Counter Bulletin Board.

Description of the ESPP. The following summary of the material features of the ESPP is qualified in its entirety by reference to the text of the ESPP, as amended and restated, which is attached to this proxy statement as Appendix C. Appendix C is marked to highlight the proposed amendments, with additions indicated by underlining and deletions shown as stricken text.

The ESPP is intended to qualify as an “employee stock purchase plan” under Section 423 of the Code. Eligible employees who elect to participate may have up to 10% of their compensation from the Company withheld pursuant to the ESPP. The amount withheld is then used to purchase shares of Common Stock on the last day of the “offering period,” which generally the period commencing on January 1 and ending on December 31 of each year. The price of the Common Stock purchased under the ESPP during an offering period is equal to the lower of either

- 85% of the fair market value of the Company’s shares on the first day of the offering period, or
- 85% of the fair market value of the Company’s shares on the last day of the offering period.

At October 15, 2010, the closing price of the Company’s Common Stock was \$0.51 per share. Pending shareholder approval of the proposed amendments, and subject to certain adjustments as described below, a maximum of 225,000 shares of the Company’s Common Stock will have been authorized for sale under the ESPP, of which 9,735 remained available for issuance as of October 15, 2010.

Eligibility. Any person who is an employee of the Company will be eligible to participate in the ESPP, provided he or she has a minimum period of continuous service with the Company of six months as of the first day of the offering period. Notwithstanding the foregoing, no executive officer will be eligible to participate in the ESPP unless, pending shareholder approval of the proposed amendments, the Compensation Committee determines otherwise prior to the applicable offering period

Limitations. An employee may not be granted a purchase right for a purchase period if immediately after the grant, he or she would own five percent or more of the total combined voting power or value of all classes of stock of the Company. An employee cannot receive purchase rights that, in combination with purchase rights under other plans qualified under Section 423 of the Code, would result during any calendar year in the purchase of shares having an aggregate fair market value of more than \$25,000. Further, an employee cannot receive purchase rights that entitle such employee to purchase more than 5,000 shares of Common Stock during an offering period. Purchase rights granted under the ESPP are not transferable except by will or by the laws of descent and distribution and are exercisable only by the employee during the employee’s lifetime.

Term of the ESPP. Pending shareholder approval of the proposed amendments, the ESPP will continue in effect until all of the shares of Common Stock reserved for issuance under the ESPP, as increased or adjusted from time to time, have been issued, unless sooner terminated in accordance with its terms.

Administration. The ESPP is administered by the Compensation Committee. The Compensation Committee will have full and exclusive discretionary authority to construe, interpret and apply the terms of the ESPP, to determine eligibility and to adjudicate all disputed claims under the ESPP.

Amendment or Termination of the Plan. The Board of Directors may, from time to time, amend the ESPP in any respect, except that no amendment may be made without the approval of the Company’s shareholders to increase the aggregate number of shares that may be issued under the ESPP (except for certain adjustments permitted under the terms of the ESPP) or for which shareholder approval is required under applicable tax, securities or other laws. The ESPP and all rights of participants under the ESPP may terminate at any time, at the discretion of the Board or the Compensation Committee. Upon any termination of the ESPP, all amounts in the accounts of participating employees will be either (1) promptly refunded in total, or (2) refunded to the extent not used to purchase Common Stock, in the sole discretion of the Compensation Committee.

Adjustments. In the event of certain changes in the capital structure of the Company, subject to any required action by the Company’s shareholders, the shares reserved for issuance under and the price and number of shares of Common Stock

covered by each option under the ESPP will be proportionately adjusted. In the event of a change of control of the Company (as defined in the ESPP), the offering period then in progress will be shortened by the Compensation Committee's setting a new exercise date that will be before the date of the change of control.

Termination of Employment. Upon a participant's ceasing to be an employee of the Company for any reason, such participant will be deemed to have elected to withdraw from the ESPP and the payroll deductions credited to such participant's account but not yet used to purchase Common Stock will be returned to such person (or, in the case of death of a participant, to such participant's designated beneficiary).

Federal Income Tax Consequences

Counsel for the Company has advised that, under current tax law, the federal tax consequences of the ESPP to participants and the Company are generally as follows:

Tax Treatment of Participating Employees. Participating employees will not recognize income when they enroll in the ESPP or when they purchase shares. All tax consequences are deferred until the participating employee disposes of the shares. If the participating employee holds the shares for one year or more after the purchase date and two years or more after the offering date, or if the participating employee dies while owning the shares, the participating employee will generally recognize ordinary income when disposing of the shares equal to the difference between the purchase price and the fair market value of the shares on the date of disposition, or 15% of the fair market value of the shares on the offering date, whichever is less. Any additional gain will be taxed as long-term capital gain. If the shares are sold for less than the purchase price, there is no ordinary income, but the participating employee will have a long-term capital loss for the difference between the purchase price and the sale price. If a participating employee sells or gifts the shares less than one year after the purchase date or less than two years after the offering date, the participating employee will generally have ordinary income equal to the difference between the purchase price and the fair market value on the purchase date. The difference between the sale price and the fair market value on the purchase date will be a capital gain or loss, taxable at short-term capital gain rates if the shares are held 12 months or less and at long-term capital gain rates if the shares are held longer than 12 months.

Tax Treatment of the Company. When a participating employee recognizes ordinary income by disposing of shares before the one-year or two-year holding period ends, the Company will generally be entitled to a tax deduction in the amount of the ordinary income.

The foregoing summary does not contain a complete analysis of all potential tax consequences to the participants and the Company under the ESPP, including employment tax and state, local or foreign income taxes.

PLAN BENEFITS

Because participation in the ESPP is voluntary, the benefits or amounts that will be received in the future by any person or group under the ESPP cannot be determined. Executive officers and directors were not eligible to participate in the 2000 Employee Stock Purchase Plan in fiscal 2010. All employees who are not executive officers of the Company, in aggregate, purchased 6,584 shares of Common Stock under the ESPP in fiscal 2010.

The Board of Directors recommends a vote FOR the approval of the proposed amendments to the ARI Network Services, Inc. 2000 Employee Stock Purchase Plan.

EQUITY COMPENSATION PLAN INFORMATION

The following table sets forth certain information about shares of the Company's Common Stock outstanding and available for issuance under the Company's existing equity compensation plans: the 1991 Incentive Stock Option Plan, the 1993 Director Stock Option Plan, the 2000 Employee Stock Purchase Plan and the 2000 Stock Option Plan. The table details securities authorized for issuance under the Company's equity compensation plans as of July 31, 2010. The table below does not include stock option grants, exercises or cancellations since July 31, 2010 and, in accordance with SEC rules, excludes information concerning the Company's 401(k) plan. The Company has discontinued granting options under the 1991 Incentive Stock Option Plan and 1993 Director Stock Option Plan, although options are outstanding under those plans. The Company's 2000 Stock Option Plan and 2000 Employee Stock Purchase Plan will expire in December of 2010. The

Company intends to replace the 2000 Stock Option Plan with the proposed 2010 Equity Plan, and has proposed amendments to the 2000 Employee Stock Purchase Plan that would, among other things, extend the term of the plan beyond December 2010.

Equity Compensation Plan Information

Plan category	Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights	Wtd. Avg. Exercise Price of Outstanding Options, Warrants and Rights	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans [excluding securities reflected in column (a)]
	(a)	(b)	(c)
Equity compensation plans approved			
by security holders	1,555,731	\$1.37	317,549
Equity compensation plans not approved			
by security holders (1)	<u>16,820</u>	n/a	<u>n/a</u>
Total	<u><u>1,572,551</u></u>		<u><u>317,549</u></u>

(1) Represents estimated number of shares to be issued pursuant to outstanding long-term incentive plan awards described above, based on an assumed value of \$0.51 per share (the October 15, 2010 closing stock price).

PROPOSAL FOUR: RATIFICATION OF INDEPENDENT AUDITORS

The Audit Committee has appointed Wipfli LLP to serve as the Company's independent accountant to audit the books and accounts of the Company and its subsidiaries for the fiscal year ending July 31, 2011. The Board of Directors has recommended that shareholders ratify this appointment. It is intended that the shares represented by the proxy will be voted (unless the proxy indicates to the contrary) for ratification of the appointment. Wipfli LLP also served as the Company's independent accountant for the fiscal year ended July 31, 2010. A representative of Wipfli LLP is expected to be present at the meeting with the opportunity to make a statement if he or she desires to do so, and is expected to be available to respond to appropriate questions.

