	Three months ended April 30, 2012			
	United States	Netherlands	Eliminations	Consolidated
Revenue - external customers	$ 5,523	$ 189	$ -	$ 5,712
Revenue - intercompany	66	8	(74) [1]	-
Cost of revenue	1,361	91	(74) [1]	1,378
Operating expense	3,859	148	-	4,007
Interest expense	40	19	(19) [2]	40
Other expense (income)	(98)	-	19 [2]	(79)
Income (loss) before provision for income taxes	$ 427	$ (61)	$ -	$ 366

	Nine months ended April 30, 2012			
	United States	Netherlands	Eliminations	Consolidated
Revenue - external customers	$ 16,034	$ 589	$ -	$ 16,623
Revenue - intercompany	206	26	(232) [1]	-
Cost of revenue	3,704	293	(232) [1]	3,765
Operating expense	11,482	383	-	11,865
Interest expense	161	94	(94) [2]	161
Other expense (income)	(189)	(1)	94 [2]	(96)
Income (loss) before provision for income taxes	$ 1,082	$ (154)	$ -	$ 928

	As of July 31, 2012			
	United States	Netherlands	Eliminations	Consolidated
Total assets	$ 21,800	$ 258	$ (1,549) [3]	$ 20,509

1 *Netherlands segment charges the United States segment for customer support services and the United States segment charges the Netherland segment for software royalties.*
2 *The United States segment charges the Netherlands segment for interest on the intercompany loan at a rate of 8%.*
3 *Net intercompany loan due from the Netherlands.*

Item 2. *Management's Discussion and Analysis of Financial Condition and Results of Operations*

The following discussion of our results of operations and financial condition, including, without limitation, the section entitled "Fiscal 2013 Rest of Year and Fiscal 2014 Outlook", should be read together with our unaudited consolidated financial statements for the three and nine months ended April 30, 2013 and 2012, including the notes thereto, which appear elsewhere in this quarterly report on Form 10-Q. All amounts are in thousands, except per share data. This discussion 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 in our annual report on Form 10-K for the year ended July 31, 2012, on Form 10-Q for the quarter ended January 31, 2013, in Part II, Item 1A of our quarterly report, 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.

Overview of Business

ARI provides technology-enabled services that help our customers effectively and efficiently sell more whole goods, parts, garments and accessories ("PG&A"). Our customer base of more than 22,000 dealers, 195 distributors, and 140 manufacturers utilize ARI's products and services to drive and manage leads, efficiently service customers at the parts counter, and enable eCommerce sales of PG&A. ARI's solutions are aimed at markets with complex equipment requiring service and sold through an independent dealer channel, including the outdoor power, powersports, marine, RV, automotive wheel and tire, and white goods markets. We believe that we have a first or second place market share position in each of our core vertical markets.

Most of our solutions leverage our library of electronic content that we have published and aggregated into a large content management system, which contains data related to more than 10 million active parts across more than 469,000 models; more than 500,000 active accessories; SKUs across more than 73,000 active products; more than 300 actively updated whole goods brands; and holds full model data and images for more than 175,000 active models. We believe that this library of electronic content is our single biggest differentiator and also the largest barrier to entry for potential new competitors.

We market our products primarily through software-as-a-service ("SaaS") and data-as-a-service ("DaaS") business models that typically contain both an annual auto-renewing subscription component as well as a variable usage-based revenue component. It is the nature of our products, along with the content and the continual management and updating of the content, which allows us to sell the majority of our products and services in a recurring revenue model. Today, more than 90% of our revenues are recurring (we refer to these as "recurring revenues", or "RR"). We define recurring revenue as products and services that are SaaS or DaaS-based and renewable, including license fees, maintenance fees, catalog subscription fees and hosting fees. The majority of our customers are on contracts of twelve months or longer, and these contracts typically auto-renew for additional twelve-month terms. This provides us with advance visibility into our future revenues and opportunities to sell additional services to our customers. Our recurring revenue model also emphasizes the importance of maintaining a low rate of customer churn, one of the key drivers of any recurring revenue, subscription-based business.

Our Solutions

Our solutions, which are designed to enable our dealer, distributor, and manufacturer customers to increase the efficiency of their parts and service counter operations and sell more whole goods, PG&A, are centered around three core offerings: (i) electronic catalogs; (ii) eCommerce-enabled websites; and (iii) lead generation and management.

Electronic Catalogs

Our electronic catalog solutions, which include our PartSmart®, PartSmart Web™, PartStream™, AccessoryStream™, and AccessorySmart™ products, leverage our industry-leading content database to allow distributors and dealers to view and interact with this information to efficiently support the sales and service of equipment. We believe that our catalog solution is the fastest and most efficient in the market, as it allows multi-line dealers to quickly access data for any of the brands serviced from within the software, allowing the dealer's parts and service operations to more quickly sell to and service its customers. This drives online sales, increases sales within the dealership, and improves customer satisfaction.

We market our eCatalog solutions through our inside sales team and "test drives" (dealer trials), and eCatalog revenues are generated through recurring SaaS, DaaS, software license, and catalog subscriptions, as well as non-recurring software customization fees. We derived 42% of our revenues from our electronic catalog services in the three months ended April 30, 2013, and 48% of our revenues in the nine months ended April 30, 2013. Of these revenues approximately 96% were recurring revenues.

We believe that our library of electronic content, which is essentially the "engine" that drives most of our products, is the broadest and deepest content database in the vertical markets we serve. This library not only serves as a significant barrier to entry for potential new competitors, but also helps to maintain the low customer churn rates we enjoy. ARI, through our acquisition of Ready2Ride, is the first to offer aftermarket fitment data to our dealers in the powersports industry, and we have exclusive electronic data arrangements with several of the largest outdoor power equipment manufacturers.

Website Solutions

Our eCommerce enabled website solutions, which are tailored to the vertical markets we serve, provide our dealer customers with a web presence that serves as a platform for driving leads and eCommerce sales. The sites allow consumers to obtain information about the dealership and its product lines and purchase OEM or aftermarket PG&A 24 hours a day, 7 days a week. We also offer a mobile solution that allows a dealer's website to be fully functional on smart mobile phones. With the November 2012 acquisition of 50 Below, websites have become ARI's largest source of revenue. We currently host and maintain more than 5,500 websites for dealers in the outdoor power, powersports, automotive wheel and tire aftermarket, marine and RV markets.

We market our websites through our inside sales team, who will provide live demos as part of the sales process. Websites generate revenues through recurring SaaS subscriptions, variable transaction fees for all eCommerce sales generated by the websites, and non-recurring setup and customization professional service fees. Website services accounted for 50% of revenues for the three months ended April 30, 2013 and 40% for the nine months ended April 30, 2013. Of these revenues approximately 95% were recurring revenues. We expect website revenue to become an even bigger percentage of our overall revenues, as 100% of 50 Below revenues are from websites and website revenue growth is expected to outpace growth from the eCatalog business.

