

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

Form 10-Q

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

For the quarterly period ended March 31, 2014

or

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

For the transition period from _____ to _____.

Commission file number 1-34761



Autobytel Inc.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or organization)

33-0711569

(I.R.S. Employer Identification Number)

18872 MacArthur Boulevard, Suite 200, Irvine, California

(Address of principal executive offices)

92612

(Zip Code)

(949) 225-4500

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant: (1) has 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 check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) 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 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.

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 April 28, 2014, there were 8,992,078 shares of the Registrant's Common Stock, \$0.001 par value, outstanding.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

AUTOBYTEL INC.
UNAUDITED CONSOLIDATED CONDENSED BALANCE SHEETS
(Amounts in thousands, except share and per-share data)

Assets	March 31, 2014	December 31, 2013*
Current assets:		
Cash and cash equivalents	\$ 19,257	\$ 18,930
Accounts receivable, net of allowances for bad debts and customer credits of \$405 and \$405 at March 31, 2014 and December 31, 2013, respectively	16,072	14,178
Deferred tax asset	3,348	3,517
Prepaid expenses and other current assets	592	506
Total current assets	39,269	37,131
Property and equipment, net	1,676	1,548
Equity investment	2,500	2,500
Intangible assets, net	5,233	1,821
Goodwill	20,948	13,602
Deferred tax asset	31,135	31,135
Other assets	757	456
Total assets	<u>\$ 101,518</u>	<u>\$ 88,193</u>
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$ 7,727	\$ 5,267
Accrued expenses and other current liabilities	6,510	7,649
Deferred revenues	10	(1)
Total current liabilities	14,247	12,915
Convertible note payable	6,000	5,000
Term loan payable	8,438	—
Borrowings under credit facility	5,250	4,250
Other non-current liabilities	975	1,200
Total liabilities	34,910	23,365
Commitments and contingencies	—	—
Stockholders' equity:		
Preferred stock, \$0.001 par value; 11,445,187 shares authorized; none outstanding	—	—
Common stock, \$0.001 par value; 55,000,000 shares authorized and 8,981,340 and 8,909,737 shares issued and outstanding at March 31, 2014 and December 31, 2013, respectively	9	9
Additional paid-in capital	308,581	307,171
Accumulated deficit	(241,982)	(242,352)
Total stockholders' equity	66,608	64,828
Total liabilities and stockholders' equity	<u>\$ 101,518</u>	<u>\$ 88,193</u>

* Amounts were derived from audited financial statements

See accompanying notes to unaudited consolidated condensed financial statements.

AUTOBYTEL INC.
UNAUDITED CONSOLIDATED CONDENSED STATEMENTS OF INCOME
AND COMPREHENSIVE INCOME
(Amounts in thousands, except per-share data)

	Three Months Ended March 31,	
	2014	2013
Revenues:		
Lead fees	\$ 26,013	\$ 17,517
Advertising	673	715
Other revenues	273	29
Total revenues	<u>26,959</u>	<u>18,261</u>
Cost of revenues	<u>16,874</u>	<u>11,669</u>
Gross profit	10,085	6,592
Operating expenses:		
Sales and marketing	4,017	2,241
Technology support	1,924	1,705
General and administrative	3,022	2,290
Depreciation and amortization	434	424
Litigation settlements	<u>(68)</u>	<u>(71)</u>
Total operating expenses	9,329	6,589
Operating income	756	3
Interest and other income (expense), net	<u>(166)</u>	<u>402</u>
Income before income tax provision	590	405
Income tax provision	<u>220</u>	<u>71</u>
Net income and comprehensive income	<u>\$ 370</u>	<u>\$ 334</u>
Basic earnings per common share	<u>\$ 0.04</u>	<u>\$ 0.04</u>
Diluted earnings per common share	<u>\$ 0.04</u>	<u>\$ 0.04</u>

See accompanying notes to unaudited consolidated condensed financial statements.

AUTOBYTEL INC.
UNAUDITED CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS
(Amounts in thousands)

	Three Months Ended March 31,	
	2014	2013
Cash flows from operating activities:		
Net income	\$ 370	\$ 334
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	527	538
Provision for bad debts	27	8
Provision for customer credits	207	169
Share-based compensation	286	186
Change in deferred tax asset	169	—
Changes in assets and liabilities:		
Accounts receivable	806	(1,813)
Prepaid expenses and other current assets	(42)	6
Other assets	(301)	(71)
Accounts payable	179	1,442
Accrued expenses and other current liabilities	(1,139)	(1,052)
Deferred revenues	11	(166)
Non-current liabilities	(225)	47
Net cash provided by (used in) operating activities	<u>875</u>	<u>(372)</u>
Cash flows from investing activities:		
Purchases of property and equipment	(256)	(198)
Purchase of AutoUSA	(10,044)	—
Net cash used in investing activities	<u>(10,300)</u>	<u>(198)</u>
Cash flows from financing activities:		
Borrowings under credit facility	1,000	—
Borrowings under term loan	9,000	—
Payments on term loan borrowings	(562)	—
Proceeds from exercise of stock options	314	20
Payment of contingent fee arrangement	—	(28)
Net cash provided by (used in) financing activities	<u>9,752</u>	<u>(8)</u>
Net increase (decrease) in cash and cash equivalents	327	(578)
Cash and cash equivalents, beginning of period	18,930	15,296
Cash and cash equivalents, end of period	<u>\$ 19,257</u>	<u>\$ 14,718</u>

See accompanying notes to unaudited consolidated condensed financial statements.

AUTOBYTEL INC.

NOTES TO UNAUDITED CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

1. Organization and Operations

Autobytel Inc. (“**Autobytel**” or the “**Company**”) is an automotive marketing services company that assists automotive retail dealers (“**Dealers**”) and automotive manufacturers (“**Manufacturers**”) market and sell new and used vehicles through its programs for online lead referrals (“**Leads**”), Dealer marketing products and services, online advertising programs and mobile products.

The Company’s consumer-facing automotive websites (“**Company Websites**”), including its flagship website Autobytel.com®, provide consumers with information and tools to aid them with their automotive purchase decisions and the ability to submit inquiries requesting Dealers to contact the consumers regarding purchasing or leasing vehicles (“**Vehicle Leads**”). For consumers who may not be able to secure loans through conventional lending sources, the Company Websites provide these consumers the ability to submit inquiries requesting Dealers or other lenders that may offer vehicle financing to these consumers to contact the consumers regarding vehicle financing (“**Finance Leads**”). The Company’s mission for consumers is to be “Your Lifetime Automotive Advisor®” by engaging consumers throughout the entire lifecycle of their automotive needs.

The Company was incorporated in Delaware on May 17, 1996. Its principal corporate offices are located in Irvine, California. The Company’s common stock is listed on The NASDAQ Capital Market under the symbol ABTL.

On January 13, 2014 (“**AutoUSA Acquisition Date**”), Autobytel and AutoNation, Inc., a Delaware corporation (“**Seller Parent**”), and AutoNationDirect.com, Inc., a Delaware corporation and subsidiary of Seller Parent (“**Seller**”), entered into and consummated a Membership Interest Purchase Agreement in which Autobytel acquired all of the issued and outstanding membership interests in AutoUSA, LLC, a Delaware limited liability company and a subsidiary of Seller (“**AutoUSA**”). AutoUSA was a (i) lead aggregator purchasing internet-generated automotive consumer leads from third parties and reselling those consumer leads to automotive vehicle dealers; and (ii) reseller of third party products and services to automotive Dealers. See Note 4.

Effective October 1, 2013 (“**Advanced Mobile Acquisition Date**”), the Company acquired substantially all of the assets of privately-held Advanced Mobile, LLC, a Delaware limited liability company, and Advanced Mobile Solutions Worldwide, Inc., a Delaware corporation (collectively referred to in this Quarterly Report on Form 10-Q as “**Advanced Mobile**”). Advanced Mobile (now Autobytel Mobile) provides mobile marketing solutions (e.g., mobile applications, mobile portals, mobile websites, TextShield™, mobile text marketing, quick response codes, text messaging, short message service and multimedia service) for the automotive industry. TextShield™ provides a web-based portal that allows Dealers to centrally manage text communications. The acquired assets consisted primarily of customer contracts, technology license rights and rights in domain names and short codes used for SMS texting. As a result of the acquisition, the Company will offer Manufacturers and Dealers the ability to connect with consumers using text communication via a secure platform. In addition, Autobytel will offer Dealers a comprehensive suite of mobile products, including mobile apps, mobile websites, Send2Phone capabilities and text message marketing. See Note 4.