Auditor's Fees

Fees for professional services provided by our independent auditors in each of the last two fiscal years, in each of the following categories, were as follows:

	2010	2009
Audit fees	\$ 144,171	\$ 127,500
Audit related fees	-	-
Tax fees	-	-
All other fees	<u>17,750</u>	<u>1,664</u>
Total fees	<u><u>\$ 161,921</u></u>	<u><u>\$ 129,164</u></u>

All other services rendered by our independent auditors in fiscal 2010 and 2009 included consultations on accounting matters regarding internal controls and the regulations of the Securities and Exchange Commission.

The Audit Committee pre-approves all audit and permitted non-audit services provided by the independent auditors, unless such pre-approval is waived in accordance with Item 2-01(c)(7)(i)(C) of Regulation S-X. These services may include audit services, audit-related services, tax services and other services. The Audit Committee has delegated the authority to grant pre-approval of auditing or allowable non-audit services to the chairman of the Audit Committee. Each pre-approval decision pursuant to this delegation is to be presented to the full Audit Committee at its next scheduled meeting.

REPORT OF THE AUDIT COMMITTEE

The primary responsibility of the Committee is to oversee the Company's financial reporting process on behalf of the Board of Directors and to report the results of its activities to the Board. Management has the primary responsibility for the financial statements and the reporting process including the systems of internal controls. A complete description of the Committee's duties is set forth in its charter.

In fulfilling its oversight responsibilities, the Committee reviewed the audited financial statements in the Annual Report with management including a discussion of the quality, not just the acceptability, of the accounting principles, the reasonableness of significant judgments, and the clarity of disclosures in the financial statements.

The Committee reviewed with the independent auditors, who are responsible for expressing an opinion on the conformity of those audited financial statements with accounting principles generally accepted in the United States, their judgments as to the quality, not just the acceptability, of the Company's accounting principles and such other matters as are required to be discussed with the Committee under standards of the Public Company Oversight Board (United States). In addition, the Committee has discussed with the independent auditors the auditors' independence from management and the Company including matters in the written disclosures required by the Independence Standards Board and considered the compatibility of non-audit services with auditors' independence.

The Committee discussed with the Company's independent auditors the overall scope and plans for their audit. The Committee meets with the independent auditors, with and without management present, to discuss the results of their examination and their evaluation of the Company's internal controls, and the overall quality of the Company's financial reporting. The Committee held 5 meetings during fiscal 2010.

In reliance on the views and discussions referred to above, the Committee recommended to the Board of Directors (and the Board has approved) that the audited financial statements be included in the Annual Report on Form 10-K for the year ended July 31, 2010 for filing with the Securities and Exchange Commission. The Committee has also approved the selection of the Company's independent auditors for fiscal 2011.

Audit Committee of the Board of Directors of ARI Network Services, Inc.:

William C. Mortimore (Chairman)
Gordon J. Bridge
P. Lee Poseidon

OTHER MATTERS

Other Proposed Action

The Board of Directors of the Company knows of no other matters which may come before the meeting. However, if any matters other than those referred to above should properly come before the meeting, the persons named in the enclosed proxy will vote such proxy in accordance with their discretion.

Shareholder Proposals

All proposals of shareholders intended to be presented at the Company's 2011 Annual Meeting must be received by the Company at its executive offices on or before September 19, 2011, in order to be presented at the meeting (and must otherwise be in accordance with the requirements of the Bylaws of the Company) and must be received by July 5, 2011 to be considered for inclusion in the proxy statement for that meeting.

Costs of Solicitation

The expenses of printing and mailing proxy materials, including reasonable expenses involved in forwarding materials to beneficial owners of Common Stock, will be borne by the Company. In addition, directors, officers or employees of the Company may solicit the return of proxies from certain shareholders by telephone, e-mail, facsimile or personal solicitation.

SHAREHOLDERS MAY OBTAIN A COPY OF THE COMPANY'S ANNUAL REPORT ON FORM 10-K AS FILED WITH THE SECURITIES AND EXCHANGE COMMISSION AT NO COST BY WRITING TO THE INVESTOR RELATIONS DEPARTMENT, ARI NETWORK SERVICES, INC., 10850 WEST PARK PLACE, SUITE 1200, MILWAUKEE, WISCONSIN 53224.

BY ORDER OF THE BOARD OF DIRECTORS

Brian E. Dearing, Secretary
November 5, 2010

Appendix A: ARI NETWORK SERVICES, INC. AUDIT COMMITTEE CHARTER

Effective as of November 1, 2010

I. Purpose

The Audit Committee shall assist the Board of Directors in fulfilling its responsibility to the shareholders, to the investment community and to governmental agencies relating to corporate accounting, financial reporting practices, and the quality and integrity of the financial reports of the Company. The primary responsibility of the Committee is to oversee the Company's financial reporting process on behalf of the Board of Directors and to report the results of its activities to the Board. It is not the responsibility of the Committee or any member of the Committee to plan or conduct audits or to determine that the Company's financial statements are complete and accurate and are in accordance with generally accepted accounting principles. Management of the Company is responsible for preparing the Company's financial statements, and the independent public accountants are responsible for auditing the Company's financial statements.

II. Committee Composition

The Committee shall be composed of at least two members, comprised solely of "independent" directors who are "financially literate" at the time of their appointment to the Committee. A director is "independent" and "financially literate" if he or she meets the requirements set forth in the rules of the Nasdaq Stock Market and the SEC. In addition, no member of the Committee shall have participated in the preparation of the Company's financial statements during any of the past three years.

The members of the Committee shall be elected by the Board to hold such office until their successors shall be duly elected and qualified. The Board designates an "audit committee financial expert" to act as Chairman of the Committee, as defined under the Securities and Exchange Commission regulations and NASDAQ listing standards.

III. Meetings and Reports

The Committee shall meet as frequently as the Committee deems necessary, but not less frequently than four times each year. Special Meetings of the Committee may be called at any time by any member thereof on not less than three days notice. The Committee shall report periodically to the Board of Directors regarding the Committee's activities, findings and recommendations.

The Committee may conduct its business and affairs at any time or location it deems appropriate. Attendance and participation in a meeting may take place by conference telephone or similar communications equipment by means of which all persons participating in the meeting can hear each other. Any action to be taken at any meeting of the Committee may be taken without a meeting, if all members of the Committee consent thereto in writing and such writing or writings are filed with the minutes of the Committee. All decisions of the Committee shall be determined by the affirmative vote of a majority of the members present.

**ARI NETWORK SERVICES, INC.
AUDIT COMMITTEE RESPONSIBILITIES**

		Audit Committee Meeting for:					
Responsibility		Q1	Q2	Q3	Q4	Other	Comments
A. Oversight of the Independent Auditors							
1.	Appoint the independent public accountants to audit the books and records of the Company and approve audit engagement fees and terms.				X		Any changes in independent public accountants must be approved prior to proxy mailing.
2.	Review the independent auditors' annual audit planning materials and discuss any items of a critical nature to the audit prior to the beginning of field work.				X		
3.	Obtain a formal written statement listing all relationships between the independent public accountants and the Company from the independent public accountants on an annual basis. Review and discuss with the independent public accountants any disclosed relationships or services that may affect the objectivity and independence of the independent public accountants and review the actions taken to ensure the independent public accountants' independence.				X		
4.	Receive the written disclosures and confirmation from the independent auditors required by the PCAOB's Ethics and Independence Rule 3256, as may be modified or supplemented from time to time, which says that audit firms must disclose to audit committees any relationship that may impact the auditors' independence, auditors' report to satisfy itself of the independent auditors' independence.				X		
5.	Monitor the rotation of the lead (or coordinating) audit partner having primary responsibility for the audit and the audit partner responsible for reviewing the audit as required by law.				X		
6.	Review and approve hiring decisions by the Company involving any partner or employee of the independent public account who worked on the Company's account during the preceding three years. No audit engagement team member that participated in the audit of the Company within one year prior to the proposed date of hire may be hired by the Company as a senior executive.					X	As needed
B. Financial Statement and Disclosure Matters							
1.	Review with management and the independent public accountants the Company's audited financial statements to be included in the Company's Annual Report on Form 10-K.				X		Meet with the independent auditors both with and without Management present.