Lead Management Solution

Our lead management solution, Footsteps, is designed to allow our customers to efficiently manage and nurture generated leads, increasing conversion rates and ultimately revenues. Footsteps connects equipment manufacturers with their dealer channel through lead consolidation and distribution, and allows the dealers to handle leads more efficiently and professionally through marketing automation and business management system integration. The product provides 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.

We market our lead management solution through our outside sales team and by providing free trial versions of the product. Once a customer has experienced the free trial version of the product our inside sales team attempts to upsell the customer into a premium version of the product. Our lead management product generates revenues through SaaS subscription fees and through variable usage-based fees for email campaigns performed through the software. We derived approximately 4% of our revenues from Footsteps in the three and nine months ended April 30, 2013, 83% of which was recurring.

Lead Generation Service

Our lead generation service, SearchEngineSmart, is designed to drive additional traffic to dealers' websites through optimization of the dealers' paid search engine marketing campaigns, which include optimization for results in our dealers' local areas. These services are typically sold as three-month service agreements, which do not auto-renew. Accordingly, we classify revenue from this service as non-recurring. We derived 3% of our revenues from lead generation services in the three months ended April 30, 2013 and 4% of our revenues in the nine months ended April 30, 2013. Lead generation services revenue is all non-recurring.

Other Services

We also offer a suite of complementary solutions, which include software and website customization services, website hosting, and document transfer and communication services. On a combined basis, these other services accounted for 2% of revenue in the three months ended April 30, 2013 and 5% in the nine months ended April 30, 2013. The percentage of revenues from these other services that are recurring will vary from period to period based on the amount of revenues generated from non-recurring custom project work performed.

Our Strategy

ARI's goal is to become the leading provider of SaaS and DaaS solutions that help our customers, in selected vertical markets, efficiently and effectively sell and service more whole goods and PG&A. We aim to grow revenues at a double-digit organic rate, and to grow earnings faster than revenues through scalability. We will provide our solutions to dealers, distributors, manufacturers, service providers, and consumers in vertical markets where the finished goods are complex equipment requiring service and are primarily sold through an independent dealer channel. We believe this strategy will drive increased value to our shareholders, employees, and customers.

We believe that execution of the following strategic foundations will enable us to achieve the growth and profitability needed to drive long-term sustainable value for our shareholders. These strategic foundations are primarily centered on enhancing the value proposition to our customers, which will lead to additional revenues through pricing actions, product and feature upsells, and reduced customer churn rates.

Drive organic growth through innovative new service offerings, differentiated content and geographic expansion

As a subscription-based, recurring revenue business, the most important drivers of future growth are adding new customers (referred to as new "logos"), increasing the level of our recurring revenue through new products and features as well as new markets, and reducing the rate of customer churn.

During the nine months ended April 30, 2013, recurring revenues increased 37.4% compared to the same period last year, much of which was driven by the acquired 50 Below and Ready2Ride businesses. Organic recurring revenues (excluding 50 Below and Ready2Ride) grew 3.2% for the nine months ended April 30, 2013 compared to the same period last year. At the product level, website recurring revenues, our largest source of revenue, grew by 11.3%, while catalog and lead management recurring revenues remained relatively flat year over year. The continued increase in recurring revenues resulted from improvements in customer churn rates, which is discussed below, but was also driven by progress we made with respect to our organic growth strategy, which includes the following critical objectives:

- *Develop and deploy innovative new solutions*. We have resources assigned to each of our core products that continue to research and develop new value-added features and functionality in our existing products. The introduction of new solutions, upgrades to existing products, and new feature sets are all designed to grow our average revenue per dealer ("ARPD"), an important measure for a subscription-based business, and the increase in our customer base serves to quickly compound the benefits of an increased ARPD. We recently released a major upgrade to our website platform used by automotive tire and wheel dealers that supports the unique needs of these dealers and dramatically improves the overall usability and effectiveness of the websites, including upgrades to the mobile shopping and purchase experience, streamlined quote and service requests, and introduced new tire and wheel comparison shopping and packaging. In the nine months of fiscal 2013, we released numerous new product features and upgrades, including the rollout of our new AccessorySmart™ aftermarket parts lookup solution, a first of its kind in the powersports industry. In addition to AccessorySmart, we launched a website add-on that allows powersports dealers with a 50 Below website to post their inventory on Craigslist, eBay and Facebook.

- *Enter new markets.* As we continue to increase our share in the markets we currently share, leveraging our technology in new and underserved markets will be important to maintaining substantial organic growth rates. With the acquisition of 50 Below, we entered two new markets: the automotive wheel and tire aftermarket and the durable medical goods market. 50 Below currently enjoys a leading share of the automotive wheel and tire aftermarket with more than 2,000 dealer websites. We estimate that the total market approximates 18,000 dealers and further, that there are more than 80,000 aftermarket automotive dealers. This represents a market larger than all of ARI's other verticals combined. While it is a relatively new market to both 50 Below and to ARI, we estimate that the durable medical goods market is comprised of more than 25,000 potential customers. We recently hired dedicated resources designed to expedite our growth into this market.

- *Expand geographically*. Currently, only a small percentage of our revenues are generated from international operations. Global expansion will require not only new electronic parts content aimed at the international markets, but will also require changes to our existing products and infrastructure that will allow us to efficiently sell into these markets without having "boots on the ground." We have an internal resource dedicated to obtaining new international content and to date, we expanded our content offerings in the international outdoor power market and have begun to establish numerous relationships with OEMs in China and Europe. We have also begun to upgrade our product roadmaps to allow us to rapidly deploy our products in these markets in a scalable and efficient manner.

- *Differentiate our content.* We believe that we have the largest library of whole goods and PG&A content data in the vertical markets we serve. However, simply offering the largest content library in the markets we serve is not sufficient to drive the long-term growth we desire. We strive to deliver more value to our customers through enrichment of our content. Content enrichment can take several forms, including the incorporation of user reviews and feedback into our existing content, further enhancing content provided to us by our OEM customers, and creating new forms of content that further our customers' ability to efficiently service and sell more whole goods and PG&A. Our August 2012 acquisition of Ready2Ride expanded our content library to include aftermarket fitment data for the powersports industry, which is the only content of its type available electronically. We have already leveraged this content in our new AccessorySmart product, which was previously discussed.