2. Basis of Presentation

The accompanying unaudited consolidated condensed financial statements presented herein are presented on the same basis as the Company’s Annual Report on Form 10-K, as amended by Amendment No. 1 on Form 10-K/A, filed with the Securities and Exchange Commission (“**SEC**”) for the year ended December 31, 2013 (“**2013 Form 10-K**”). Autobytel has made its disclosures in accordance with U.S. generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Rule 8-03 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U.S. generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments, consisting of normal recurring adjustments, necessary for a fair presentation with respect to interim financial statements, have been included. The statements of income and comprehensive income and cash flows for the periods ended March 31, 2014 and 2013 are not necessarily indicative of the results of operations or cash flows expected for the year or any other period. The unaudited consolidated condensed financial statements should be read in conjunction with the audited consolidated financial statements and the notes thereto in the 2013 Form 10-K.

AUTOBYTEL INC.

NOTES TO UNAUDITED CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

3. Recent Accounting Pronouncements

Accounting Standards Codification 740 "Income Taxes." In July 2013, Accounting Standards Update ("ASU") No. 2013-11, "Income Taxes (Topic 740): Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists" was issued. The objective of this ASU is to reduce diversity in practice by providing guidance on the presentation of unrecognized tax benefits and will better reflect the manner in which an entity would settle at the reporting date any additional income taxes that would result from the disallowance of a tax position when net operating loss carryforwards, similar tax losses, or tax credit carryforwards exist. This ASU is effective for fiscal years beginning after December 15, 2013. Adoption of this ASU did not have a material impact on the Company's consolidated financial results.

4. Acquisitions

Acquisition of AutoUSA

On the AutoUSA Acquisition Date, Autobytel acquired all of the issued and outstanding membership interests in AutoUSA. The Company acquired AutoUSA to expand its reach and influence in the industry by increasing its Dealer network.

The AutoUSA Acquisition Date fair value of the consideration transferred totaled \$11.9 million which consisted of the following (in thousands):

Cash (including a working capital adjustment of \$44)	\$	10,044
Convertible subordinated promissory note		1,300
Warrant to purchase \$1.0 million of Company common stock		510
	\$	<u>11,854</u>

As part of the consideration paid for the acquisition, the Company issued a convertible subordinated promissory note for \$1.0 million ("**AutoUSA Note**") to the Seller. The fair value of the AutoUSA Note as of the AutoUSA Acquisition Date was \$1.3 million. This valuation was estimated using a binomial option pricing method. Key assumptions used in valuing the AutoUSA Note include a market yield of 1.6% and stock price volatility of 65.0%. As the AutoUSA Note was issued with a substantial premium, the Company recorded the premium as additional paid-in capital. Interest is payable at an annual interest rate of 6% in quarterly installments. The entire outstanding balance of the AutoUSA Note is to be paid in full on January 31, 2019. At any time after January 31, 2017, the holders of the AutoUSA Note may convert all or any part of, but at least 30,600 shares, the then outstanding and unpaid principal of the AutoUSA Note into fully paid shares of the Company's common stock at a conversion price of \$16.34 per share (as adjusted for stock splits, stock dividends, combinations and other similar events). The right to convert the AutoUSA Note into common stock of the Company is accelerated in the event of a change in control of the Company. In the event of default, the entire unpaid balance of the AutoUSA Note will become immediately due and payable and will bear interest at the lower of 8% per year and the highest legal rate permissible under applicable law.

The warrant to purchase 69,930 shares of Company common stock issued in connection with the acquisition ("**AutoUSA Warrant**") was valued as of the AutoUSA Acquisition Date at \$7.35 per share for a total value of \$0.5 million. The Company used an option pricing model to determine the value of the AutoUSA Warrant. Key assumptions used in valuing the AutoUSA Warrant are as follows: risk-free rate of 1.6%, stock price volatility of 65.0% and a term of 5.0 years. The AutoUSA Warrant was valued based on long-term stock price volatilities of the Company. The exercise price of the AutoUSA Warrant is \$14.30 per share (as adjusted for stock splits, stock dividends, combinations and other similar events). The AutoUSA Warrant becomes exercisable on the third anniversary of the issuance date and expires on the fifth anniversary of the issuance date. The right to exercise the AutoUSA Warrant is accelerated in the event of a change in control of the Company.

AUTOBYTEL INC.

NOTES TO UNAUDITED CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

The following table summarizes the preliminary estimated fair values of the assets acquired and liabilities assumed as of March 31, 2014. Because the transaction was completed in the three months ended March 31, 2014, we have not yet finalized the fair values of the assets and liabilities assumed in connection with the acquisition. During the three months ended March 31, 2014, the Company made adjustments to the purchase price allocation due to changes in working capital and fixed assets acquired.

	<i>(in thousands)</i>
Net identifiable assets acquired	\$ 758
Long-lived intangible assets acquired	3,750
Goodwill	7,346
	<u>\$ 11,854</u>

The preliminary fair value of the acquired intangible assets was determined using the below valuation approaches. In estimating the preliminary fair value of the acquired intangible assets, the Company utilized the valuation methodology determined to be most appropriate for the individual intangible asset being valued as described below. The acquired intangible assets include the following:

	<u>Valuation Method</u>	<u>Estimated Fair Value</u>	<u>Estimated Useful Life ⁽¹⁾</u>
		<i>(in thousands)</i>	<i>(years)</i>
Non-compete agreements	Discounted cash flow ⁽²⁾	\$ 90	2
Customer relationships	Excess of earnings ⁽³⁾	2,660	5
Trademark/trade names	Relief from Royalty ⁽⁴⁾	1,000	5
Total purchased intangible assets		<u>\$ 3,750</u>	

(1) Determination of the estimated useful lives of the individual categories of purchased intangible assets was based on the nature of the applicable intangible asset and the expected future cash flows to be derived from the intangible asset. Amortization of intangible assets with definite lives are recognized over the shorter of the respective lives of the agreement or the period of time the assets are expected to contribute to future cash flows.

(2) The non-compete agreements fair value was derived by calculating the difference between the present value of the Company's forecasted cash flows with the agreements in place and without the agreements in place.

(3) The excess of earnings method estimates a purchased intangible asset's value based on the present value of the prospective net cash flows (or excess earnings) attributable to it. The value attributed to these intangibles was based on projected net cash inflows from existing contracts or relationships.

(4) The relief from royalty method is an earnings approach which assesses the royalty savings an entity realizes since it owns the asset and doesn't have to pay a third party a license fee for it use.

Some of the more significant estimates and assumptions inherent in the estimate of the fair value of the identifiable purchased intangible assets include all assumptions associated with forecasting cash flows and profitability. The primary assumptions used for the determination of the preliminary fair value of the purchased intangible assets were generally based upon the discounted present value of anticipated cash flows. Estimated years of projected earnings generally follow the range of estimated remaining useful lives for each intangible asset class.

The goodwill recognized of \$7.3 million is attributable primarily to expected synergies and the assembled workforce of AutoUSA. The full amount is expected to be amortizable for income tax purposes.

AUTOBYTEL INC.

NOTES TO UNAUDITED CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

The Company incurred approximately \$1.0 million of acquisition related costs related to AutoUSA in the three months ended March 31, 2014, all of which were expensed.

The following unaudited pro forma information presents the consolidated results of the Company and AutoUSA for the three months ended March 31, 2013, with adjustments to give effect to pro forma events that are directly attributable to the acquisition and have a continuing impact, but exclude the impact of pro forma events that are directly attributable to the acquisition and are one-time occurrences. The unaudited pro forma information is presented for illustrative purposes only and is not necessarily indicative of the results of operations of future periods, the results of operations that actually would have been realized had the entities been a single company during the periods presented or the results of operations that the combined company will experience after the acquisition. The unaudited pro forma information does not give effect to the potential impact of current financial conditions, regulatory matters or any anticipated synergies, operating efficiencies or cost savings that may be associated with the acquisition. The unaudited pro forma information also does not include any integration costs or remaining future transaction costs that the companies may incur as a result of the acquisition and combining the operations of the companies.

The unaudited pro forma consolidated results of operations, assuming the acquisition had occurred on January 1, 2013, are as follows (in thousands):

	Three Months Ended March 31, 2013	
Unaudited pro forma consolidated results:		
Revenues	\$	25,534
Net income		616

Acquisition of Advanced Mobile

As of the Advanced Mobile Acquisition Date, the Company acquired substantially all of the assets of Advanced Mobile. Advanced Mobile provides mobile marketing solutions (e.g., mobile applications, mobile portals, mobile websites, TextShield™, mobile text marketing, quick response codes, text messaging, short message service and multimedia service) for the automotive industry. The acquired assets consisted primarily of customer contracts, technology license rights and rights in domain names and short codes used for SMS texting. Advanced Mobile was acquired to enable the Company to offer the automotive industry the mobile technology and resources required to exploit the expanding growth in smart phone and tablet use.