		Responsibility	Audit Committee Meeting for:					Comments
			Q1	Q2	Q3	Q4	Other	
2		Review with management and the independent public accountants the Company's quarterly operating results to be included in the Company's Quarterly Reports on Form 10-Q. The Chairman of the Committee may represent the entire Committee for purposes of this review.	X	X	X			
3.		Review any disclosures made to the Committee by the Company's Chief Executive Officer and Chief Financial Officer regarding any significant deficiencies in the design or operation of the Company's disclosure controls and procedures.					X	As disclosures occur
4.		As part of the review of the Company's Annual Report on Form 10-K, review and discuss with the independent public accountants (1) all critical accounting policies and practices used in the audited financial statements, (2) all alternative treatments of financial information within generally accepted accounting principles that have been discussed with management, the ramifications of the use of such alternative disclosures and treatments, and the treatment preferred by the independent auditors, and (3) other written communications between the independent auditors and management, such as any management letter or schedule of unadjusted differences.				X		
5.		Discuss with the independent auditors the matters required to be discussed by SAS 61 "Communication with Audit Committees" as may be modified or supplemented from time to time.				X		
6.		Based on the review and discussions referred to in Sections IV.A.3, IV.B.1 and IV.B.5, make a recommendation to the Board of Directors regarding inclusion of the audited financial statements in the Company's Annual Report on Form 10-K filed each year				X		
7.		Review any recommendations of the independent auditors resulting from the audit and monitor management's response in an effort to ensure that appropriate actions are taken.					X	Review initially at the Q4 meeting, establish actions at the Q1 meeting, and monitor responses as needed.
8.		Review with the independent auditors any matter of significant disagreement between management and the independent auditors and any other problems or difficulties encountered during the course of the audit and management's response to such disagreements, problems or difficulties.				X		
9.		Review the Company's Key Internal Controls and the effectiveness of the controls over financial reporting.			X			

		Audit Committee Meeting for:					
Responsibility		Q1	Q2	Q3	Q4	Other	Comments
10	Review with management any SOX changes during the quarter and any results of internal audit testing.	X	X	X	X		
11	Review with management and the independent auditors (1) the Company's annual assessment of the effectiveness of its internal control over financial reporting, (2) the independent auditor's attestation (if required) and report about the Company's assessment and (3) any material weaknesses in the Company's internal control over financial reporting identified by management or the independent auditors.				X		
C. Approval of Audit and Non-Audit Services							
1.	Except as provided in (a) and (b) below, pre-approve all audit and permitted non-audit services to be provided by the Company's independent public accountants. The Company may, if it so chooses, designate pre-approval responsibilities to one or more members of the Committee and provide that the designated member must present his decision to the full Committee at the Committee's next meeting.					X	Written approval required prior to start of service.
(a)	Pre-approval of permitted non-audit services is not required if (1) the aggregate amount of all such non-audit services constitutes not more than 5% of the total amount of fees paid by the Company to the independent public accountants during the fiscal year in which the non-audit services are provided, (2) such services were not recognized by the Company at the time of engagement to be non-audit services, and (3) such services are promptly brought to the attention of the Committee and approved by the Committee prior to the completion of the audit.						
(b)	The following are prohibited non-audit services which may not be performed by any independent public accountant for the Company: (1) bookkeeping or other services related to the accounting records or financial statements of the Company, (2) financial information systems design and implementation, (3) appraisal or valuation services, fairness opinions or contribution-in-kind reports, (4) actuarial services, (5) internal audit outsourcing services, (6) management functions or human resources, (7) broker or dealer, investment adviser, or investment banking services, (8) legal services and expert services unrelated to the audit, and (9) any other service that the Public Company Accounting Oversight Board determines, by regulation, is impermissible.						
D. Other							
1.	Review, periodically, the Company's protection of assets programs, including insurance.		X				
2.	Establish, review and update as needed a Code of Business Conduct and Ethics for certain principal officers (Code) and ensure that management has established a system to enforce the Code.		X				
3.	Establish procedures for the receipt, retention and treatment of complaints received by the Company regarding accounting, internal accounting controls or auditing matters, and the confidential, anonymous submission by employees of concerns regarding questionable accounting or auditing matters.		X				

		Audit Committee Meeting for:					
Responsibility		Q1	Q2	Q3	Q4	Other	Comments
4.	Review the quarterly report outlining the results and corrective actions of complaints received by the Company regarding accounting, internal accounting controls or auditing matters, and the confidential, anonymous submission by employees of concerns regarding questionable accounting or auditing matters or any other matters that may involve fraud.	X	X	X	X		
5.	Review and approve any material transaction to which the Company is a party involving a conflict of interest with a director, executive officer or other affiliate of the Company.					X	As transactions occur
E. Committee Administration							
1.	Review and assess the adequacy of this Charter on at least an annual basis.			X			
2.	Review and assess on an annual basis whether the Committee has satisfied its responsibilities during the prior year in compliance with this Charter.			X			
3.	Direct and supervise an investigation into any matter the Committee deems necessary and appropriate.					X	As Committee deems necessary
4.	In the course of fulfilling its duties, the Committee has the authority to retain its own independent legal, accounting and other advisors in its sole discretion. The Company shall provide for appropriate funding, as determined by the Committee, for payment of fees to any such advisors.					X	As Committee deems necessary
5.	Take action in connection with such other powers and responsibilities as the Board of Directors may, from time to time, determine.					X	As the Board of Directors deems necessary

Appendix B: ARI NETWORK SERVICES, INC. 2010 EQUITY INCENTIVE PLAN

1. Objectives. The ARI Network Services, Inc. 2010 Equity Incentive Plan is designed to attract and retain certain selected officers, key employees, non-employee directors and consultants whose skills and talents are important to the Company's operations, and reward them for making major contributions to the success of the Company. These objectives are accomplished by making awards under the Plan, thereby providing Participants with a proprietary interest in the growth and performance of the Company.

2. Definitions.

(a) "Award" shall mean an Option, share of Restricted Stock, Restricted Stock Unit or SAR (stock appreciation right) awarded to a Participant pursuant to such terms, conditions and limitations as the Committee may establish in order to fulfill the objectives of the Plan.

(b) "Award Agreement" shall mean the agreement that sets forth the terms, conditions and limitations applicable to an Award.

(c) "Board" shall mean the Board of Directors of ARI Network Services, Inc.

(d) "Cause" shall mean (i) the willful and continued failure by the Participant to substantially perform the Participant's duties with the Company (other than any such failure resulting from the Participant's incapacity due to physical or mental illness) for a period of at least ten days after a written demand for substantial performance is delivered to the Participant which specifically identifies the manner in which the Participant has not substantially performed his or her duties, or (ii) the willful engaging by the Participant in misconduct which is demonstrably and materially injurious to the Company, monetarily or otherwise. For purposes of this Plan, no act or failure to act on the Participant's part shall be considered "willful" unless done or omitted to be done by the Participant not in good faith and without reasonable belief that such action or omission was in the best interest of the Company. Notwithstanding the foregoing, the Participant shall not be deemed to have been terminated for Cause unless and until there shall have been delivered to the Participant a copy of a resolution, duly adopted by the affirmative vote of not less than a majority of the Board of the Company, excluding the vote of the Participant if the Participant is on the Board, at a meeting of the Board called and held for such purposes (after reasonable notice to the Participant and an opportunity for the Participant, together with the Participant's counsel, to be heard before the Board), stating that in the good faith opinion of the Board the Participant was guilty of conduct constituting Cause as set forth above and specifying the particulars thereof in detail.

(e) "Change of Control" shall mean any of the following:

(i) the acquisition by an individual, entity or group, acting individually or in concert (a "Person") of beneficial ownership of more than 50% of the then outstanding shares of common stock of the Company (the "Outstanding Common Stock"); provided, however, that for purposes of this Subsection 2(e)(i), the following acquisitions shall not constitute a Change of Control: (A) any acquisition directly from the Company; (B) any acquisition by the Company; (C) any acquisition by any employee benefit plan (or related trust) sponsored or maintained by the Company or any corporation controlled by the Company; or (D) any acquisition by any corporation pursuant to a transaction which complies with clauses (A), (B) and (C) of Subsection 2(e)(ii) below; or

(ii) consummation of a reorganization, merger or consolidation, share exchange, or sale or other disposition of all or substantially all of the assets of the Company (a "Business Combination"), in each case, unless, immediately following such Business Combination, (A) all or

substantially all of the individuals and entities who were the beneficial owners of the Outstanding Common Stock immediately prior to such Business Combination beneficially own, directly or indirectly, more than 50% of, respectively, the then outstanding shares of common stock and the combined voting power of the then outstanding voting securities entitled to vote generally in the election of directors, as the case may be, of the corporation resulting from such Business Combination (including, without limitation, a corporation which as a result of such transaction owns the Company or all or substantially all of the Company's assets either directly or through one or more subsidiaries) in substantially the same proportions as their ownership, immediately prior to such Business Combination of the Outstanding Common Stock, (B) no Person (excluding any employee benefit plan (or related trust) of the Company or such corporation resulting from such Business Combination) beneficially owns, directly or indirectly, more than 50% of, respectively, the then outstanding common stock of the corporation resulting from such Business Combination or the combined voting power of the then outstanding voting securities of such corporation except to the extent that such ownership existed prior to the Business Combination, and (C) at least a majority of the members of the Board of the corporation resulting from such Business Combination were members of the Board of the Company at the time of the execution of the initial agreement providing for such Business Combination; or

(iii) approval by the shareholders of the Company of a complete liquidation or dissolution of the Company.