Nurture and retain existing customers through world-class customer service and value-added product feature updates

In order to achieve sustained double-digit organic growth, we not only need to execute the new growth strategies described above, we must also retain our existing customers. In a SaaS business, the cost to retain an existing customer is much less than the cost to acquire a new customer. Accordingly, customer churn (the rate at which existing customers exit) is one of the most important metrics we track and manage. We have experienced marked improvements in our churn rates the past several years as a result of strategic actions taken by the Company, all of which are designed to enhance the "stickiness" of our product within our customers' operations.

In fiscal 2012, our rate of customer churn improved by 19% over fiscal 2011 and we have seen further improvement thus far in fiscal 2013. For the nine months ended April 30, 2013, overall churn rates improved nearly 13.9% compared to the same period last year.

Lead the market with open integration to related platforms

One of our strategic advantages is our focus on integrating our solutions with dealer business management systems ("DMS") in order to pass key information, including customer and transactional data, between the systems, saving our customers valuable time and eliminating redundant data entry. We currently have integration capabilities with over 90 DMS's (we refer to these relationships as "Compass Partners") and we continue to seek other strategic alliances that can be integrated with our product and service offerings. In March 2013, ARI signed a multi-year reseller agreement with the number one DMS provider in the automotive, heavy truck, and powersports markets, whose network includes more than 25,000 dealers across the world. During the first half of fiscal 2013, ARI announced an integration of its WebSiteSmart™ product with CycleTrader.com, one of the top classified sites for the buying and selling of new and used motorcycles. This integration will allow ARI dealer customers to synchronize their inventory between their ARI website and CycleTrader.com.

Successfully execute acquisitions that align with our core strategy

Historically, acquisitions have been a significant driver of ARI's growth. A summary of our most recent acquisitions follows:

Acquisition	Date	Strategy
OC-Net, Inc.	Jan-07	▪ New website product
Info Access	Jul-08	▪ Market-leading entrance into white goods market
Channel Blade Technologies	Apr-09	▪ Market-leading entrance into marine and RV markets ▪ New lead management product, Footsteps™
Ready2Ride, Inc.	Aug-12	▪ First to market aftermarket fitment data for the Powersports industry
50 Below Sales & Marketing, Inc. (Retail Division)	Nov-12	▪ A market leader in the powersports industry ▪ Entrance into automotive wheel and tire aftermarket and medical equipment industries ▪ New award-winning website product

Although we believe organic growth will be the primary driver of our business for the foreseeable future, we will continue to evaluate acquisitions that are in alignment with our core strategy.

Summary of Operating Results

There have been four major strategic events that have occurred during fiscal 2013, all of which have had a significant impact, both positive and negative, on our year to date financial results. Each of these events, and their relative impact on our operating results, is discussed below.

Acquisition of Ready2Ride. In August 2012 we acquired the assets of Ready2Ride, the leading and first-to-market provider of aftermarket fitment data for the power sports industry. This acquisition furthered our strategy to differentiate our content from that of our competitors. Since the acquisition, we have leveraged the aftermarket fitment data and introduced a new award-winning solution, AccessorySmart, an electronic aftermarket parts lookup solution, a first-of-its-kind product in the power sports industry. For the three and nine months ended April 30, 2013, Ready2Ride generated revenues of $179,000 and $460,000, respectively, and operating losses of $60,000 and $256,000, respectively. The operating losses are the result of acquisition related legal and professional fees as well as costs associated with the recently introduced AccessorySmart product. We expect the Ready2Ride operations to begin to generate profits as we enter fiscal 2014 and as revenues from the new product ramp up.

Acquisition of 50 Below. In November 2012, we acquired the assets of the retail division of 50 Below Sales and Marketing out of a bankruptcy proceeding pursuant to Sections 363 and 365 of the United States Bankruptcy Code. 50 Below was a leading provider of website solutions to dealers in the power sports, automotive wheel and tire aftermarket and durable medical equipment industries. This acquisition more than doubled the size of ARI's website business and made websites the Company's largest source of revenue. It also provided entry into two new high growth markets, namely automotive wheel and tire aftermarket and durable medical equipment.

For the three and nine months ended April 30, 2013 the 50 Below operations generated revenues of $2,665,000 and $4,334,000, respectively. Although for the nine months ended April 30, 2013, 50 Below generated operating losses of $631,000, the operation generated an operating profit of $139,000 for the three months ended April 30, 2013. The year to date losses stem primarily from non-recurring legal and professional fees incurred as part of the acquisition totaling approximately $800,000, as well as acquisition and integration related travel costs and ongoing integration activities. We anticipate that 50 Below will remain profitable and that profitability will continue to increase as we continue to integrate the two acquisitions.

As a result of these two acquisitions, total revenues increased 44.0% or $2,516,000 for the three-month period ended April 30, 2013, compared to the same period last year. For the nine months ended April 30, 2013, total revenue increased 30.2% or $5,025,000, compared to the same period last year. Furthermore, the percentage of our revenues that is recurring increased to 93.0% during the quarter ended April 30, 2013. For the three months ended April 30, 2013, we incurred an operating loss of $73,000, versus operating income of $327,000 for the same period last year, and for the nine months ended April 30, 2013 we incurred an operating loss of $336,000, versus operating income of $993,000 for the same period last year. These losses resulted from the acquisition-related legal, professional fees and travel expense incurred as part of the acquisitions of Ready2Ride and 50 Below, which totaled approximately $975,000 year to date.

Private Placement. On March 15, 2013, the Company sold in a private placement to certain accredited and institutional investors: (i) 3,200,000 shares of its common stock for an amount equal to $1.50 per share and (ii) warrants to purchase 1,066,667 shares of common stock at an exercise price of $2.00 per share. In connection with the transaction, the Company received gross cash proceeds of $4,500,000 and retirement of $300,000 of indebtedness. Subsequent to the Ready2Ride and 50 Below acquisition, ARI had long-term debt outstanding of nearly $8,000,000 (exclusive of related debt discounts) and a debt to equity ratio in excess of 75%. This debt included a $3,500,000 note with a shareholder, incurred in order to acquire 50 Below. The note bore interest at a rate of 10% per annum, increasing to 14% beginning in year 2. The proceeds from the private placement were primarily utilized to pay down a large portion of this outstanding debt.

Silicon Valley Bank Relationship. On April 25, 2013 the Company announced it entered into a new banking relationship with Silicon Valley Bank, a leading provider of banking services to technology companies. The new credit facilities include a $4,500,000 term note and a $3,000,000 revolving credit facility. The credit facilities were designed to help support ARI's growth strategies and allow the Company to continue to make strategic investments to further that growth. The proceeds from the new credit facility were used to pay down the remaining outstanding balances under the Company's prior credit facilities and on the shareholder note described above, as well as to fund operations, namely the legal and professional fees incurred with the 50 Below acquisition.