The Advanced Mobile Acquisition Date fair value of the consideration transferred totaled \$3.4 million which consisted of the following:

	<i>(in thousands)</i>	
Cash (including working capital adjustment of \$70)	\$	2,570
Contingent consideration		825
	\$	<u>3,395</u>

The contingent consideration arrangement (“**Contingent Consideration**”) requires the Company to pay up to \$1.5 million of additional consideration to Advanced Mobile if certain revenue and gross profit targets are met. The fair value of the contingent consideration as of the Effective Date was \$825,000. The fair value of the contingent consideration was estimated using a Monte Carlo Simulation. The fair value measurement is based on significant inputs not observable in the market and thus represents a Level 3 measurement as defined in ASC 820, Fair Value Measurements and Disclosures. The key assumptions in applying the Monte Carlo Simulation consisted of volatility inputs for both revenue and gross profit, forecasted gross margin, and a weighted-average cost of capital assumption used to adjust forecasted revenue and gross margin for risk.

AUTOBYTEL INC.

NOTES TO UNAUDITED CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

The following table summarizes the preliminary estimated fair values of the assets acquired and liabilities assumed at the Advanced Mobile Acquisition Date. Because the transaction was completed subsequent to the end of the third quarter of 2013, we have not yet finalized the fair values of the assets and liabilities assumed in connection with the acquisition.

	<i>(in thousands)</i>
Net identifiable assets acquired	\$ 90
Definite-lived intangible assets acquired	1,380
Goodwill	<u>1,925</u>
Net assets acquired	<u>\$ 3,395</u>

The preliminary fair value of the acquired intangible assets was determined using the below valuation approaches. In estimating the preliminary fair value of the acquired intangible assets, the Company utilized the valuation methodology determined to be most appropriate for the individual intangible asset being valued as described below. The acquired intangible assets include the following:

	Valuation Method	Estimated Fair Value <i>(in thousands)</i>	Estimated Useful Life ⁽¹⁾ (years)
Non-compete agreements	Discounted cash flow ⁽²⁾	\$ 110	5
Customer relationships	Excess of earnings ⁽³⁾	450	2
Developed technology	Excess of earnings ⁽³⁾	<u>820</u>	5
Total purchased intangible assets		<u>\$ 1,380</u>	

(1) Determination of the estimated useful lives of the individual categories of purchased intangible assets was based on the nature of the applicable intangible asset and the expected future cash flows to be derived from the intangible asset. Amortization of intangible assets with definite lives are recognized over the shorter of the respective lives of the agreement or the period of time the assets are expected to contribute to future cash flows.

(2) The non-compete agreement fair values were derived by calculating the difference between the present value of the Company's forecasted cash flows with the agreements in place and without the agreements in place.

(3) The excess of earnings method estimates a purchased intangible asset's value based on the present value of the prospective net cash flows (or excess earnings) attributable to it. The value attributed to these intangibles was based on projected net cash inflows from existing contracts or relationships.

Some of the more significant estimates and assumptions inherent in the estimate of the fair value of the identifiable purchased intangible assets include all assumptions associated with forecasting cash flows and profitability. The primary assumptions used for the determination of the preliminary fair value of the purchased intangible assets were generally based upon the discounted present value of anticipated cash flows. Estimated years of projected earnings generally follow the range of estimated remaining useful lives for each intangible asset class.

AUTOBYTEL INC.

NOTES TO UNAUDITED CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

The goodwill recognized of \$1.9 million is attributable primarily to expected synergies and the assembled workforce of Advanced Mobile. The full amount is amortizable for income tax purposes. As of March 31, 2014, there were no changes in the recognized amounts of goodwill resulting from the acquisition of Advanced Mobile.

The Company incurred \$0.3 million of acquisition related costs related to Advanced Mobile, all of which was expensed in 2013.

The following unaudited pro forma information presents the consolidated results of the Company and Advanced Mobile for the three months ended March 31, 2013, with adjustments to give effect to pro forma events that are directly attributable to the acquisition and have a continuing impact, but exclude the impact of pro forma events that are directly attributable to the acquisition and are one-time occurrences. The unaudited pro forma information is presented for illustrative purposes only and is not necessarily indicative of the results of operations of future periods, the results of operations that actually would have been realized had the entities been a single company during the periods presented or the results of operations that the combined company will experience after the acquisition. The unaudited pro forma information does not give effect to the potential impact of current financial conditions, regulatory matters or any anticipated synergies, operating efficiencies or cost savings that may be associated with the acquisition. The unaudited pro forma information also does not include any integration costs or remaining future transaction costs that the companies may incur as a result of the acquisition and combining the operations of the companies.

The unaudited pro forma consolidated results of operations, assuming the acquisition had occurred on January 1, 2013, are as follows:

	Three Months Ended March 31, 2013	
	<i>(in thousands)</i>	
Unaudited pro forma consolidated results:		
Revenues	\$	18,509
Net income	\$	331

5. Computation of Basic and Diluted Net Earnings Per Share

Basic net earnings per share is computed using the weighted average number of common shares outstanding during the period. Diluted net earnings per share is computed using the weighted average number of common shares, and if dilutive, potential common shares outstanding, as determined under the treasury stock and if-converted method, during the period. Potential common shares consist of common shares issuable upon the exercise of stock options, common shares issuable upon the exercise of the warrant described below and common shares issuable upon conversion of the convertible notes described in Note 7. The following are the share amounts utilized to compute the basic and diluted net income per share for the three months ended March 31, 2014 and 2013:

	Three Months Ended March 31,	
	2014	2013
Basic Shares	8,928,400	8,856,289
Weighted average dilutive securities	1,353,938	219,243
Dilutive Shares	10,282,338	9,075,532

AUTOBYTEL INC.

NOTES TO UNAUDITED CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

For the three months ended March 31, 2014, weighted average dilutive securities included dilutive options and warrants. For the three months ended March 31, 2013, weighted average dilutive securities included dilutive options.

For the three months ended March 31, 2014, 2.1 million of potentially anti-dilutive shares of common stock have been excluded from the calculation of diluted net income per share. For the three months ended March 31, 2013, 2.6 million of potentially anti-dilutive shares of common stock have been excluded from the calculation of diluted net income per share.

On February 13, 2012, the Company announced that the Board of Directors had approved a stock repurchase program that authorized the repurchase of up to \$1.5 million of Company common stock. The Board of Directors authorized the Company to repurchase an additional \$2.0 million of Company common stock on June 7, 2012. Under these repurchase programs, the Company may repurchase common stock from time to time on the open market or in private transactions. This authorization does not require the Company to purchase a specific number of shares, and the Board of Directors may suspend, modify or terminate the programs at any time. The Company would fund repurchases through the use of available cash. The Company began repurchasing its common stock on March 7, 2012. No shares have been repurchased since 2012. Shares repurchased in 2012 were cancelled by the Company and returned to authorized and unissued shares.

Warrant. On September 17, 2010 (“**Cyber Acquisition Date**”), the Company acquired substantially all of the assets of privately-held Autotropolis, Inc., a Florida corporation, and Cyber Ventures, Inc., a Florida corporation (collectively referred to in this Quarterly Report on Form 10-Q as “**Cyber**”). In connection with the acquisition of Cyber, the Company issued to the sellers a warrant to purchase 400,000 shares of Company common stock (“**Cyber Warrant**”). The Cyber Warrant was valued at \$3.15 per share on the Cyber Acquisition Date using an option pricing model with the following key assumptions: risk-free rate of 2.3%, stock price volatility of 77.5% and a term of 8.04 years. The Cyber Warrant was valued based on historical stock price volatilities of the Company and comparable public companies as of the Cyber Acquisition Date. The exercise price of the Cyber Warrant is \$4.65 per share (as adjusted for stock splits, stock dividends, combinations and other similar events). The Cyber Warrant became exercisable on September 16, 2013 and expires on the eighth anniversary of the issuance date. The Cyber Warrant has not been exercised as of March 31, 2014.

The AutoUSA Warrant issued related to the acquisition described in Note 4 was valued as of the AutoUSA Acquisition Date at \$7.35 per share for a total value of \$0.5 million. The Company used an option pricing model to determine the value of the AutoUSA Warrant. Key assumptions used in valuing the AutoUSA Warrant are as follows: risk-free rate of 1.6%, stock price volatility of 65.0% and a term of 5.0 years. The AutoUSA Warrant was valued based on long-term stock price volatilities of the Company. The exercise price of the AutoUSA Warrant is \$14.30 per share (as adjusted for stock splits, stock dividends, combinations and other similar events). The AutoUSA Warrant becomes exercisable on the third anniversary of the issuance date and expires on the fifth anniversary of the issuance date. The right to exercise the AutoUSA Warrant is accelerated in the event of a change in control of the Company.

AUTOBYTEL INC.