(f) "Common Stock" or "Stock" shall mean the \$.001 par value common stock of ARI Network Services, Inc.

(g) "Code" shall mean the Internal Revenue Code of 1986, as amended from time to time.

(h) "Committee" shall be the Compensation Committee of the Board, unless the Board designates a different qualifying Committee. Except as otherwise determined by the Board, the Committee shall be so constituted as to permit grants of Options to comply with Section 162(m) of the Code and any regulations promulgated thereunder, or any other statutory rule or regulatory requirements.

(i) "Company" shall mean ARI Network Services, Inc. and its direct and indirect subsidiaries, and partnerships and other business ventures in which ARI Network Services, Inc. or its direct or indirect subsidiaries have a significant equity interest, as determined in the sole discretion of the Committee. For purposes of defining whether a Participant is receiving stock of a "service recipient" under Section 409A of the Code and the guidance thereunder, this definition of "Company" shall be deemed to include the broadest definition of entities permissible under such guidance.

(j) "Fair Market Value" shall mean the average of the closing bid and asked prices of the Common Stock on the NASDAQ Over-The-Counter Bulletin Board (or if the Common Stock is not then traded on the Over-The-Counter Bulletin Board, the average of the closing bid and asked prices on such other exchange or inter-dealer quotation system on which the Common Stock is listed) as reported in any commonly-accepted electronic medium or other authoritative source on the indicated date. If no sales of Common Stock were made on said bulletin board (or other exchange or inter-dealer quotation system) on that date, "Fair Market Value" shall mean the average of the closing bid and asked prices of Common Stock as reported for the most recent preceding day on which sales of Common Stock were made on said bulletin board (or other exchange or inter-dealer quotation system), or, failing any such sales within two (2) weeks prior to the indicated date, such other market price as the Board or the Committee may determine in conformity with pertinent law and regulations of the Treasury Department.

(k) "Incentive Stock Option" shall mean an option to purchase shares of Common Stock which complies with the provisions of Section 422 of the Code.

l) "Nonstatutory Stock Option" shall mean an option to purchase shares of Common Stock which does not comply with the provisions of Section 422 of the Code or which is designated as such pursuant to Paragraph 7 of the Plan.

(m) "Option" shall mean (i) with respect to an employee, an Incentive Stock Option or Nonstatutory Stock Option granted to a Participant by the Committee pursuant to Section 7 hereof and (ii) with respect to any non-employee, a Nonstatutory Stock Option granted to a Participant by the Committee pursuant to Section 7 hereof.

(n) "Participant" shall mean a current, prospective or former employee, non-employee director, consultant or other person who provides services to the Company to whom an Award has been made under the Plan.

(o) "Plan" shall mean the ARI Network Services, Inc. 2010 Equity Incentive Plan.

(p) "Restricted Stock" shall mean shares of Common Stock granted to a Participant by the Committee pursuant to Section 7 hereof, which are subject to restrictions set forth in an Award Agreement.

(q) "Restricted Stock Unit" shall mean a right to receive one share of Common Stock or cash equivalent to the Fair Market Value thereof granted to a Participant pursuant to Section 7, hereof, subject to the restrictions set forth in the Award Agreement.

(r) "SAR" shall mean a stock appreciation right with respect to one share of Common Stock granted to a Participant pursuant to Section 7 hereof, subject to the restrictions set forth in the Award Agreement.

3. Eligibility. Current and prospective employees, non-employee directors, consultants or other persons who provide services to the Company eligible for an Award under the Plan are those who hold, or will hold, positions of responsibility and whose performance, in the judgment of the Committee or the management of the Company (if such responsibility is delegated pursuant to Section 6 hereof), can have a significant effect on the success of the Company. However, Incentive Stock Options may only be issued to employees of the Company and its subsidiary corporations within the meaning of Section 424(f) of the Code.

4. Common Stock Available for Awards.

(a) Number of Shares. Subject to adjustment as provided in Section 13 hereof, the number of shares that may be issued under the Plan for Awards during the term of the Plan is 650,000 shares of Common Stock, which may be treasury shares or authorized but unissued shares of Common Stock, or a combination of the two, all of which may be in the form of Incentive Stock Options. For purposes of determining the maximum number of shares of Common Stock available for issuance under the Plan, (i) any shares of Common Stock subject to any Award under this Plan which terminates by expiration, forfeiture, cancellation, is settled in cash in lieu of shares or otherwise without the issuance of shares shall be available for grant under the Plan; (ii) upon the exercise of a stock-settled SAR or Option granted under the Plan, the full number of shares represented by the SAR or Option exercised (including any shares withheld to satisfy taxes and any shares used to exercise an Award, whether directly or by attestation) shall be treated as shares of Common Stock issued under the Plan, notwithstanding that a lesser amount of shares or cash representing shares of Common Stock may have been actually issued or paid upon such exercise; (iii) shares of Common Stock withheld to satisfy taxes on any Award, to the extent not already treated as issued pursuant to the above, shall be treated as issued hereunder; and (iv) shares of Common Stock that are repurchased by the Company with Option proceeds shall not be added to the aggregate plan limit described above.

(b) Limits. Subject to adjustment as provided in Section 13 hereof, no individual shall be eligible to receive Options over more than 250,000 shares of Common Stock reserved under the Plan in any one calendar year and the Company will not issue more than 325,000 shares of Restricted Stock or Restricted Units during the term of the Plan. For purposes of determining the maximum number of these types of Awards available for grant under the Plan, any Awards which are forfeited to the Company, shall be treated, following such forfeiture, as Awards that have not been granted under the Plan.

(d) Securities Law Filings. The Company shall take whatever actions are necessary to file required documents with the U.S. Securities and Exchange Commission and any other appropriate governmental authorities and stock exchanges to make shares of Common Stock available for issuance pursuant to Awards.

5. Administration. The Plan shall be administered by the Committee, which shall have full and exclusive power to interpret the Plan, to determine which persons are Participants, to determine which type of Awards shall be granted to Participants, grant waivers of Award restrictions, and to adopt such rules, regulations and guidelines for carrying out the Plan as it may deem necessary or proper, all of which powers shall be executed in the best interests of the Company and in keeping with the objectives of the Plan. All determinations made by the Committee regarding the Plan or an Award shall be binding and conclusive as regards the Company, the Participants, and any other interested persons.

6. Delegation of Authority. Except to the extent prohibited by applicable law or the applicable rules of a stock exchange on which the Common Stock is listed, the Committee may delegate to the chief executive officer or to other senior officers of the Company its duties under the Plan, other than grants of Awards to executive officers of the Company, pursuant to such conditions or limitations as the Committee may establish. Any such delegation may be revoked by the Committee at any time.

7. Awards. The Committee shall set forth in the related Award Agreement the terms, conditions, performance requirements and limitations applicable to each Award including, but not limited to, continuous service with the Company, forfeiture of Awards and proceeds from Awards in the event the Participant competes with the Company or violates any confidentiality or nonsolicitation obligations owed to the Company, conditions under which acceleration of vesting will occur, and achievement of specific business objectives. The types of Awards available under the Plan are those listed in this Section 7.