At the time ARI issued the $3,500,000 shareholder note in connection with the 50 Below acquisition, the Company also issued to the shareholder 440,000 shares of common stock valued at $585,000. In accordance with generally accepted accounting principles, this amount was recorded as a debt discount, which was being amortized over the term of the loan. The early retirement of this high-interest note with a portion of the proceeds of the private placement and Silicon Valley Bank transactions resulted in a non-cash loss on debt extinguishment of $682,000, which is included as an other expense item on the Consolidated Statement of Income for the three and nine months ended April 30, 2013.

We incurred pre-tax losses of $1,309,000 during the quarter, versus pre-tax income of $366,000 last year, and for the nine months ended April 30, 2013 we incurred pre-tax losses of $1,901,000, versus pre-tax income of $993,000 last year. The pre-tax losses were the result of the acquisition related costs noted above, as well as increased interest expenses, the $682,000 non-cash loss on debt extinguishment previously described, and a $420,000 non-cash loss on impairment of long-lived assets. For the quarter we recorded a tax benefit of $738,000, versus tax expense of $156,000 last year and for the nine months ended April 30, 2013 we recorded a tax benefit of $1,447,000, versus a tax expense of $385,000 last year.

We recorded a net loss for the three months ended April 30, 2013 of $571,000, or $0.05 per share, versus net income of $210,000, or $0.03 per share last year. For the nine months ended April 30, 2013 we recorded a net loss of $454,000, or $0.05 per share, versus net income of $543,000, or $0.07 per share last year.

Revenue

The following table summarizes our recurring and non-recurring revenue by major product category:

	Three months ended April 30		Percent	Nine months ended April 30		Percent
	2013	2012	Change	2013	2012	Change
Catalog						
Recurring revenue	$ 3,358	$ 3,206	4.7 %	$ 10,007	$ 9,451	5.9 %
Non-recurring revenue	137	154	(11.0) %	381	610	(37.5) %
Total catalog revenue	3,495	3,360	4.0 %	10,388	10,061	3.3 %
Percent of revenue recurring	*96.1 %*	*95.4 %*		*96.3 %*	*93.9 %*	
Website						
Recurring revenue	3,956	1,219	224.5 %	8,161	3,437	137.4 %
Non-recurring revenue	143	232	(38.4) %	572	656	(12.8) %
Total website revenue	4,099	1,451	182.5 %	8,733	4,093	113.4 %
Percent of revenue recurring	*96.5 %*	*84.0 %*		*93.5 %*	*84.0 %*	
Lead management						
Recurring revenue	219	216	1.4 %	642	641	0.2 %
Non-recurring revenue	37	34	8.8 %	127	128	(0.8) %
Total lead management revenue	256	250	2.4 %	769	769	- %
Percent of revenue recurring	*85.5 %*	*86.4 %*		*83.5 %*	*83.4 %*	
Lead generation						
Recurring revenue	-	-	- %	-	-	- %
Non-recurring revenue	211	365	(42.2) %	794	818	(2.9) %
Total lead generation revenue	211	365	(42.2) %	794	818	(2.9) %
Percent of revenue recurring	*- %*	*- %*		*- %*	*- %*	
Other						
Recurring revenue	120	138	(13.0) %	382	439	(13.0) %
Non-recurring revenue	47	148	(68.2) %	582	443	31.4 %
Total catalog revenue	167	286	(41.6) %	964	882	9.3 %
Percent of revenue recurring	*719 %*	*48.3 %*		*39.6 %*	*49.8 %*	
Total						
Recurring revenue	7,653	4,779	60.1 %	19,192	13,968	37.4 %
Non-recurring revenue	575	933	(38.4) %	2,456	2,655	(7.5) %
Total revenue	$ 8,228	$ 5,712	44.0 %	$ 21,648	$ 16,623	30.2 %
Percent of revenue recurring	*93.0 %*	*83.7 %*		*88.7 %*	*84.0 %*	

Total revenue increased 44.0% or $2,516,000 for the three months ended April 30, 2013, compared to the same period last year. Recurring revenue increased 60.1% or $2,874,000 for the three months ended April 30, 2013, compared to the same period last year. For the nine months ended April 30, 2013, total revenues increased $5,025,000, or 30.2%, and recurring revenues increased $5,224,000, or 37.4%. The overall increase in revenue is attributed primarily to the two acquisitions. For the quarter ended April 30, 2013, revenues included in our results of operations attributable to 50 Below and Ready2Ride were $2,665,000 and $178,000, respectively, and for the nine months ended April 30, 2013, revenues attributable to 50 Below and Ready2Ride were $4,334,000 and $459,000, respectively.

Pro forma revenue reported in Note 4 – Business Combinations, assuming the 50 Below business was acquired at the beginning of the periods presented, grew $1,755,000 or 7.6% for the nine months ended April 30, 2013, compared to the same period last year. This increase is attributed to a continued decline in the Company's rate of customer churn, which has collectively led to continued growth in recurring revenue. For the nine months ended April 30, 2013, our customer churn rates improved by nearly 14% over the same period last year.

Catalog

Catalog revenue is generated from catalog subscriptions, software license fees, license renewal fees, software maintenance and support fees and professional services related to data conversion. Revenue from the acquired Ready2Ride business is included in Catalog revenue. Catalog revenue increased $135,000 or 4.0% or for the three months ended April 30, 2013, compared to the same period last year, and increased $327,000 or 3.3% for the nine months ended April 30, 2013, which is primarily attributable to the Ready2Ride acquisition.

Catalog recurring revenue increased $152,000 or 4.7% and $556,000 or 5.9% for the three and nine month periods ended April 30, 2013, respectively. Catalog has historically been ARI's largest source of revenue, but also the slowest growth revenue source. We expect organic catalog revenue growth to accelerate for the remainder of fiscal 2013 and fiscal 2014 as a result of the recently released new AccessorySmart product at the 2013 Dealer Expo in Indianapolis. AccessorySmart, a fitment-powered aftermarket parts, garments, and accessories lookup solution, is the first-of–its-kind in the powersports industry and recently won a "Nifty 50 Award" by Powersports Business.

We experienced a decline in the non-recurring portion of catalog revenues. Non-recurring revenues will fluctuate from quarter to quarter and from year to year due to the timing of software customization projects.

Website

Website revenue is generated from one-time set-up fees and recurring subscription fees on our website products, as well as transaction fees from customers' online sales generated via the websites. Website revenue increased $2,648,000 or 182.5% for the three month period ended April 30, 2013, compared to the same period last year. For the nine months ended April 30, 2013 website revenue increased $4,640,000 or 113.4%. This increase is primarily attributable to the addition of revenues from 50 Below, which generated revenues of $4,334,000 since the acquisition.