NOTES TO UNAUDITED CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

6. Share-Based Compensation

Share-based compensation expense is included in costs and expenses in the accompanying Unaudited Consolidated Condensed Statements of Income and Comprehensive Income as follows:

	Three Months Ended March 31,	
	2014	2013
	(in thousands)	
Share-based compensation expense:		
Cost of revenues	\$ 17	\$ 12
Sales and marketing	109	35
Technology support	57	60
General and administrative	104	79
Share-based compensation costs	287	186
Amount capitalized to internal use software	1	-
Total share-based compensation costs	\$ 286	\$ 186

Service-Based Options. The Company granted the following service-based options for the three months ended March 31, 2014 and 2013:

	Three months ended March 31,	
	2014	2013
Number of service-based options granted	391,750	57,000
Weighted average grant date fair value	\$ 7.47	\$ 2.19
Weighted average exercise price	\$ 16.89	\$ 4.01

These options are valued using a Black-Scholes option pricing model and generally vest one-third on the first anniversary of the grant date and ratably over twenty-four months thereafter. The vesting of these awards is contingent upon the employee's continued employment with the Company during the vesting period.

Performance-based Options. During the three months ended March 31, 2014, the Company granted 40,000 performance-based inducement stock options in connection with the acquisition of AutoUSA ("AutoUSA Inducement Options"), with a weighted average grant date fair value of \$6.08, using a Black-Scholes option pricing model and weighted average exercise price of \$13.62. The AutoUSA Inducement Options are subject to two vesting requirements and conditions: (i) level of achievement of performance goals based on revenue and gross margin of the Company's retail dealer services group and (ii) time vesting. In addition, the Company granted 10,000 inducement options to a new employee with a weighted average grant date fair value of \$6.85, using a Black-Scholes option pricing model and weighted average exercise price of \$14.93. These inducement options vest one-third on the first anniversary of the grant date and ratably over twenty-four months thereafter.

During the three months ended March 31, 2013, the Company granted 87,117 performance-based stock options ("2013 Performance Options") to certain employees with a weighted average grant date fair value of \$2.19, using a Black-Scholes option pricing model and a weighted average exercise price of \$4.00. The 2013 Performance Options were subject to two vesting requirements and conditions: (i) percentage achievement of 2013 revenues and earnings before taxes, depreciation and amortization ("EBITDA") goals and (ii) time vesting. Based on the Company's 2013 revenues and EBITDA performance, 83,398 of the 2013 Performance Options vested under the performance vesting condition, and one-third of these options vested on the first anniversary of the grant date, with the remainder vesting ratably over twenty-four months thereafter.

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NOTES TO UNAUDITED CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

Market Condition Options. In 2009, the Company granted 213,650 stock options to substantially all employees at exercise prices equal to the price of the stock on the grant date of \$1.75, with a fair market value per option granted of \$0.97, using a Black-Scholes option pricing model. One-third of these options cliff vested on the first anniversary following the grant date and the remaining two-thirds vest ratably over twenty-four months thereafter. In addition, the remaining two-thirds of the awards were subject to satisfaction of market price conditions for the Company's common stock, which conditions have been satisfied. During the three months ended March 31, 2014 and 2013, 10,793 and 4,000 of these market condition stock options were exercised, respectively.

During the three months ended March 31, 2014, 73,603 stock options (inclusive of the 10,793 market condition stock options exercised during the period) were exercised, with aggregate weighted average exercise prices of \$4.25. There were 8,000 stock options (inclusive of the 4,000 market condition stock options exercised during the period) exercised during the three months ended March 31, 2013 with aggregate weighted average exercise prices of \$2.43. The grant date fair value of stock options granted during these periods was estimated using the Black-Scholes option pricing model using the following weighted average assumptions:

	Three Months Ended	
	March 31,	
	2014	2013
Dividend yield	—	—
Volatility	56%	72%
Risk-free interest rate	1.3%	0.6%
Expected life (years)	4.3	4.3

7. Selected Balance Sheet Accounts

Property and Equipment. Property and equipment consists of the following:

	March 31,	December 31,
	2014	2013
	<i>(in thousands)</i>	
Computer software and hardware and capitalized internal use software	\$ 12,232	\$ 11,924
Furniture and equipment	1,265	1,256
Leasehold improvements	937	937
	14,434	14,117
Less – Accumulated depreciation and amortization	(12,758)	(12,569)
Property and equipment, net	<u>\$ 1,676</u>	<u>\$ 1,548</u>

The Company periodically reviews long-lived assets to determine if there are any impairment indicators. The Company assesses the impairment of these assets, or the need to accelerate amortization, whenever events or changes in circumstances indicate that the carrying value may not be recoverable. The Company's judgments regarding the existence of impairment indicators are based on legal factors, market conditions and operational performance of our long-lived assets. If such indicators exist, the Company evaluates the assets for impairment based on the estimated future undiscounted cash flows expected to result from the use of the assets and their eventual disposition. Should the carrying amount of an asset exceed its estimated future undiscounted cash flows, an impairment loss is recorded for the excess of the asset's carrying amount over its fair value. Fair value is generally determined based on a valuation process that provides an estimate of the fair value of these assets using a discounted cash flow model, which includes assumptions and estimates.

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Concentration of Credit Risk and Risks Due to Significant Customers. Financial instruments that potentially subject the Company to concentrations of credit risk consist primarily of cash and cash equivalents and accounts receivable. Cash and cash equivalents are primarily maintained with two high credit quality financial institutions in the United States. Deposits held by banks exceed the amount of insurance provided for such deposits. These deposits may be redeemed upon demand.

Accounts receivable are primarily derived from fees billed to Dealers and Manufacturers. The Company generally requires no collateral to support its accounts receivables and maintains an allowance for bad debts for potential credit losses.

The Company has a concentration of credit risk with its automotive industry related accounts receivable balances, particularly with Urban Science Applications (which represents Acura, Audi, Honda, Nissan, Infiniti, Mercedes Benz, Smart, Subaru, Toyota, Volkswagen and Volvo), General Motors and Kia Corporation. During the first three months of 2014, approximately 31% of the Company's total revenues were derived from these three customers, and approximately 35%, or \$5.7 million, of gross accounts receivable related to these three customers at March 31, 2014.

During the first three months of 2013, approximately 25% of the Company's total revenues were derived from General Motors, Urban Science Applications and Nissan/Infiniti, and approximately 36%, or \$4.4 million of gross accounts receivables related to these three customers at March 31, 2013.

Equity Investments. In September 2013 the Company entered into a Contribution Agreement with privately-held AutoWeb, Inc., a Delaware corporation ("**AutoWeb**"), in which Autobytel contributed to AutoWeb \$2.5 million and assigned to AutoWeb all the ownership interests in the autoweb.com domain name and two registered trademarks related to the AutoWeb name and related goodwill in exchange for 8,000 shares of AutoWeb Series A Preferred Stock, \$0.01 par value per share. The 8,000 shares of AutoWeb Series A Preferred Stock are convertible into AutoWeb common stock on a one-for-one basis (subject to adjustments for stock splits, stock dividends, combinations and recapitalizations) and represented 16% of all issued and outstanding common stock of AutoWeb as of September 18, 2013, on a fully diluted basis, as of this date. The Company also obtained an option to acquire an additional 5,000 shares of AutoWeb Series A Preferred Stock at a per share exercise price of \$500, which option expires September 2015. In connection with this investment, the Company also entered into arrangements with AutoWeb to use the AutoWeb pay-per-click, auction-driven automotive marketplace technology platform as both a publisher and as an advertiser. Upon the occurrence of a liquidation event (i.e., a liquidation, dissolution or winding up of AutoWeb; a consolidation or merger where AutoWeb is not the surviving entity; a consolidation or merger where AutoWeb is the surviving entity and either (i) the rights of the Series A Preferred Stock are changed, or (ii) the Series A Preferred Stock is exchanged for cash, securities or property; or a sale or transfer of all or substantially all of AutoWeb's assets), the Series A Preferred Stock is entitled to a liquidation preference of the greater of (i) \$1,000 per share (subject to adjustments for stock splits, stock dividends, combinations and recapitalizations); and (ii) the amount that would be distributed with respect to AutoWeb's common stock, assuming full conversion of the Series A Preferred Stock into common stock.

In September 2013 the Company invested \$150,000 in SaleMove, Inc., a Delaware corporation, ("**SaleMove**") in the form of a convertible promissory note. The convertible promissory note accrues interest at an annual rate of 6.0% and is due and payable in full on August 14, 2015 unless converted prior to the maturity date. The convertible note will be converted into preferred stock of SaleMove in the event of a preferred stock financing by SaleMove of at least \$1.0 million prior to the maturity date of the convertible note. The Company recorded the \$150,000 note as an other long-term asset on the Consolidated Balance Sheet as of March 31, 2014.