(a) Option. An Option is the grant of a right to purchase a specified number of shares of Common Stock the purchase price of which (the "Exercise Price") shall be not less than 100% of Fair Market Value on the date of grant. In addition, the Committee may not reduce the purchase price for Common Stock pursuant to an Option after the date of grant without the consent of the Company's shareholders, except in accordance with adjustments pursuant to Section 13 hereof. Further, an Option may not be exercisable for a period in excess of ten years. An Option may be designated by the Committee in the Award Agreement as a Nonstatutory Stock Option for all Participants or an Incentive Stock Option for Participants who are employees. An Incentive Stock Option, in addition to being subject to applicable terms, conditions and limitations established by the Committee, complies with Section 422 of the Code which, among other limitations, provides that the aggregate Fair Market Value (determined at the time the option is granted) of Common Stock for which Incentive Stock Options are exercisable for the first time by a Participant during any calendar year shall not exceed \$100,000; that Incentive Stock Options shall be priced at not less than 100% of the Fair Market Value on the date of the grant (110% in the case of a Participant who is a 10% shareholder of the Company within the meaning of Section 422 of the Code); and that Incentive Stock Options shall be exercisable for a period of not more than ten years (five years in the case of a Participant who is a 10% shareholder of the Company). For purposes of determining the percentage of stock ownership a Participant holds in the Company, the attribution rules of Treasury Regulation §1.424.-1(d) shall apply. The other restrictions and conditions of the Option will be established by the Committee and set forth in the Award Agreement.

(b) Restricted Stock or Restricted Stock Unit Award. A share of Restricted Stock is an award of one share of Common Stock, and a Restricted Stock Unit is a bookkeeping entry, granting a Participant a right to receive one share of Common Stock or the cash equivalent to the Fair Market Value of one share in the future (such form and time of payment to be specified by the Committee at the time of grant), which may contain transferability or forfeiture provisions including a requirement of future services and/or the completion of certain performance requirements and such other restrictions and conditions as may be established by the Committee and set forth in the Award Agreement. Dividends or dividend equivalent rights may only be extended to and made part of any Award of Restricted Stock or Restricted Stock Units, subject to such terms, conditions and restrictions as the Committee may establish. The Committee may establish rules and procedures for the crediting of dividend equivalents for Restricted Stock Units.

(c) SARs. An SAR is a grant of the right to receive, upon exercise, the difference between the Fair Market Value of a share of Common Stock on the date of exercise, and the "Grant Value" of each SAR. The Grant Value shall be not less than 100% of Fair Market Value on the date of grant, as set forth in the Award Agreement. The Committee may not reduce the Grant Value after the date of grant without the consent of the Company's shareholders, except in accordance with adjustments pursuant to Section 13 hereof. The difference between the Fair Market Value on the date of exercise and the Grant Value, multiplied by the number of SARs exercised (the "Spread"), shall be paid in shares of Common Stock which have a Fair Market Value equal to the Spread, provided, however, that any fractional share shall be paid in cash. Notwithstanding the foregoing, the Company, as determined in the sole discretion of the Committee at the time of grant, shall be entitled to settle its obligation arising out of the exercise of an SAR by the payment of cash equal to the Spread, or by the issuance of a combination of shares of Common Stock and cash, in the proportions determined by the Committee, which have a Fair Market Value equal to the Spread. The other restrictions and conditions of the SARs will be established by the Committee and set forth in the Award Agreement, provided that the period for which an SAR may be exercisable shall not exceed ten years.

8. Option Exercise. Upon exercise of an Option, the Exercise Price may be paid in cash, shares of Common Stock either directly or by attestation, a combination of the foregoing, or such other consideration as the Committee may deem appropriate. The Committee shall establish appropriate methods for accepting Common Stock and may impose such conditions as it deems appropriate on the use of such Common Stock to exercise an Option.

9. Tax Withholding. The Company shall have the right to deduct applicable taxes from any Award payment and withhold, at the time of delivery or vesting of shares under the Plan, an appropriate number of shares for payment of taxes required by law or to take such other action as may be necessary in the opinion of the Company to satisfy all obligations for withholding of such taxes, but in no event in excess of the minimum withholding required by law. The Company may defer making delivery with respect to Common Stock obtained pursuant to an Award hereunder until arrangements satisfactory to it have been made with respect to any such withholding obligation. If Common Stock is used to satisfy tax withholding, such stock shall be valued based on the Fair Market Value when the Option or SAR is exercised or the Restricted Stock vests. In the case of Restricted Stock Units, such stock will be valued when the Restricted Stock Units are paid to a Participant, in the case of income tax withholding, or when the Restricted Stock Units vest, in the case of employment tax withholding, unless applicable law requires a different time for withholding. Shares of Common Stock used to satisfy tax withholding obligations shall be treated as issued for purposes of determining the number of shares remaining for grant of Awards pursuant to Section 4 hereof.

10. Amendment or Termination of the Plan. The Board may, at any time, amend or terminate the Plan; provided, however, that

(a) subject to Section 13 hereof, no amendment or termination may, in the absence of written consent to the change by the affected Participant (or, if the Participant is not then living, the affected

beneficiary), adversely affect the rights of any Participant or beneficiary under any Award granted under the Plan prior to the date such amendment is adopted by the Board; and

(b) without further approval of the shareholders of the Company, no amendment shall increase the number of shares of Common Stock which may be issued pursuant to Awards hereunder, except for increases resulting from Section 13 hereof.

11. Termination of Employment or Service. If the service-providing relationship of a Participant terminates, or a non-employee director no longer serves on the Board, other than pursuant to paragraphs (a) through (d) of this Section 11, all Awards shall immediately terminate, unless the Award Agreement provides otherwise. If the status of a Participant's relationship with the Company changes, e.g., from a consultant to an employee or vice versa, it will not be a termination of the service-providing relationship. Notwithstanding the foregoing, if a Participant's employment or service is terminated for Cause, to the extent the Award is not effectively exercised or has not vested prior to such termination, it shall lapse or be forfeited to the Company immediately upon termination. In all events, an Award will not be exercisable after the end of its term as set forth in the Award Agreement.

(a) Retirement. When a Participant's employment terminates as a result of retirement (as such term is defined by the Committee from time to time), the Committee (in the form of an Award Agreement or otherwise) may permit Awards to continue in effect beyond the date of retirement, and the exercisability and vesting of any Award may be accelerated.

(b) Resignation in the Best Interests of the Company. When a Participant resigns from the Company or the Board and, in the judgment of the chief executive officer or other senior officer designated by the Committee, the acceleration and/or continuation of outstanding Awards would be in the best interests of the Company, the Committee may authorize, where appropriate taking into account any regulatory or accounting implications of such action, the acceleration and/or continuation of all or any part of Awards granted prior to such termination.

(c) Death or Disability of a Participant.

(i) In the event of a Participant's death, the Participant's estate or beneficiaries shall have a period specified in the Award Agreement within which to receive or exercise any outstanding Award held by the Participant under such terms, and to the extent, as may be specified in the applicable Award Agreement. Rights to any such outstanding Awards shall pass by will or the laws of descent and distribution in the following order: (a) to beneficiaries so designated by the Participant; if none, then (b) to a legal representative of the Participant; if none, then (c) to the persons entitled thereto as determined by applicable law or, absent applicable law, a court of competent jurisdiction. Subject to paragraph (iii) below, Awards so passing shall be exercised or paid out at such times and in such manner as if the Participant were living.

(ii) In the event a Participant is deemed by the Company to be disabled within the meaning of the Award Agreement, or, absent a definition therein, a "permanent and total disability" as defined in Section 22(e)(3) of the Code, the Award shall be exercisable for the period, and to the extent, specified in the Award Agreement. Awards and rights to any such Awards may be paid to or exercised by the Participant, if legally competent, or a legally designated guardian or representative if the Participant is legally incompetent by virtue of such disability.

(iii) Upon a Participant's termination of employment due to death or "permanent and total disability," except as otherwise specified in an Award Agreement, any Options held by such

Participant shall expire one (1) year from the date of the Participant's termination of employment.

(iv) After the death or disability of a Participant, the Committee may in its sole discretion at any time (a) terminate restrictions in Award Agreements; and (b) accelerate any or all installments and rights.

(v) In the event of uncertainty as to interpretation of or controversies concerning this paragraph (c) of Section 11, the Committee's determinations shall be binding and conclusive on all interested parties.

(d) Expiration of Options. Upon a Participant's termination of employment, except as otherwise specified in an Award Agreement or in paragraph (c) above, any vested Options held by such Participant shall expire ninety (90) days after the date of the Participant's termination of employment.

(e) No Employment or Service Rights. The Plan shall not confer upon any Participant any right with respect to continuation of employment or service by the Company or service as a director, nor shall it interfere in any way with the right of the Company to terminate any Participant's employment at any time.

12. Nonassignability. Except as provided in subsection (c) of Section 11 and this Section 12, no Award or any other benefit under the Plan shall be assignable or transferable, or payable to or exercisable by anyone other than the Participant to whom it was granted. Notwithstanding the foregoing, the Committee (in the form of an Award Agreement or otherwise) may permit Awards, other than Incentive Stock Options, to be transferred to members of the Participant's immediate family, to trusts for the benefit of the Participant and/or such immediate family members, and to partnerships or other entities in which the Participant and/or such immediate family members own all the equity interests. For purposes of the preceding sentence, "immediate family" shall mean a Participant's spouse, issue and spouses of his issue.