On an annualized basis, we anticipate that the acquisition of the acquired 50 Below business will more than double the size of ARI's website business and will make websites ARI's largest source of revenue going forward.

Lead Management

Lead management revenue is generated from one-time set-up fees and recurring subscription fees for the use of the Company's Footsteps™ products. Revenue from lead management products for the three and nine months ended April 30, 2013 was $256,000 and $769,000, respectively, consistent with the same periods last year.

Lead Generation

Lead generation revenue is realized from the sale of the Company's SearchEngineSmart™ ("SES") service and is non-recurring. Revenue from the Company's lead generation services decreased $154,000 or 42.2% for the three months ended April 30, 2013 and $24,000 or 2.9% for the nine months ended April 30, 2013, compared to the same periods last year. The decline in revenue is primarily attributable to a change in our pricing structure, removing both the advertising revenue and cost, which is now billed through the third party provider. Revenue from the Company's lead generation services does not directly contribute to MRR growth, but contributes to MRR growth in the lead management and website services.

Other Revenue

Other revenue primarily consists of professional services related to software customization, website hosting fees, and revenue generated from other products that are ancillary to our three core offerings. Other revenue decreased $119,000 or 41.6% for the three months ended April 30, 2013 and increased $82,000 or 9.3% for the nine months ended April 30, 2013, compared to the same periods last year. The decline in current quarter other revenue is primarily due to a reversal of professional fees revenue, which was recognized in previous quarters. Management anticipates that other revenue will fluctuate based on the timing of professional fees related to software customization.

Cost of Revenue and Gross Margin

We classify as cost of revenue those costs directly attributable to the provision of services. These costs include (i) software amortization, which represents the periodic amortization of costs for internally developed or purchased software sold to customers; (ii) direct labor for the provision of catalog production, product implementations and professional services revenue;

and (iii) 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 cost of revenue into each of these three categories:

	Three months ended April 30								Nine months ended April 30							
	2013		Percent of Revenue		2012		Percent of Revenue		2013		Percent of Revenue		2012		Percent of Revenue	
Net revenues	$	8,228			$	5,712			$	21,648			$	16,623		
Cost of revenues:																
Amortization of capitalized software costs		451	5.5	%		354	6.2	%		1,311	6.1	%		1,039	6.3	%
Direct labor		728	8.8	%		405	7.1	%		1,742	8.0	%		1,177	7.1	%
Other direct costs		706	8.6	%		619	10.8	%		1,961	9.1	%		1,549	9.3	%
Total cost of revenues		1,885	22.9	%		1,378	24.1	%		5,014	23.2	%		3,765	22.6	%
Gross profit	$	6,343	77.1	%	$	4,334	75.9	%	$	16,634	76.8	%	$	12,858	77.4	%

Gross profit was $6,343,000 or 77.1% of revenue for the three months ended April 30, 2013, compared to $4,334,000 or 75.9% of revenue for the same period last year. For the nine months ended April 30, 2013 gross profit was $16,634,000 or 76.8% of revenue compared to $12,858,000 or 77.4% of revenue for the same period last year. This decline in gross profit margin was primarily attributed to: (i) an increase in catalog publishing costs related to our expanded accessory catalog offerings; (ii) a decrease in the margin on professional services revenue due to a refund given for a customization project which was terminated; and (iii) an increase in lead management software amortization related to Footsteps upgrades designed to spur future revenue growth for this product. The Company expects fluctuations in gross margin from quarter to quarter and year over year based on the mix of products sold, but expects its gross margins to improve over time as we focus our sales efforts on the higher margin, recurring revenue products.

The following table summarizes our gross profit and gross margin percentage by major product category:

	Three months ended April 30						Percent		Nine months ended April 30						Percent	
	2013			2012			Change		2013			2012			Change	
Catalog																
Revenue	$	3,495		$	3,360		4.0	%	$	10,388		$	10,061		3.3	%
Cost of revenue		556			470		18.3			1,530			1,441		6.2	%
Gross profit		2,939			2,890		1.7			8,858			8,620		2.8	%
Gross margin percentage		*84.1*	*%*		*86.0*	*%*				*85.3*	*%*		*85.7*	*%*		
Website																
Revenue		4,099			1,451		182.5			8,733			4,093		113.4	%
Cost of revenue		727			332		119.0			1,630			1,028		58.6	%
Gross profit		3,372			1,119		201.3			7,103			3,065		131.7	%
Gross margin percentage		*82.3*	*%*		*77.1*	*%*				*81.3*	*%*		*74.9*	*%*		
Lead management																
Revenue		256			250		2.4			769			769		-	%
Cost of revenue		174			148		17.6			531			382		39.0	%
Gross profit		82			102		(19.6)			238			387		(38.5)	%
Gross margin percentage		*32.0*	*%*		*40.8*	*%*				*30.9*	*%*		*50.3*	*%*		
Lead generation																
Revenue		211			365		(42.2)			794			818		(2.9)	%
Cost of revenue		172			360		(52.2)			676			714		(5.3)	%
Gross profit		39			5		680.0			118			104		13.5	%
Gross margin percentage		*18.5*	*%*		*1.4*	*%*				*14.9*	*%*		*12.7*	*%*		
Other																
Revenue		167			286		(41.6)			964			882		9.3	%
Cost of revenue		256			68		276.5			647			200		223.5	%
Gross profit		(89)			218		(140.8)			317			682		(53.5)	%
Gross margin percentage		*(53.3)*	*%*		*76.2*	*%*				*32.9*	*%*		*77.3*	*%*		
Total																
Revenue		8,228			5,712		44.0			21,648			16,623		30.2	%
Cost of revenue		1,885			1,378		36.8			5,014			3,765		33.2	%
Gross profit	$	6,343		$	4,334		46.4		$	16,634		$	12,858		29.4	%
Gross margin percentage		*77.1*	*%*		*75.9*	*%*				*76.8*	*%*		*77.4*	*%*		

Catalog

Catalog gross profit margins decreased from 86.0% for the three months ended April 30, 2012 to 84.1% for the three months ended April 30, 2013 and from 85.7% for the nine months ended April 30, 2012 to 85.3% for the nine months ended April 30, 2013 due to increased publishing costs as we expanded our accessory catalog offerings. Catalog margins are expected to gradually improve over time as the new AccessorySmart product ramps up.

Website

Website gross profit margin increased from 77.1% for the three months ended April 30, 2012 to 82.3% for the same period this year. For the nine months ended April 30, 2013, website gross profit margin was 81.3%, compared to 74.9% for the same period last year. The Company expects to see website gross margins to continue to improve as recurring revenues increase and customer churn rates continue to decline.