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Intangible Assets. The Company amortizes specifically identified intangible assets using the straight-line method over the estimated useful lives of the assets. In connection with the acquisitions of Cyber, Advanced Mobile and AutoUSA the Company identified \$9.7 million of intangible assets. The Company's intangible assets will be amortized over the following estimated useful lives (in thousands):

Intangible Asset	Estimated Useful Life	March 31, 2014			December 31, 2013		
		Gross	Accumulated Amortization	Net	Gross	Accumulated Amortization	Net
Trademarks/trade names/licenses/domains	5 years	\$ 6,581	\$ (5,298)	\$ 1,283	\$ 5,582	\$ (5,209)	\$ 373
Software and publications	3 years	1,300	(1,300)	—	1,300	(1,300)	—
Customer relationships	3 years	4,980	(2,094)	2,886	2,320	(1,926)	394
Employment/non-compete agreements	5 years	700	(374)	326	610	(335)	275
Developed technology	5 years	820	(82)	738	820	(41)	779
		<u>\$ 14,381</u>	<u>\$ (9,148)</u>	<u>\$ 5,233</u>	<u>\$ 10,632</u>	<u>\$ (8,811)</u>	<u>\$ 1,821</u>

Amortization expense for the remainder of the year and for the next four years is as follows:

Year	Amortization Expense (in thousands)
2014	\$ 1,110
2015	1,347
2016	930
2017	926
2018	879
	<u>\$ 5,192</u>

Goodwill. Goodwill represents the excess of the purchase price over the fair value of net assets acquired. Goodwill is not amortized and is assessed annually for impairment or earlier, when events or circumstances indicate that the carrying value of such assets may not be recoverable. The Company did not record impairment related to goodwill as of March 31, 2014 and 2013.

As of March 31, 2014, goodwill consisted of the following (in thousands):

Goodwill as of December 31, 2013	\$ 13,602
Acquisition of AutoUSA	7,346
Goodwill as of March 31, 2014	<u>\$ 20,948</u>

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NOTES TO UNAUDITED CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

Accrued Expenses and Other Current Liabilities. Accrued expenses and other current liabilities consisted of the following:

	March 31, 2014	December 31, 2013
	<i>(in thousands)</i>	
Compensation and related costs	\$ 1,561	\$ 3,540
Professional fees and other accrued expenses	4,105	3,209
Amounts due to customers	193	208
Other current liabilities	651	692
Total accrued expenses and other current liabilities	<u>\$ 6,510</u>	<u>\$ 7,649</u>

Long-term debt. In connection with the acquisition of Cyber, the Company issued a convertible subordinated promissory note for \$5.0 million ("**Cyber Convertible Note**") to the sellers. The fair value of the Cyber Convertible Note as of the Cyber Acquisition Date was \$5.9 million. This valuation was estimated using a binomial option pricing method. Key assumptions used in valuing the Cyber Convertible Note included a market yield of 15.0% and stock price volatility of 77.5%. As the Cyber Convertible Note was issued with a substantial premium, the Company recorded the premium as additional paid-in capital. Interest is payable at an annual interest rate of 6% in quarterly installments. The entire outstanding balance of the Cyber Convertible Note is to be paid in full on September 30, 2015. At any time after September 30, 2013, the holders of the Cyber Convertible Note may convert all or any part of, but in 40,000 minimum share increments, the then outstanding and unpaid principal of the Cyber Convertible Note into fully paid shares of the Company's common stock at a conversion price of \$4.65 per share (as adjusted for stock splits, stock dividends, combinations and other similar events). The right to convert the Cyber Convertible Note into common stock of the Company is accelerated in the event of a change in control of the Company. In the event of default, the entire unpaid balance of the Cyber Convertible Note will become immediately due and payable and will bear interest at the lower of 8% per year and the highest legal rate permissible under applicable law.

In connection with the acquisition of AutoUSA, the Company issued the AutoUSA Note to the Seller. The fair value of the AutoUSA Note as of the AutoUSA Acquisition Date was \$1.3 million. This valuation was estimated using a binomial option pricing method. Key assumptions used in valuing the AutoUSA Note include a market yield of 1.6% and stock price volatility of 65.0%. As the AutoUSA Note was issued with a substantial premium, the Company recorded the premium as additional paid-in capital. Interest is payable at an annual interest rate of 6% in quarterly installments. The entire outstanding balance of the AutoUSA Note is to be paid in full on January 31, 2019. At any time after January 31, 2017, the holders of the AutoUSA Note may convert all or any part of, but at least 30,600 shares, the then outstanding and unpaid principal of the AutoUSA Note into fully paid shares of the Company's common stock at a conversion price of \$16.34 per share (as adjusted for stock splits, stock dividends, combinations and other similar events). The right to convert the AutoUSA Note into common stock of the Company is accelerated in the event of a change in control of the Company. In the event of default, the entire unpaid balance of the AutoUSA Note will become immediately due and payable and will bear interest at the lower of 8% per year and the highest legal rate permissible under applicable law.

Credit Facility and Term Loan. On January 13, 2014, the Company entered into a Credit Facility Amendment with Union Bank, amending the Company's existing Loan Agreement with Union Bank initially entered into on February 26, 2013, and amended on September 10, 2013 (the existing Loan Agreement, as amended to date, is referred to herein collectively as the "**Credit Facility Agreement**"). The Credit Facility Amendment provides for (i) a new \$9.0 million term loan ("**Term Loan**"); and (ii) amendments to the Company's existing \$8.0 million revolving line of credit ("**Revolving Loan**").

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The Term Loan is amortized over a period of four years, with fixed quarterly principal payments of \$562,500. Borrowings under the Term Loan or under the Revolving Loan bear interest at either (i) the bank's Reference Rate (prime rate) minus 0.50% or (ii) the LIBOR plus 2.50%, at the option of the Company. Interest under both the Term Loan and the Revolving Loan adjust (i) at the end of each LIBOR rate period (1, 2, 3, 6 or 12 months terms) selected by the Company, if the LIBOR rate is selected; or (ii) with changes in Union Bank's Reference Rate, if the Reference Rate is selected. The Company pays a commitment fee of 0.10% per year on the unused portion of the Revolving Loan payable quarterly in arrears. Borrowings under the Term Loan and the Revolving Loan are secured by a first priority security interest on all of the Company's personal property (including, but not limited to, accounts receivable) and proceeds thereof. The Term Loan matures December 31, 2017, and the maturity date of the Revolving Loan was extended from February 28, 2015 to March 31, 2017. Borrowings under the Revolving Loan may be used as a source to finance capital expenditures, acquisitions and stock buybacks and for other general corporate purposes. Borrowing under the Term Loan was limited to use for the acquisition of AutoUSA, and the Company drew down the entire \$9.0 million of the Term Loan, together with \$1.0 million under the Revolving Loan, in financing this acquisition. The outstanding balance of the term loan and credit facility as of March 31, 2014 was \$8.4 million and \$5.25 million, respectively.

8. Commitments and Contingencies

Employment Agreements

The Company has employment agreements and retention agreements with certain key employees. A number of these agreements require severance payments, continuation of certain insurance benefits and acceleration of vesting of stock options in the event of a termination of employment by the Company without cause or by the employee for good reason.

Litigation

As of March 31, 2014, we were not the subject of any litigation as a defendant in any action or proceeding. From time to time, the Company may be involved in litigation matters arising from the normal course of its business activities. The actions filed against the Company and other litigation, even if not meritorious, could result in substantial costs and diversion of resources and management attention, and an adverse outcome in litigation could materially adversely affect its business, results of operations, financial condition and cash flows.

9. Income Taxes

On an interim basis, the Company estimates what its anticipated annual effective tax rate will be and records a quarterly income tax provision in accordance with the estimated annual rate, plus the tax effect of certain discrete items that arise during the quarter. As the fiscal year progresses, the Company refines its estimates based on actual events and financial results during the year. This process can result in significant changes to the Company's estimated effective tax rate. When this occurs, the income tax provision is adjusted during the quarter in which the estimates are refined so that the year-to-date provision reflects the estimated annual effective tax rate. These changes, along with adjustments to the Company's deferred taxes and related valuation allowance, may create fluctuations in the overall effective tax rate from quarter to quarter.

The Company's effective tax rate for the three months ended March 31, 2014 differed from the U.S. federal statutory rate primarily due to state income taxes and permanent non-deductible tax items.

The total amount of unrecognized tax benefits, excluding associated interest and penalties, was \$0.6 million as of March 31, 2014, of which \$0.1 million would impact the effective tax rate if recognized.

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The total balance of accrued interest and penalties related to uncertain tax positions was \$22,000 and \$20,000 as of March 31, 2014 and December 31, 2013, respectively. The Company recognizes interest and penalties related to uncertain tax positions as a component of income tax expense and the accrued interest and penalties are included in deferred and other long-term liabilities in the Company's condensed consolidated balance sheets. There were no material interest or penalties included in income tax expense for each of the three months ended March 31, 2014 and March 31, 2013.