13. Adjustments. In the event of any corporate event or transaction, such as a merger, consolidation, share exchange, recapitalization, reorganization, separation, stock dividend, stock split, split-up, spin-off or other distribution of stock or property of the Company, combination of shares, exchange of shares, dividend in kind, or other like change in capital structure or distribution (other than normal cash dividends) to shareholders of the Company, the Committee, in order to prevent dilution or enlargement of Participants' rights under the Plan, shall substitute or adjust, in an equitable manner (including adjustments to avoid fractional shares), (a) the number of Common Shares (i) reserved under the Plan, (ii) available for Incentive Stock Options, Restricted Stock or Restricted Stock Units, (iii) for which Awards may be granted to an individual Participant, and (iv) covered by outstanding Awards denominated in stock, (b) the stock prices related to outstanding Awards; and (c) the appropriate Fair Market Value and other price determinations for such Awards. In the event of a merger, consolidation, statutory share exchange, acquisition of property or stock, separation, sale or disposition of all or substantially all assets, reorganization or liquidation, the Committee shall be authorized to (a) issue or assume Awards, whether or not in a transaction to which Section 424(a) of the Code applies, by means of substitution of new Awards for previously issued awards or an assumption of previously issued awards, (b) convert any outstanding Awards into cash or a right to receive cash on a basis to be determined by the Committee in its sole discretion, and cancel any underwater Awards and/or (c) waive in whole or in part any remaining restrictions or vesting requirements in connection with any Awards. Any adjustment, waiver, conversion or other action taken by the Committee under this Section 13 shall be conclusive and binding on all Participants, the Company and their successors, assigns and beneficiaries. All adjustments under this Section 13 shall be made in a manner such that they will not result in a penalty under Section 409A of the Code.

14. Change of Control. Except as otherwise expressly provided herein or in the applicable Award Agreement, upon a Participant's involuntary termination of employment or service without Cause within three (3)

months prior to or one (1) year following a Change of Control, all Awards (including those that are assumed or were substituted or converted) will become fully vested and, for Options and SARs, immediately exercisable.

15. Notice. Unless otherwise specified in the Award Agreement or in this Plan, any notice to the Company required by any of the provisions of this Plan shall be addressed to the director of human resources or to the chief executive officer of the Company in writing, and shall become effective when it is received by the office of either of them. Any notice to a Participant shall be addressed to the Participant at his last known address as it appears on the Company's records.

16. Governing Law. The Plan and all determinations made and actions taken pursuant hereto shall be governed by the laws of the State of Wisconsin without giving effect to its conflicts of law provisions.

17. Effective and Termination Dates. The effective date of the Plan is December 16, 2010, subject to shareholder approval. The Plan shall terminate on December 16, 2020, subject to earlier termination by the Board pursuant to Section 10, after which no Awards may be made under the Plan, but any such termination shall not affect Awards then outstanding or the authority of the Committee to continue to administer the Plan.

18. Other Benefit and Compensation Programs. Payments and other benefits received by a Participant pursuant to an Award shall not be deemed a part of such Participant's regular, recurring compensation for purposes of the termination or severance plans of the Company and shall not be included in, nor have any effect on, the determination of benefits under any other employee benefit plan, contract or similar arrangement, unless the Committee expressly determines otherwise.

(insert Appendix C- do not print this page)

Appendix C: ARI NETWORK SERVICES, INC. 2000 EMPLOYEE STOCK PURCHASE PLAN

Amended and Restated November 4, 2010

1. Purpose. The purpose of the Plan is to provide eligible employees of the Company and its Designated Subsidiaries with an opportunity to purchase Common Stock of the Company through accumulated payroll deductions. It is the intention of the Company to have the Plan qualify as an "Employee Stock Purchase Plan" under Section 423 of the Code. The provisions of the Plan, accordingly, shall be construed so as to extend and limit participation in a manner consistent with the requirements of that section of the Code.

2. Definitions.

(a) "Board" shall mean the Board of Directors of the Company.

(b) "Change of Control" shall mean the first to occur of the following:

(i) the acquisition by an individual, entity or group, acting individually or in concert (a "Person") of beneficial ownership of more than 50% of the then outstanding shares of common stock of the Company (the "Outstanding Common Stock"); provided, however, that for purposes of this Subsection 2(eb)(i), the following acquisitions shall not constitute a Change ~~in~~of Control: (A) any acquisition directly from the Company;; (B) any acquisition by the Company;; (C) any acquisition by any employee benefit plan (or related trust) sponsored or maintained by the Company or any corporation controlled by the Company;; or (D) any acquisition by any corporation pursuant to a transaction which complies with clauses (A), (B) and (C) of Subsection 2(eb)(ii) below; or

(ii) consummation of a reorganization, merger or consolidation, share exchange, or sale or other disposition of all or substantially all of the assets of the Company (a "Business Combination"), in each case, unless, immediately following such Business Combination, (A) all or substantially all of the individuals and entities who were the beneficial owners of the Outstanding Common Stock immediately prior to such Business Combination beneficially own, directly or indirectly, more than 50% of, respectively, the then outstanding shares of common stock and the combined voting power of the then outstanding voting securities entitled to vote generally in the election of directors, as the case may be, of the corporation resulting from such Business Combination (including, without limitation, a corporation which as a result of such transaction owns the Company or all or substantially all of the Company's assets either directly or through one or more subsidiaries) in substantially the same proportions as their ownership, immediately prior to such Business Combination of the Outstanding Common Stock, (B) no Person (excluding any employee benefit plan (or related trust) of the Company or such corporation resulting from such Business Combination) beneficially owns, directly or indirectly, more than 50% of, respectively, the then outstanding common stock of the corporation resulting from such Business Combination or the combined voting power of the then outstanding voting securities of such corporation except to the extent that such ownership existed prior to the Business Combination, and (C) at least a majority of the members of the Board of the corporation resulting from such Business Combination were members of the Board of the Company at the time of the execution of the initial agreement providing for such Business Combination; or

(iii) approval by the shareholders of the Company of a complete liquidation or dissolution of the Company.

- (c) “Code” shall mean the Internal Revenue Code of 1986, as amended
- (d) “Committee” shall mean the Compensation Committee of the Board or such other persons or committee as the Board shall designate to administer the Plan.
- (e) “Common Stock” shall mean the \$.001 par value common stock of the Company.
- (f) “Company” shall mean ARI Network Services, Inc., a Wisconsin corporation.
- (g) “Designated Subsidiary” shall mean a corporation of which not less than 50% of the voting power is held by the Company, directly or indirectly, whether such corporation now exists or is hereafter organized or acquired by the Company, directly or indirectly, other than an otherwise eligible corporation which has been designated by the Board or Committee from time to time as not eligible to participate in the Plan.
- (h) “Employee” shall mean any regular full time or part-time employee of the Company or a Designated Subsidiary customarily employed to work at least (a) 20 hours per week or (b) five months in any calendar year.
- (i) “Employer Corporation” shall mean the corporation which employs the Employee.
- (j) “Enrollment Date” shall mean the first day of each Offering Period.
- (k) “Enrollment Period” shall mean the period specified by the Committee during which eligible Employees may elect to participate in the Plan for the upcoming Offering Period.
- (l) “Exercise Date” shall mean the last day of each Offering Period.
- (m) “Fair Market Value” shall mean, ~~as of any date, the value of Common Stock determined as follows:~~

~~(1) — If~~

~~(i) For Offering Periods commencing on or after January 1, 2011, the average of the closing bid and asked prices of the Common Stock on the NASDAQ Over-The-Counter Bulletin Board (or if the Common Stock is not then traded on the Over-The-Counter Bulletin Board, the average of the closing bid and asked prices on such other exchange or inter-dealer quotation system on which the Common Stock is listed on the Nasdaq National Market (the “Nasdaq”), its Fair Market Value shall be the closing sales price for such stock as quoted on the Nasdaq for the date of such determination (or if no sale of Common Stock of the Company is made on the Nasdaq on any such date, then the closing price of the Common Stock of the Company on the next preceding day on which a sale was made on said Nasdaq), as reported in the Midwest Edition of *The Wall Street Journal* or such other source as the Board deems reliable; or) as reported in any commonly-accepted electronic medium or other authoritative source on the indicated date. If no sales of Common Stock were made on said bulletin board (or other exchange or inter-dealer quotation system) on that date, “Fair Market Value” shall mean the average closing bid and asked prices of Common Stock as reported for the most recent preceding day on which sales of Common Stock were made on said bulletin board (or other exchange or inter-dealer quotation system), or, failing any such sales within two (2) weeks prior to the indicated date, such other market price as the Board or the Committee may determine in conformity with pertinent law and regulations of the Code and Treasury Department.~~