Lead Management

Lead management gross profit margin decreased from 40.8% for the three months ended April 30, 2012 to 32.0% for the same period this year. For the nine months ended April 30, 2013, lead management gross profit margin was 30.9%, compared to 50.3% for the same period last year. The decline in gross profit margin is due to an increase in software amortization related to Footsteps enhancements that are designed to spur future growth of this product.

Lead Generation

Lead generation gross profit margin increased from 1.4% for the three months ended April 30, 2012 to 18.5% for the three months ended April 30, 2013 and from 12.7% for the nine months ended April 30, 2012 to 14.9% for the same period this year. The increase in gross margin is primarily attributable to a change in our go to market strategy. Previously, ARI purchased ad words from the search engine providers on behalf of our customers. The costs associated with the ad words were passed through to the customer and these costs were recorded as both revenue and cost of sales. Currently, our lead generation customers purchase ad words directly from the search engine providers and we charge the customer only for services provided by ARI. This was done as part of our strategic plan to improve gross margins, which we expect to continue to improve for the remainder of fiscal 2013 and fiscal 2014.

Other Revenue

Gross profit margin on other revenue declined for the three and nine months ended April 30, 2013, compared to the same periods last year primarily due to a decrease in the margin on professional services revenue due to a refund given for a customization project which was terminated in the third quarter of fiscal 2013. The Company expects fluctuations in gross margin on other revenue, depending on the mix of products and services sold.

Operating Expenses

The following table summarizes our unaudited operating expenses by expense category:

	Three months ended April 30				
	2013	Percent of Revenue	2012	Percent of Revenue	Percent Change
Sales and marketing	$ 2,154	26.2 %	$ 1,121	19.6 %	92.1 %
Customer operations and support	1,496	18.2 %	800	14.0 %	87.0 %
Software development and technical support	641	7.8 %	467	8.2 %	37.3 %
General and administrative	1,791	21.8 %	1,304	22.8 %	37.3 %
Depreciation and amortization (1)	334	4.1 %	315	5.5 %	6.0 %
Loss on impairment of long-lived assets	420	5.1 %	-	- %	- %
Net operating expenses	$ 6,836	83.1 %	$ 4,007	70.2 %	70.6 %

	Nine months ended April 30									
			Percent of				Percent of		Percent	
		2013	Revenue			2012	Revenue		Change	
Sales and marketing	$	4,944	22.8	%	$	3,272	19.7	%	51.1	%
Customer operations and support		3,974	18.4	%		2,496	15.0	%	59.2	%
Software development and technical support		1,890	8.7	%		1,345	8.1	%	40.5	%
General and administrative		5,209	24.1	%		3,630	21.8	%	43.5	%
Depreciation and amortization (1)		953	4.4	%		1,122	6.7	%	(15.1)	%
Loss on impairment of long-lived assets		420	5.1	%		-	-	%	-	%
Net operating expenses	$	17,390	80.3	%	$	11,865	71.4	%	46.6	%

(1) Exclusive of amortization of software products of $452, $354, $1,312 and $1,039 for the three and nine months ended April 30, 2013 and 2012, respectively, which are included in cost of revenue.

Net operating expenses increased $2,829,000 or 70.6% and $5,525,000 or 46.6% for the three and nine months ended April 30, 2013, compared to the same periods last year. The increase in operating expenses was primarily due to the acquisitions of Ready2Ride and 50 Below. Excluding the acquisitions, ARI's comparable operating expenses would have increased $598,000 or 14.9% for the quarter and 876,000 or 7.4% year to date.

For the three and nine months ended April 30, 2013, operating expenses of $2,078,000 and $4,143,000, respectively, were attributable to the 50 Below business. Year to date, approximately $790,000 were acquisition-related legal and professional fees. Over the same periods, operating expenses of $152,000 and $503,000, respectively, were attributable to the Ready2Ride business. Year to date, approximately $50,000 were acquisition-related legal and professional fees.

Sales and Marketing Expenses

Sales and marketing expenses consist primarily of personnel and related costs, including commissions for our sales and marketing employees, and 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 $1,033,000 or 92.1% for the three months ended April 30, 2013, compared to the same period last year, and increased $1,672,000 or 51.1% for the nine months ended April 30, 2013, compared to the prior year period. Excluding expenses related to 50 Below and Ready2Ride, sales and marketing expenses increased 4.2% and 2.0% for the three and nine months ended April 30, 2013, respectively.

Customer Operations and Support

Customer operations and support expenses are composed of our customer hosting operations, software maintenance agreements for our core network, and personnel and related costs for operations and support employees. Customer operations and support costs increased $696,000 or 87.0% for the three months ended April 30, 2013, compared to the same period last year, and increased $1,478,000 or 59.2% for the nine months ended April 30, 2013, compared to the prior year period. Excluding expenses related to 50 Below and Ready2Ride, customer operations and support expenses increased 21.0% and 16.9% for the three and nine months ended April 30, 2013, respectively. This increase is consistent with our strategy to continue to improve our customer churn rates, and relates to additional expenses incurred for our customer renewal team and our call center and support operations.

Software Development and Technical Support

Our software development and technical support staff have three essential responsibilities for which the accounting treatment varies depending upon the work performed: (i) costs associated with internal software development efforts are typically capitalized as software product costs and amortized over the estimated useful lives of the product; (ii) professional services performed for customers related to software customization projects are classified as cost of revenue; and (iii) all other activities are considered operating expenses and included within the software development and technical support operating expense category.

The table below summarizes our internal software development and technical support spending:

	Three months ended April 30		Percent	Nine months ended April 30		Percent
	2013	2012	Change	2013	2012	Change
Total software development and technical support costs	$ 1,833	$ 1,280	43.2 %	$ 4,909	$ 3,862	27.1 %
Less: amount capitalized as software development	(464)	(408)	13.7 %	(1,277)	(1,340)	(4.7) %
Less: direct labor classified as cost of revenues	(728)	(405)	79.8 %	(1,742)	(1,177)	48.0 %
Net software development and technical support costs classified as operating expenses	$ 641	$ 467	37.3 %	$ 1,890	$ 1,345	40.5 %

The Company increased total software development and technical support costs by $553,000 or 43.2% for the three months ended April 30, 2013, and by $1,047,000 or 27.1% for the nine months ended April 30, 2013, compared to the same periods last year. Net software development and technical support costs increased $174,00 or 37.3% for the three months ended April 30, 2013 and $545,000 or 40.5% for the nine months ended April 30, 2013, compared to the same periods last year, primarily due to the development costs of 50 Below and Ready2Ride. Excluding expenses related to 50 Below and Ready2Ride, software development and technical support costs increased 11.1% and 14.5% for the three and nine months ended April 30, 2013, respectively.