The Company is subject to taxation in the U.S. and in various state jurisdictions. Due to expired statutes of limitation, the Company's federal income tax returns for years prior to calendar year 2010 are not subject to examination by the U.S. Internal Revenue Service. Generally, for the majority of state jurisdictions where the Company does business, periods prior to calendar year 2009 are no longer subject to examination. The Company is currently under examination by the State of Colorado for the years 2009 through 2012, but does not anticipate any material adjustments. The Company has estimated that \$0.1 million of unrecognized tax benefits related to income tax positions may be affected by the resolution of tax examinations or expiring statutes of limitation within the next twelve months. Audit outcomes and the timing of settlements are subject to significant uncertainty.

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

The Securities and Exchange Commission (“SEC”) encourages companies to disclose forward-looking information so that investors can better understand a company’s future prospects and make informed investment decisions. This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Words such as “anticipates,” “estimates,” “expects,” “projects,” “intends,” “plans,” “believes,” “will” and words of similar substance used in connection with any discussion of future operations or financial performance identify forward-looking statements. In particular, statements regarding expectations and opportunities, industry trends, new product expectations and capabilities, and our outlook regarding our performance and growth are forward-looking statements. This Quarterly Report on Form 10-Q also contains statements regarding plans, goals and objectives. There is no assurance that we will be able to carry out our plans or achieve our goals and objectives or that we will be able to do so successfully on a profitable basis. These forward-looking statements are just predictions and involve risks and uncertainties, many of which are beyond our control, and actual results may differ materially from these statements. Factors that could cause actual results to differ materially from those reflected in forward-looking statements include, but are not limited to, those discussed in this Item 2 and under the heading “Risk Factors” in our Annual Report on Form 10-K, as amended by Form 10-K/A, for the year ended December 31, 2013 (“**2013 Form 10-K**”). Investors are urged not to place undue reliance on forward-looking statements. Forward-looking statements speak only as of the date on which they were made. Except as may be required by law, we do not undertake any obligation, and expressly disclaim any obligation, to update or alter any forward-looking statements, whether as a result of new information, future events or otherwise. All forward-looking statements contained herein are qualified in their entirety by the foregoing cautionary statements.

You should read the following discussion of our results of operations and financial condition in conjunction with our unaudited consolidated condensed financial statements and related notes included in Part I, Item 1 of this Quarterly Report on Form 10-Q and our audited consolidated financial statements and the notes thereto in the 2013 Form 10-K.

Our corporate website is located at www.autobytel.com. Information on our website is not incorporated by reference in this Quarterly Report. At or through the Investor Relations section of our website we make available free of charge our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and all amendments to these reports as soon as practicable after the reports are electronically filed with or furnished to the SEC.

Basis of Presentation

The accompanying unaudited consolidated condensed financial statements presented herein are presented on the same basis as the 2013 Form 10-K. We have made disclosures in accordance with U.S. generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Rule 8-03 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U.S. generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments, consisting of normal recurring adjustments, necessary for a fair presentation with respect to interim financial statements, have been included. The statements of income and comprehensive income and cash flows for the periods ended March 31, 2014 and 2013 are not necessarily indicative of the results of operations or cash flows expected for the year or any other period. The unaudited consolidated condensed financial statements should be read in conjunction with the audited consolidated financial statements and the notes thereto in the 2013 Form 10-K.

On January 13, 2014 (“**AutoUSA Acquisition Date**”), Autobytel and AutoNation, Inc., a Delaware corporation (“**Seller Parent**”), and AutoNationDirect.com, Inc., a Delaware corporation and subsidiary of Seller Parent (“**Seller**”), entered into and consummated a Membership Interest Purchase Agreement in which Autobytel acquired all of the issued and outstanding membership interests in AutoUSA, LLC, a Delaware limited liability company and a subsidiary of Seller (“**AutoUSA**”). AutoUSA is a (i) lead aggregator purchasing internet-generated automotive consumer leads from third parties and reselling those consumer leads to automotive vehicle dealers; and (ii) reseller of third party products and services to automotive Dealers. The integration of AutoUSA continued during the three months ended March 31, 2014 and we believe we will see benefits from the synergies associated with the AutoUSA acquisition throughout the remainder of 2014.

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Effective October 1, 2013, the Company acquired substantially all of the assets of privately-held Advanced Mobile, LLC, a Delaware limited liability company, and Advanced Mobile Solutions Worldwide, Inc., a Delaware corporation (collectively referred to in this Quarterly Report on Form 10-Q as “**Advanced Mobile**”). Advanced Mobile provides mobile marketing solutions (e.g., mobile applications, mobile portals, mobile websites, TextShield™, mobile text marketing, quick response codes, text messaging, short message service and multimedia service) for the automotive industry. TextShield™ provides a web-based portal that allows dealers to centrally manage text communications. This web-based tool includes role-based permissions, a global opt out feature and the ability to monitor all text communications between dealership employees and consumers. By assisting a dealership with compliance issues surrounding text, this tool opens up a wide array of text-based marketing for dealers and allows consumers to interact with dealers using one of the most preferred methods of mobile communications. The acquired assets consisted primarily of customer contracts, technology license rights and rights in domain names and short codes used for SMS texting.

Overview

We are an automotive marketing services company that assists automotive retail dealers (“**Dealers**”) and automotive manufacturers (“**Manufacturers**”) market and sell new and used vehicles to consumers through our programs for online purchase request referrals (“**Leads**”), Dealer marketing products and services, online advertising programs and mobile products. Our consumer-facing automotive websites (“**Company Websites**”), including our flagship website Autobyte.com®, provide consumers with information and tools to aid them with their automotive purchase decisions and the ability to submit inquiries requesting Dealers to contact the consumers regarding purchasing or leasing vehicles (“**Vehicle Leads**”). For consumers who may not be able to secure loans through conventional lending sources, our Company Websites provide these consumers the ability to submit inquiries requesting Dealers or other lenders that may offer vehicle financing to these consumers to contact the consumers regarding vehicle financing (“**Finance Leads**”). The Company’s mission for consumers is to be “Your Lifetime Automotive Advisor®” by engaging consumers throughout the entire lifecycle of their automotive needs.

Lead quality is measured by the conversion of Leads to actual vehicle sales. Leads are internally-generated from our Company Websites (“**Internally-Generated Leads**”) or acquired from third parties (“**Non-Internally-Generated Leads**”) that generate Leads from their websites (“**Non-Company Websites**”). We rely on detailed feedback from Manufacturer and wholesale customers to confirm the performance of our Leads. Since 2011 we have been using IHS Automotive (which acquired R.L. Polk & Co. in 2013) to evaluate the performance quality of both our Internally-Generated Leads as well as Non-Internally-Generated Leads. Our Manufacturers and wholesale customers and IHS match the Leads we deliver to our customers against vehicle sales data to provide us with closing rates for the Leads we deliver to our customers and information that allows us to compare these closing rates to the closing rates of the Leads we acquire from third party suppliers. Based on the most current IHS data, automotive Leads from consumers shopping on Autobyte.com have a conversion rate of 21% within 90 days of Lead submission.

In addition, we report a number of key metrics to our customers, allowing them to gain a better understanding of the revenue opportunities that they may realize from acquiring Leads from us. We can now optimize the mix of Leads we deliver to our Dealers based on multiple sources of quality measurements. Also, by reporting the buying behavior of potential customers, the findings also can help shape improvements to online Lead management; online advertising and dealership sales process training. By providing actionable data, we are now placing considerable intelligence in the hands of our customers and are seeing increased budget allocations for purchasing Leads from us.

For the three months ended March 31, 2014, our business, results of operations and financial condition were affected, and may continue to be affected in the future, by general economic and market factors, conditions in the automotive industry, the market for Leads and the market for advertising services, including, but not limited to, the following:

- The adverse effect of high unemployment on the number of vehicle purchasers;
- Pricing and purchase incentives for vehicles;
- Disruption in the available inventory of automobiles;

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- The expectation that consumers will be purchasing fewer vehicles overall during their lifetime as a result of better quality vehicles and longer warranties;
- The impact of gasoline prices on demand for vehicles;
- Increases or decreases in the number of retail Dealers or in the number of Manufacturers and other wholesale customers in our customer base;
- Volatility in spending by Manufacturers and others in their marketing budgets and allocations; and
- The effect of changes in search engine algorithms and methodologies on our Lead generation and website advertising activities and margins.