~~(2) — If the Common Stock is not so listed, the Fair Market Value thereof shall be determined in good faith by the Committee.~~(ii) For Offering Periods commencing prior to January 1, 2011, the closing price of the Common Stock on the NASDAQ Over-The-Counter Bulletin Board (or if the Common Stock is not then traded on the Over-The-Counter Bulletin Board, the closing price on such other exchange or inter-dealer quotation system on which the Common Stock is listed) as reported in any commonly-accepted electronic medium or other authoritative source on the indicated date. If no sales of Common Stock were made on said bulletin board (or other exchange or inter-dealer quotation system) on that date, “Fair Market Value” shall mean the closing price of Common Stock as reported for the most recent preceding day on which sales of Common Stock were made on said bulletin board (or other exchange or inter-dealer quotation system), or, failing any such sales within two (2) weeks prior to the indicated date, such other market price as the Board or the Committee may determine in conformity with pertinent law and regulations of the Code and Treasury Department.

(n) “Offering Period” shall mean a period of approximately twelve (12) months at the end of which an option granted pursuant to the Plan may be exercised, commencing on January 1 and ending on December 31. The duration of Offering Periods may be changed pursuant to Section 4 of this Plan.

(o) “Parent Corporation” shall have the same meaning as contained in Section 424(e) of the Code.

(p) “Plan” shall mean this ARI Network Services, Inc. 2000 Employee Stock Purchase Plan.

(q) “Purchase Price” shall mean an amount equal to 85% of the Fair Market Value of a share of Common Stock on the Enrollment Date or on the Exercise Date, whichever is lower.

(r) “Subsidiary Corporation” shall have the same meaning as contained in Section 424(f) of the Code.

3. Eligibility.

(a) Any person who is an Employee, ~~other than executive officers,~~ will be eligible to participate in the Plan provided he or she has a minimum period of continuous service with the Company of six (6) months as of the first day of an Offering Period. Notwithstanding the foregoing, unless otherwise determined by the Committee prior to the applicable Offering Period, no executive officer shall be eligible to participate in the Plan; provided that all executive officers shall be treated in an identical manner for purposes of eligibility.

(b) Any provisions of the Plan to the contrary notwithstanding, no Employee shall be granted an option under the Plan (i) to the extent that, immediately after the grant, such Employee (or any other person whose stock would be attributed to such Employee pursuant to Section 424(d) of the Code) would own stock and/or hold outstanding options to purchase such stock possessing five percent (5%) or more of the total combined voting power or value of all classes of stock of the Employer Corporation or of its Parent Corporation or Subsidiary Corporation or (ii) to the extent that his or her rights to purchase stock under all employee stock purchase plans of the Employer Corporation and its Parent Corporation(s) and Subsidiary Corporation(s) accrues at a rate which exceeds Twenty-Five Thousand Dollars (\$25,000) worth of stock (determined at the fair market value of the shares at the time such option is granted) for each calendar year in which such option is outstanding at any time. These limitations are in addition to any other limitations set forth herein, including any limits that the Committee establishes in accordance with Section 6(a).

4. Offering Periods. The Plan shall be implemented by consecutive Offering Periods with a new Offering Period commencing on the first business day on or after January 1 each year, or on such other date as the

Committee shall determine. The Committee shall have the power to change the duration of Offering Periods (including the commencement dates thereof) without shareholder approval.

5. Participation.

(a) An eligible Employee may become a participant in the Plan by completing a subscription agreement authorizing payroll deductions in the form approved by the Committee and filing it with the Company's payroll department during the applicable Enrollment Period. A participant must file a new subscription agreement for each Offering Period.

(b) Payroll deductions for a participant shall begin on the first payroll date following the Enrollment Date and shall end on the last payroll date in the Offering Period to which such authorization is applicable, unless sooner discontinued or terminated by the participant as provided in Section 6(c) or Section 10 hereof.

6. Payroll Deductions.

(a) At the time a participant files his or her subscription agreement, he or she shall elect to have payroll deductions made on each pay day during the Offering Period in an amount set forth in the subscription agreement, stated in terms of whole dollars not less than \$5 for each pay period or in whole number percentages, up to a maximum of 10% of the compensation to be received during the Offering Period (or during such portion thereof in which an Employee may elect to participate). Notwithstanding the foregoing, the Committee annually may determine, in its sole discretion, to establish any maximum dollar amount or percentage of compensation that an eligible Employee is entitled to authorize for payroll deductions during a calendar year, which limitations shall apply to all eligible Employees. Any such limit established by the Committee shall fall within the parameters of Section 423 of the Code.

(b) All payroll deductions made for a participant shall be credited to his or her account under the Plan. A participant may not make any additional payments into such account.

(c) A participant may withdraw from the Plan as provided in Section 10 hereof. Alternatively, a participant may elect to discontinue making additional payroll deductions during the Offering Period by completing and filing with the Company's payroll department a written notice in such form approved by the Committee. The election shall be effective no later than the first payroll date following ten (10) business days after the Company's receipt of the notice. If a participant elects to discontinue making additional payroll deductions, all payroll deductions previously credited to his or her account will purchase Common Stock at the end of the Offering Period subject to the other terms of the Plan. A participant may increase or decrease his or her payroll deduction rate by filing a new subscription agreement at least ten (10) business days before the beginning of the pay period during which such increase or decrease is to take effect. A participant's payroll deduction rate may be increased only once and reduced only once during any Offering Period.

(d) At the time the option is exercised, in whole or in part, or at the time some or all of the Company's Common Stock issued under the Plan is disposed of, the participant must make adequate provision for the Company's federal, state, or other tax withholding obligations, if any, which arise upon the exercise of the option or the disposition of the Common Stock and the Company is authorized to take any action reasonably necessary to enforce the withholding requirements including without limitation withholding the appropriate amount from the proceeds of any stock sale by the participant. At any time, the Company may, but shall not be obligated to, withhold from the participant's compensation the amount necessary for the Company to meet applicable withholding obligations, including any withholding required to make available to the Company any tax deductions or benefits attributable to sale or early disposition of Common Stock by the Employee.

7. Grant of Option. On the Enrollment Date of each Offering Period, each eligible Employee participating in such Offering Period shall be granted an option to purchase on the Exercise Date of such Offering Period (at the applicable Purchase Price) a number of shares of the Company's Common Stock determined by dividing such Employee's payroll deductions accumulated on or prior to such Exercise Date and retained in the Participant's account as of the Exercise Date by the applicable Purchase Price, but in no event more than 5,000 shares (subject to adjustment as provided in Section 18 hereof), provided that such purchase shall be subject to the limitations set forth in Sections 3(b), 6(a) and 13 hereof. Exercise of the option shall occur as provided in Section 8 hereof, unless the participant has withdrawn pursuant to Section 10 hereof. The Option shall expire immediately following the Exercise Date.

8. Exercise of Option. Unless a participant withdraws from the Plan as provided in Section 10 hereof, his or her option for the purchase of shares shall be exercised automatically on the Exercise Date, and the maximum number of whole shares subject to option shall be purchased for such participant at the applicable Purchase Price with the accumulated payroll deductions in his or her account, but in no event more than 5,000 shares (subject to adjustment as provided in Section 18 hereof). A participant in the Plan will be issued a stock certificate as of the Exercise Date, and the balance of any payroll deductions credited to a participant's account during the Offering Period shall be delivered to the participant. During a participant's lifetime, a participant's option to purchase shares hereunder is exercisable only by him or her.

9. Registration of Certificates. Certificates will be registered only in the name of the participant. If a participant submits a written request to the Committee, the Committee may cause the certificates to be issued in the participant's name jointly with a member of his or her family with right of survivorship.

10. Withdrawal.

(a) A participant may withdraw all but not less than all the payroll deductions credited to his or her account and not yet used to exercise his or her option under the Plan at any time by giving written notice to the Company in such form approved by the Committee. All of the participant's payroll deductions credited to his or her account shall be paid to such participant after receipt of notice of withdrawal as soon as administratively practicable and such participant's option for the Offering Period shall be automatically terminated. Payroll deductions for the purchase of shares during the Offering Period shall cease as soon as administratively practicable. If a participant withdraws from an Offering Period, payroll deductions shall not resume at the beginning of the succeeding Offering Period unless the participant delivers to the Company a new subscription agreement.