During the third quarter of fiscal 2013, the Company capitalized $464,000 of software development labor and overhead, versus $408,000 for the same period last year. Year to date through April 30, 2013, we capitalized $1,277,000, versus $1,340,000 for the same period last year. The amount of software development costs capitalized will fluctuate from period to period based on the amount of time spent by our internal product management and development staffs on capitalizable activities, as defined by GAAP. The increase in the third quarter of fiscal 2013, compared to the prior year, was primarily due to the development of a major upgrade to our website platform used by automotive tire and wheel dealers. The year to date decline in fiscal 2013 relates to integration activities in the first half of the year from our two most recent acquisitions, as time spent on these activities is not capitalized. Generally, we expect the amount of software development costs capitalized to increase as the business grows, which is consistent with our strategy to release new products, create enhancements to existing products, offer expanded data content and deliver superior services and technical support to our customers.

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 $487,000 or 37.3% for the three months ended April 30, 2013, compared to the same period last year, and increased $1,579,000 or 43.5% for the nine months ended April 30, 2013, compared to the prior year period. This increase primarily relates to the acquisitions of 50 Below and Ready2Ride. Excluding expenses attributable to the 50 Below and Ready2Ride businesses, a large portion of which are acquisition-related legal and professional fees, general and administrative expenses declined 5.4% for the three months ended April 30, 2013 and increased 6.3% for the nine months ended April 30, 2013, compared with the same periods in the prior year.

Depreciation and Amortization

Depreciation and amortization expenses consist of depreciation on long-lived 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 revenue. Depreciation and amortization expense increased $19,000 for the three months ended April 30, 2013 due to the amortization of intangible assets from the two acquisitions and decreased $169,000 for the nine months ended April 30, 2013, compared to the same periods last year as intangible assets related to an earlier acquisition have become fully amortized and older technology related to our infrastructure is getting replaced by newer cloud-based technology which is classified in general and administrative expense.

Loss on Impairment of Long-Lived Assets

During the quarter ended April 30, 2013, we recorded a loss of $420,000 on the impairment of long-lived assets related to the development of an internal ERP system. The Company intends to invest in a new solution in fiscal 2014.

Interest Expense

Interest expense for the three months ended April 30, 2013 was $197,000, compared with $40,000 last year, and for the nine months ended April 30, 2013, interest expense was $534,000, versus $161,000 last year. The increase in interest expense is due to the additional debt incurred in fiscal 2013 to fund the acquisitions of 50 Below and Ready2Ride. Interest expense also includes the amortization of debt discount related to stock issued as a cost of funding debt and the imputed discount related to the estimated Ready2Ride contingent earn-out liability.

Loss on Debt Extinguishment

In April, 2013, we refinanced our debt under more favorable interest and payment terms. As a result of the early extinguishment of debt, we recorded a loss of $682,000 related to unamortized debt discount for stock issued as a cost of acquiring the debt and unamortized deferred loan fees.

Gain on the Sale of a Component of the Business

The Company recorded a benefit of approximately $64,000 and $70,000 during the quarters ended April 30, 2013 and 2012, respectively, related to an assessment of the expected future cash flows of the Globalrange Earn-out Receivable, which is performed annually in the third fiscal quarter based on historical receipts over the previous twelve-month period.

Other Income (Expense)

Other income (expense) consists of foreign currency exchange rate gains and losses, interest income and other gains or losses.

Income Taxes

The Company has net deferred tax assets of $6,666,000, primarily consisting of net operating loss carryforwards and temporary book to tax differences. Income tax expense is provided for at the applicable statutory tax rate applied to current U.S. income before taxes, plus or minus any adjustments to the deferred tax assets and to the estimated valuation allowance against deferred tax assets. This does not represent a current cash obligation, as we continue to have net operating loss carryforwards to offset taxable income.

We recorded an income tax benefit of $738,000 and $1,447,000 for the three and nine months ended April 30, 2013, compared to income tax expense of $156,000 and $385,000 for the same periods last year. In fiscal 2013, we recognized a tax benefit of $1,328,000 for a change in our estimated valuation allowance due to the estimated increase in future taxable income related to the growth in our business and operational synergies as a result of the two acquisitions in fiscal 2013. In addition, there was a change in net deferred tax assets due to permanent differences for a true up related to incentive stock option expense and losses related to the Netherlands operation.

In fiscal 2012, we recognized a tax benefit of $21,000 for a change in our estimated valuation allowance due to improved earnings. Income tax expense may vary from period to period as we continue to evaluate the valuation allowance against net deferred tax assets.

Fiscal 2013 Rest of Year and Fiscal 2014 Outlook

As previously discussed, the closing and integration of our two acquisitions, as well as the private placement and debt refinancing, has had a significant impact on fiscal 2013 year to date earnings. The discussion below is intended to provide certain facts and historical information that would allow a reader to make an independent determination of ARI’s expected results of operations for the remainder of fiscal 2013 and fiscal 2014.

Revenues

As previously discussed, ARI's business is primarily comprised of eCatalog and website solutions. The eCatalog category includes all of our electronic catalog products including both in-store and eCommerce offerings. This category also includes revenues from AccessorySmart™, our newly launched aftermarket accessory product that we expect to aggressively grow over the next few years. Year to date the eCatalog business accounted for $10,388,000, or 48% of total revenue, a 3.3% growth rate over the same period last year. Our eCatalog business has historically grown at low single digit growth rates. As our new AccessorySmart™ product gains traction in the market, we expect our eCatalog growth rate to increase, but to remain in the single digits. eCatalog gross margin is down slightly in fiscal 2013 as a result of the AccessorySmart™ product ramp up activities. We expect the gross margins of the eCatalog business to fall back in line with our historically reported numbers as the revenues from this new product grow.

ARI's website business now provides website hosting and maintenance to more than 5,500 dealers in the outdoor power, powersports, automotive wheel and tire aftermarket, marine & RV, medical equipment, and pool & spa industries. With the acquisition of 50 Below, websites have become the Company's largest source of revenue. For the quarter ended April 30, 2013, website revenues were $4,099,000, a 182% increase over the same period last year and for the nine months ended April 30, 2013, website revenues were $8.733,000, an 84% increase over the same period last year.

Fiscal 2013 year to date website revenues include $4,334,000 generated from the 50 Below operations for the five months since the acquisition. On a pro forma combined basis, which assumes that the 50 Below acquisition occurred on August 1, 2013, total website revenues were $11,935,000 for the nine months ended April 30, 2013, which represents a 12.3% increase over pro forma revenue from the same period last year. We believe our website business is now a $16.0 million business on a combined annual basis and expect this business to continue to grow at double digit rates.