Results of Operations

Three Months Ended March 31, 2014 Compared to the Three Months Ended March 31, 2013

The following table sets forth certain income statement data for the three-month periods ended March 31, 2014 and 2013 (certain amounts may not calculate due to rounding):

	<u>2014</u>	<u>% of total revenues</u>	<u>2013</u>	<u>% of total revenues</u>	<u>\$ Change</u>	<u>% Change</u>
	<i>(Dollar amounts in thousands)</i>					
Revenues:						
Lead fees	\$ 26,013	96%	\$ 17,517	96%	\$ 8,496	49%
Advertising	673	3	715	4	(42)	(6)
Other revenues	273	1	29	—	244	841
Total revenues	<u>26,959</u>	<u>100</u>	<u>18,261</u>	<u>100</u>	<u>8,698</u>	<u>48</u>
Cost of revenues	<u>16,874</u>	<u>63</u>	<u>11,669</u>	<u>64</u>	<u>5,205</u>	<u>45</u>
Gross profit	10,085	37	6,592	36	3,493	53
Operating expenses:						
Sales and marketing	4,017	15	2,241	12	1,776	79
Technology support	1,924	7	1,705	9	219	13
General and administrative	3,022	11	2,290	13	732	32
Depreciation and amortization	434	2	424	2	10	2
Litigation settlements	(68)	—	(71)	—	3	(4)
Total operating expenses	<u>9,329</u>	<u>35</u>	<u>6,589</u>	<u>36</u>	<u>2,740</u>	<u>42</u>
Operating income	756	2	3	—	753	25,100
Interest and other income (expense), net	(166)	(1)	402	2	(568)	(141)
Income before income tax provision	590	1	405	2	185	46
Income tax provision	220	—	71	—	149	210
Net income	<u>\$ 370</u>	<u>1%</u>	<u>\$ 334</u>	<u>2%</u>	<u>\$ 36</u>	<u>11%</u>

Leads. Purchase request revenues increased \$8.5 million or 49% in the first quarter of 2014 compared to the first quarter of 2013 primarily due to a 44% increase in lead volume as a result of strong demand across nearly all programs, with a major Manufacturer starting a lead program with Autobytel as a primary supplier, as well as additional revenues of \$5.3 million (\$4.2 million net of eliminations related to intercompany transactions and direct delivery to wholesale channels) from the acquisition of AutoUSA.

Advertising. Advertising revenues decreased \$42,000 or 6% in the first quarter of 2014 compared to the first quarter of 2013 as a result of a reduction in data licensing revenue.

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Other Revenues. Other revenues increased \$0.2 million in the first quarter of 2014 compared to the first quarter of 2013 due to increased sales of the Company's mobile products.

Cost of Revenues. Cost of revenues consists of purchase request and traffic acquisition costs and other cost of revenues. Purchase request and traffic acquisition costs consist of payments made to our purchase request providers, including internet portals and on-line automotive information providers. Other cost of revenues consists of search engine marketing ("SEM") and fees paid to third parties for data and content, including search engine optimization ("SEO") activity, included on our websites, connectivity costs, development costs related to our websites, compensation related expense and technology license fees, server equipment depreciation and technology amortization directly related to the Company's websites. SEM, sometimes referred to as paid search marketing, is the practice of bidding on keywords on search engines to drive traffic to a website.

Cost of revenues increased \$5.2 million or 45% in the first quarter of 2014 compared to the first quarter of 2013 primarily due to a corresponding increase in lead volume.

Sales and Marketing. Sales and marketing expense includes costs for developing our brand equity, personnel costs and other costs associated with Dealer sales, website advertising, Dealer support and bad debt expense. Sales and marketing expense in the first quarter of 2014 increased by \$1.8 million or 79% compared to the first quarter of 2013 due principally to an increase in headcount-related expenses associated with the acquisition of AutoUSA.

Technology Support. Technology support expense includes compensation, benefits, software licenses and other direct costs incurred by the Company to enhance, manage, maintain, support, monitor and operate the Company's websites and related technologies, and to operate the Company's internal technology infrastructure. Technology support expense in the first quarter of 2014 increased by \$0.2 million or 13% compared to the first quarter of 2013 due to increased headcount-related expense.

General and Administrative. General and administrative expense consists of executive, financial and legal personnel expenses and costs related to being a public company. General and administrative expense in the first quarter of 2014 increased by \$0.7 million or 32% compared to the first quarter of 2013 due to an increase in headcount-related compensation costs and professional fees associated with increased merger and acquisition activity.

Depreciation and amortization. Depreciation and amortization expense in the first quarter of 2014 remained relatively flat at \$0.4 million compared to the first quarter of 2013 primarily due to the addition of intangible assets related to the acquisitions of Advanced Mobile and AutoUSA offset by a portion of the intangible assets related to the Cyber acquisition being fully amortized in 2013.

Litigation settlements. Payments primarily from settlement of patent infringement claims against third parties relating to the third party's methods of Lead delivery for the first quarter of 2014 were \$68,000 and were essentially flat from the first quarter of 2013.

Interest and other income (expense), net. Interest and other expense was \$166,000 for the first quarter of 2014 compared to interest and other income of \$0.4 million for the first quarter of 2013. The first quarter of 2014 included interest expense of \$0.2 million compared to \$75,000 in the first quarter of 2013. The first quarter of 2013 also included receipt of \$0.5 million related to early termination of a license agreement pursuant to which the Company, as licensor, had licensed certain rights in the Company's proprietary software, business procedures, and brand.

Income taxes. Income tax expense was \$220,000 in the first quarter of 2014 compared to income tax expense of \$71,000 in the first quarter of 2013. Income tax expense for the first quarter of 2014 differed from the federal statutory rate primarily due to state income taxes and permanent non-deductible tax items, while income tax for the first quarter of 2013 differed from the federal statutory rate primarily due to various state minimum taxes and the deferred tax liability related to tax deductible goodwill amortization.

Liquidity and Capital Resources

The table below sets forth a summary of our cash flows for the three months ended March 31, 2014 and 2013:

	Three Months Ended March 31,	
	2014	2013
	<i>(in thousands)</i>	
Net cash provided by (used in) operating activities	\$ 875	\$ (372)
Net cash used in investing activities	(10,300)	(198)
Net cash provided by (used in) financing activities	9,752	(8)

Our principal sources of liquidity are our cash and cash equivalents balances and positive operating cash flow. Our cash and cash equivalents totaled \$19.3 million as of March 31, 2014 compared to cash and cash equivalents of \$18.9 million as of December 31, 2013.

On February 13, 2012, we announced that the Board of Directors had approved a stock repurchase program that authorized the repurchase of up to \$1.5 million of Company common stock. The Board of Directors authorized us to repurchase an additional \$2.0 million of Company common stock on June 7, 2012. Under these repurchase programs, we may repurchase common stock from time to time on the open market or in private transactions. This authorization does not require us to purchase a specific number of shares, and the Board of Directors may suspend, modify or terminate the programs at any time. We would fund repurchases through the use of available cash. We began repurchasing Company common stock on March 7, 2012. No shares have been repurchased since 2012. The shares repurchased in 2012 were cancelled by the Company and returned to authorized and unissued shares.

Credit Facility and Term Loan. On January 13, 2014, the Company entered into a Credit Facility Amendment with Union Bank, amending the Company's existing Loan Agreement with Union Bank initially entered into on February 26, 2013, and amended on September 10, 2013 (the existing Loan Agreement, as amended to date, is referred to herein collectively as the "**Credit Facility Agreement**"). The Credit Facility Amendment provides for (i) a new \$9.0 million term loan ("**Term Loan**"); and (ii) amendments to the Company's existing \$8.0 million revolving line of credit ("**Revolving Loan**").

The Term Loan is amortized over a period of four years, with fixed quarterly principal payments of \$562,500. Borrowings under the Term Loan or under the Revolving Loan bear interest at either (i) the bank's Reference Rate (prime rate) minus 0.50% or (ii) the LIBOR plus 2.50% (an increase under the existing Revolving Loan from 1.50%), at the option of the Company. Interest under both the Term Loan and the Revolving Loan adjust (i) at the end of each LIBOR rate period (1, 2, 3, 6 or 12 months terms) selected by the Company, if the LIBOR rate is selected; or (ii) with changes in Union Bank's Reference Rate, if the Reference Rate is selected. The Company also pays a commitment fee of 0.10% per year on the unused portion of the Revolving Loan payable quarterly in arrears. Borrowings under the Term Loan and the Revolving Loan are secured by a first priority security interest on all of the Company's personal property (including, but not limited to, accounts receivable) and proceeds thereof. The Term Loan matures December 31, 2017, and the maturity date of the Revolving Loan was extended from February 28, 2015 to March 31, 2017. Borrowings under the Revolving Loan may be used as a source to finance capital expenditures, acquisitions and stock buybacks and for other general corporate purposes. Borrowing under the Term Loan was limited to use for the acquisition of AutoUSA, and the Company drew down the entire \$9.0 million of the Term Loan, together with \$1.0 million under the Revolving Loan, in financing this acquisition. The outstanding balance of the term loan and credit facility as of March 31, 2014 was \$8.4 million and \$5.25 million, respectively.