(b) A participant's withdrawal from an Offering Period shall not have any effect upon his or her eligibility to participate in any similar plan which may hereafter be adopted by the Company or in succeeding Offering Periods which commence after the termination of the Offering Period from which the participant withdraws.

11. Termination of Employment. Upon a participant's ceasing to be an Employee of the Company for any reason (including without limitation upon death, disability or retirement), he or she shall be deemed to have elected to withdraw from the Plan and the payroll deductions credited to such participant's account during the Offering Period but not yet used to exercise the option shall be returned to such participant or, in the case of his or her death, to the person or persons entitled thereto under Section 15 hereof, and such participant's option shall be automatically terminated.

12. Interest. No interest shall accrue on the payroll deductions of a participant in the Plan.

13. Stock.

(a) Subject to adjustment upon changes in capitalization of the Company as provided in Section 18 hereof, the maximum number of shares of the Company's Common Stock which shall be made available for sale under the Plan shall be ~~175,000~~225,000 shares. If, on a given Exercise Date, the number of shares with respect to which options are to be exercised exceeds the number of shares then available under the Plan, the Committee shall make a pro rata allocation of the shares remaining available for purchase among the participants in such manner as it may determine in its sole discretion.

(b) The participant shall have no interest or voting right in shares covered by his option until such option has been exercised.

14. Administration. The Plan shall be administered by the Committee. The Committee shall have full and exclusive discretionary authority to construe, interpret and apply the terms of the Plan, to determine eligibility and to adjudicate all disputed claims filed under the Plan. Every finding, decision and determination made by the Committee shall, to the full extent permitted by law, be final and binding upon all parties.

15. Designation of Beneficiary.

(a) A participant may designate, on the subscription agreement filed with the Committee, a beneficiary who is to receive any shares and cash, if any, from the participant's account under the Plan in the event of such participant's death subsequent to an Exercise Date but prior to delivery of such shares and cash to the participant. In addition, a participant may file a written designation of a beneficiary who is to receive any cash from the participant's account under the Plan in the event of such participant's death prior to exercise of the option.

(b) Such designation of beneficiary may be changed by the participant at any time by written notice. In the event of the death of a participant and in the absence of a beneficiary validly designated under the Plan who is living at the time of such participant's death, the Company shall deliver such shares and/or cash to the estate of the participant.

16. Transferability. Neither payroll deductions credited to a participant's account nor any rights with regard to the exercise of an option or to receive shares under the Plan may be assigned, transferred, pledged or otherwise disposed of in any way (other than by will, the laws of descent and distribution or as provided in Section 15 hereof) by the participant. Any such attempt at assignment, transfer, pledge or other disposition shall be without effect, except that the Company may treat such act as an election to withdraw funds from an Offering Period in accordance with Section 10 hereof.

17. Use of Funds. All payroll deductions received or held by the Company under the Plan may be used by the Company for any corporate purpose, and the Company shall not be obligated to segregate such payroll deductions.

18. Adjustments Upon Changes in Capitalization, Merger or Asset Sale.

(a) Changes in Capitalization. Subject to any required action by the shareholders of the Company, the shares reserved for issuance under the Plan, as well as the price per share and the number of shares of Common Stock covered by each option under the Plan which has not yet been exercised shall be proportionately adjusted for any increase or decrease in the number of issued shares of Common Stock resulting from a stock split, reverse stock split, stock dividend, combination or reclassification of the Common Stock, or any other increase or decrease in the number of shares of Common Stock effected without receipt of consideration by the Company. Such adjustment shall be made by the Board, whose determination in that respect shall be final, binding and conclusive.

(b) Change of Control. In the event of a Change of Control, the Offering Period then in progress shall be shortened by the Committee's setting a new Exercise Date (the "New Exercise Date"). The New Exercise Date shall be before the date of the Change of Control. The participant's option shall be exercised automatically on the New Exercise Date, unless prior to such date the participant has withdrawn from the Offering Period as provided in Section 10 hereof. Immediately following such New Exercise Date, the Plan shall terminate.

19. Amendment or Termination.

(a) The Board may at any time, or from time to time, amend this Plan in any respect; provided, however, that no amendment shall be made without the approval of the shareholders of the Company to increase the aggregate number of shares which may be issued under this Plan (other than as provided in Paragraph 13(a) or 18(a) hereof) or for which shareholder approval is required under applicable tax, securities or other laws.

(b) This Plan and all rights of Employees under any offering hereunder may terminate at any time, at the discretion of the Board or Committee. Upon any termination of this Plan, all amounts in the accounts of participating Employees shall be either (i) promptly refunded in total or (ii) refunded to the extent not used to purchase Common Stock, in the sole discretion of the Board or Committee. Such amendments shall be made without the approval of the shareholders of the Company or the consent of any participating Employees.

20. Notices. All notices or other communications by a participant to the Company under or in connection with the Plan shall be deemed to have been duly given when received in the form specified by the Company at the location, or by the person, designated by the Company for the receipt thereof.

21. Conditions Upon Issuance of Shares. Shares shall not be issued with respect to an option unless the exercise of such option and the issuance and delivery of such shares pursuant thereto shall comply with all applicable provisions of law, domestic or foreign, including, without limitation, the Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder.

22. Term of Plan. ~~The Plan shall become effective upon its adoption by the Board, but shall be subject to its effective date of the Plan is December 13, 2000. The Board has amended and restated the Plan effective November 4, 2010, subject to~~ approval by the shareholders of the Company. It shall continue in effect ~~for a term of ten (10) years until all of the shares of Common Stock reserved for issuance under this Plan, as increased and/or adjusted from time to time, have been issued,~~ unless sooner terminated under Section 19 hereof.

23. Indemnification of Committee. In addition to such other rights of indemnification as they may have as directors or as members of the Committee, the members of the Committee shall be indemnified by the Company against the reasonable expenses, including attorneys' fees, actually and necessarily incurred in connection with the defense of any action, suit or proceeding, or in connection with any appeal therein, to which they or any of them may be a party by reason of any action taken or failure to act under or in connection with the Plan or any option granted thereunder, and against all amounts paid by them in settlement thereof (provided such settlement is approved by independent legal counsel selected by the Company) or paid by them in satisfaction of a judgment in any such action, suit or proceeding, except in relation to matters as to which it shall be adjudged in such action, suit or proceeding, that such Committee member is liable for gross negligence or willful misconduct in the performance of his or her duties; provided that within 60 days after the institution of any such action, suit or proceeding, a Committee member shall in writing offer the Company the opportunity, at its own expense, to handle and defend the same.

DIRECTORS AND OFFICERS



Brian E. Dearing, Chairman of the Board and Officer

Chief Corporate Development and Strategy Officer
Interim Chief Financial Officer



Roy W. Olivier, Director and Officer

President and Chief Executive Officer



Gordon J. Bridge, Director

Business Consultant



Ted C. Feierstein, Director

Senior Vice President First Analysis Securities Corporation and Venture Partner, Prism Opportunity Fund



William C. Mortimore, Director

Managing Director, Keystone Insights, LLC



P. Lee Poseidon, Director

Venture Partner, JumpStart, Inc.



Michael T. Tenpas, Officer

Vice President of Global Sales and Marketing

CORPORATE INFORMATION

ANNUAL MEETING

Shareholders are invited to attend ARI Network Services, Inc. 2010 Annual Meeting at 9:00 a.m. on Thursday, December 16, 2010 at the Company's corporate headquarters, 10850 W. Park Place, Suite 1200, Milwaukee, WI 53224

STOCK LISTING AND SYMBOL

ARI Network Services, Inc. common stock is traded on NASD OTCBB under the symbol ARIS.

FORM 10-Q REPORTS

Copies of the Company's quarterly Form 10-QSB reports (without exhibits) filed with the Securities and Exchange Commission are available to shareholders, without charge, by contacting the investor Relations Department at the Company's headquarters address or investor_relations@arinet.com.

ONLINE FINANCIAL INFORMATION

Press releases, including annual and quarterly financial releases, conference call notes and reconciliation of non-GAAP measures are available in the Company's website at <http://www.arinet.com>. Access to SEC filings is available through EDGAR Online (<http://www.sec.gov>).

INVESTOR INFORMATION

ARI Network Services news releases and other investor information are available on the Internet at <http://www.arinet.com> or by contacting the Investor Relations Department at the Company's headquarters address or investor_relations@arinet.com.

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