Our remaining businesses include lead generation, lead management, and professional services fees for custom projects. During the three months ended April 30, 2013, these businesses generated combined revenues of $634,000, or 8% of total revenues, versus $901,000 last year. During the nine months ended April 30, 2013, these businesses generated combined revenues of $2,527,000, representing 12% of total revenues, consistent with the same period last year. Much of these revenues, which include our SearchEngineSmart™ lead generation service and large-scale custom software projects, are non-recurring in nature. We expect revenues from these businesses to decline over time, both in terms of absolute dollars and percentage of total revenue, as we continue to focus on our core recurring revenue businesses.

EBITDA

Management believes EBITDA is helpful in understanding period-over-period operating results separate and apart from non-operating expenses and expenses pertaining to prior period investing activities, particularly given the Company's significant investments in capitalized software and its continuing efforts in completing acquisitions, which typically result in significant depreciation and amortization expense in subsequent periods. The Company uses EBITDA as a factor in evaluating potential acquisition targets and analyzing the pro forma impact of the acquisition on the Company. However, EBITDA has significant limitations as an analytical tool and should only be used cautiously in addition to, and never as a substitute for, operating income, cash flows or other measures of financial performance prepared in accordance with generally accepted accounting principles and may not necessarily be comparable to similarly titled measures of other companies.

The following table is a reconciliation of EBITDA for the periods indicated (in thousands):

	Three months ended April 30		Nine months ended April 30		Twelve months ended July 31	
	2013	2012	2013	2012	2012	2011
Net income	$ (571)	$ 210	$ (454)	$ 543	$ 1,055	$ 2,443
Interest	197	40	534	161	235	790
Amortization included in cost of sales	452	354	1,312	1,039	1,420	1,127
Depreciation and amortization	334	315	953	1,122	1,414	1,688
Loss on debt extinguishment	682	-	682	-	-	-
Loss on impairment of long-lived assets	420	-	420	-	-	-
Income taxes	(738)	156	(1,447)	385	227	(1,017)
EBITDA	$ 776	$ 1,075	$ 2,000	$ 3,250	$ 4,351	$ 5,031
Revenue	$ 8,228	$ 5,712	$ 21,648	$ 16,623	$ 22,494	$ 21,334
EBITDA as a % of revenue	9.4 %	18.8 %	9.2 %	19.6 %	19.3 %	23.6 %

EBITDA as a percentage of revenues was 19.3% and 23.6% for the fiscal years ended July 31, 2012 and 2011, respectively. The fiscal 2012 decline resulted from strategic investments in investor relations, customer retention and satisfaction, and an enterprise-wide CRM system, a portion of which were one-time costs. The results of operations attributable to the acquired 50 Below and Ready2Ride businesses will not be accretive to EBITDA in fiscal 2013, but we do expect the acquisitions to be accretive in fiscal 2014, much like our results in fiscal 2010 and 2011 following our acquisition of Channel Blade Technologies in April 2009.

In the two years leading up to the Channel Blade acquisition, Channel Blade recorded operating losses of approximately $2,500,000 and $900,000. We acquired Channel Blade in April 2009, toward the end of our 2009 fiscal year. We spent most of fiscal 2010 integrating the Channel Blade operations. In fiscal 2011, the first year of a fully integrated operation, ARI achieved record EBITDA. The recent 50 Below acquisition is similar in many respects to the Channel Blade acquisition of 2009. In the two years leading up to the acquisition, 50 Below recorded significant operating losses, as reflected in our current report on Form 8-K/A filed in February 2013. We anticipate the integration of 50 Below to take approximately one year; and while the operating results attributable to the 50 Below acquisition will not be accretive to EBITDA in fiscal 2013, we do anticipate that it will be accretive to EBITDA in fiscal 2014 while we conclude the majority of integration efforts. We further expect to substantially conclude the 50 Below integration efforts in fiscal 2014 and anticipate a return to EBITDA as a percentage of revenues in line with historical rates in fiscal 2015.

Liquidity and Capital Resources

The following table sets forth, for the periods indicated, certain cash flow information derived from the Company's financial statements:

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	Three months ended April 30		Nine months ended April 30	
	2013	2012	2013	2012
Net cash provided by operating activities	$ 127	$ 738	$ 1,504	$ 2,113
Net cash used in investing activities	(484)	(700)	(4,113)	(1,662)
Net cash provided by (used in) financing activities	1,326	(390)	2,430	(1,110)
Effect of foreign currency exchange rate changes on cash	5	(3)	(7)	11
Net change in cash	$ 974	$ (355)	$ (186)	$ (648)
Cash at end of period	$ 1,164	$ 486	$ 1,164	$ 486

Net cash provided by operating activities for the three months ended April 30, 2013 was $127,000, compared with $738,000 for the same period last year. For the nine months ended April 30, 2013, operating cash flows were $1,504,000, versus $2,113,000 for the same period last year. The decrease in cash from operations is primarily due to acquisition related legal and professional fees as well as integration costs of the 50 Below and Ready2Ride acquisitions. We expect cash from operations to improve for the remainder of fiscal 2013 and fiscal 2014.

Cash used in investing activities was $484,000 and $4,113,000 for the three and nine months ended April 30, 2013, compared to $700,000 and $1,662,000 for the same periods last year. Year to date, ARI paid cash of $2,479,000 for the acquisitions of Ready2Ride and 50 Below, capitalized $1,288,000 of software development costs, and acquired technology equipment of $493,000. We will continue to invest cash in the business for the development of new products and upgrades to existing products.

The Company had net cash provided by financing activities of $1,326,000 and $2,430,000 for the three and nine months ended April 30, 2013, respectively, compared to net cash used in financing activities of $390,000 and $1,110,000 for the same periods last year. The Company borrowed an additional $1,000,000 of debt from Fifth Third, under its previous credit facilities, to fund its acquisition of Ready2Ride in August 2012 and borrowed an additional $3,500,000 from an affiliate of a shareholder for its acquisition of 50 below in November 2012. The Company paid off $4,300,000 of debt with the proceeds from a $4,800,000 equity offering and the remaining debt was refinanced in April 2013 under more favorable payment terms. Terms and conditions of the Company's indebtedness are detailed in the footnotes to the financial statements in Part I, Item 1 of this report.

Management believes that current cash balances and its ability to generate cash from operations, as well as the existing availability under our line of credit with SVB, are sufficient to fund our operating needs over the next twelve months.

Off-Balance Sheet Arrangements

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