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Net Cash Provided by Operating Activities. Net cash provided by operating activities in the three months ended March 31, 2014 of \$0.9 million resulted primarily from net income of \$0.4 million, as adjusted for non-cash charges to earnings, in addition to cash used to reduce accrued liabilities of \$1.1 million primarily related to the payment of annual incentive compensation amounts and severance accrued in 2013 and paid in the first three months of 2014 offset by a \$0.8 million decrease in our accounts receivable balance related to the timing of payments received from our customers and a \$0.2 million increase in our accounts payable balance related to the timing of payments made. Net cash used in operating activities in the three months ended March 31, 2013 of \$0.4 million resulted primarily from net income of \$0.3 million, as adjusted for non-cash charges to earnings, in addition to cash used to reduce accrued liabilities of \$1.0 million primarily related to the payment of annual incentive compensation amounts and severance accrued in 2012 and paid in the first three months of 2013, a \$1.8 million increase in our accounts receivable balance related to the timing of payments received from our customers offset by a \$1.4 million increase in our accounts payable balance related to the timing of payments made.

Net Cash Used in Investing Activities. Net cash used in investing activities was \$10.3 million in the three months ended March 31, 2014 primarily related to the acquisition of AutoUSA. Net cash used in investing activities was \$0.2 million in the three months ended March 31, 2013 primarily related to purchases of property and equipment.

Net Cash Provided by (Used in) Financing Activities. Stock options for 73,603 shares of stock were exercised in the three months ended March 31, 2014 resulting in \$0.3 million cash inflow. We also borrowed \$9.0 million and \$1.0 million against the Term Loan and Revolving Loan, respectively, to fund the purchase of AutoUSA in the three months ended March 31, 2014. Payments of \$0.6 million were made against the Term Loan borrowings in the three months ended March 31, 2014. Stock options for 8,000 shares of stock were exercised in the three months ended March 31, 2013 resulting in \$20,000 cash inflow. Net cash used in financing activities in the three months ended March 31, 2013 also consisted of contingent payments of \$28,000 related to the Cyber acquisition.

Off-Balance Sheet Arrangements

At March 31, 2014, we had no off-balance sheet arrangements as defined in Regulation S-K, Item 303(a)(4)(D)(ii).

Item 3. Quantitative and Qualitative Disclosures about Market Risk

In the ordinary course of business, we are exposed to various market risk factors, including fluctuations in interest rates and changes in general economic conditions. For the three months ended March 31, 2014 there were no material changes in the information required to be provided under Item 305 of Regulation S-K from the information disclosed in Item 7A of the 2013 Form 10-K.

Item 4. Controls and Procedures

As of the end of the period covered by this Quarterly Report on Form 10-Q, we carried out an evaluation under the supervision and with the participation of our management, including our Chief Executive Officer and our Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures pursuant to Rule 13a-15 under the Securities Exchange Act of 1934, as amended (“**Exchange Act**”). Based on the evaluation, our Chief Executive Officer and our Chief Financial Officer believe that, as of the end of the period covered by this Quarterly Report on Form 10-Q, our disclosure controls and procedures were effective at ensuring that the information required to be disclosed by us in the reports that we file or submit under the Exchange Act is (i) recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms and (ii) accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required financial disclosure.

As of the end of the period covered by this Quarterly Report on Form 10-Q, there were no changes in our internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) that have materially affected, or were reasonably likely to materially affect, our internal control over financial reporting.

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Our management, including our Chief Executive Officer and our Chief Financial Officer, does not expect that our disclosure controls and internal control over financial reporting will prevent all error 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 the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of a simple error or mistake. Additionally, controls may 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, a control 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 II. OTHER INFORMATION

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

On January 1, 2014 and in connection with the acquisition of all the outstanding membership interest in AutoUSA, the Company issued the AutoUSA Note and AutoUSA Warrant. See Note 2 of the “Notes to Unaudited Consolidated Condensed Financial Statements” included in Part I, Item 1 of this Form 10-Q. The Company relied on the exemption set forth in Section 4(2) of the Securities Act of 1933, as amended.

Item 6. Exhibits

- | | |
|------|--|
| 2.1† | Asset Purchase Agreement dated as of September 16, 2010, by and among Autotropolis, Inc., a Florida corporation, Cyber Ventures, Inc., a Florida corporation, William Ferriolo, Ian Bentley and the Ian Bentley Revocable Trust created U/A/D 3/1/2005, Autobytel Inc., a Delaware corporation, and Autobytel Acquisition Subsidiary, Inc., a Delaware corporation, which is incorporated herein by reference to Exhibit 2.1 of the Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2010 filed with the SEC on November 12, 2010 (SEC File No. 001-34761) |
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| 3.1 | Fifth Amended and Restated Certificate of Incorporation of Autobytel Inc. (formerly Autobytel.com Inc. (“ Autobytel ” or the “ Company ”)) certified by the Secretary of State of Delaware (filed December 14, 1998), <i>as amended by</i> Certificate of Amendment dated March 1, 1999, Second Certificate of Amendment of the Fifth Amended and Restated Certificate of Incorporation of Autobytel dated July 22, 1999, Third Certificate of Amendment of the Fifth Amended and Restated Certificate of Incorporation of Autobytel dated August 14, 2001, Certificate of Designation of Series A Junior Participating Preferred Stock dated July 30, 2004, and Amended Certificate of Designation of Series A Junior Participating Preferred Stock dated April 24, 2009, which is incorporated herein by reference to Exhibit 3.1 of the Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2009 filed with the SEC on April 24, 2009 (SEC File No. 000-22239), <i>as amended by</i> the Fourth Certificate of Amendment of the Fifth Amended and Restated Certificate of Incorporation of Autobytel effective as of July 11, 2012, which is incorporated by reference to Exhibit 3.1 of the Current Report on Form 8-K filed with the SEC on July 12, 2012 (SEC File No. 001-34761), <i>and as amended by</i> Fifth Certificate of Amendment to Fifth Amended and Restated Certificate of Incorporation of Autobytel Inc. dated July 3, 2013, which is incorporated by reference to Exhibit 3.3 of the Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2013 filed with the SEC on August 1, 2013 (SEC File No. 001-34761) |
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4.2	Tax Benefit Preservation Plan dated as of May 26, 2010, between Autobytel Inc. and Computershare Trust Company, N.A., as rights agent, together with the following exhibits thereto: Exhibit A – Form of Right Certificate; and Exhibit B – Summary of Rights to Purchase Shares of Preferred Stock of Autobytel Inc., which is incorporated by reference to Exhibit 4.1 to the Current Report on Form 8-K filed with the SEC on June 2, 2010 (SEC File No. 000-22239)
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101.SCH††	XBRL Taxonomy Extension Schema Document
101.CAL††	XBRL Taxonomy Calculation Linkbase Document
101.DEF††	XBRL Taxonomy Extension Definition Document
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- * Filed or furnished herewith.
- † Certain schedules in this Exhibit have been omitted in accordance with Item 601(b)(2) of Regulation S-K. Autobytel will furnish supplementally a copy of any omitted schedule or exhibit to the Securities and Exchange Commission upon request; provided, however, that Autobytel may request confidential treatment pursuant to Rule 24b-2 of the Securities Exchange Act of 1934, as amended, for any schedule or exhibit so furnished.
- †† Furnished with this report. In accordance with Rule 406T of Regulation S-T, the information in these exhibits shall not be deemed to be “filed” for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to liability under that section, and shall not be incorporated by reference into any registration statement or other document filed under the Securities Act of 1933, as amended, except as expressly set forth by specific reference in such filing.
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- Management Contract of Compensatory Plan or Arrangement



Glenn E. Fuller
Executive Vice President, Chief Legal and
Administrative Officer and Secretary
Direct Line: 949.862.1392
Facsimile: 949.797.0484
glennf@autobytel.com

March 31, 2013

William Ferriolo
[Personal Information Redacted]

Re: Amended and Restated Employment Agreement

Dear William:

This agreement confirms, updates and restates the terms and conditions upon which you are employed by Autobytel Inc., a Delaware corporation ("**Company**"), as of March 31, 2013 ("**Amendment Effective Date**").

1. Employment

(a) As of the Amendment Effective Date you are employed as the Company's Senior Vice President, Consumer Acquisitions. In such capacity, you will report to the Company's President and Chief Executive Officer or such other senior executive officer as designated by the Company from time to time.

(b) This agreement shall govern your employment for the period commencing as of the Amendment Effective Date and continuing until September 30, 2015. Notwithstanding the foregoing governing period, your employment is at will and not for a specified term and may be terminated by the Company or you at any time, with or without cause or good reason and with or without prior, advance notice. This "at-will" employment status will remain in effect throughout the term of your employment by the Company and cannot be modified except by a written amendment to this offer letter that is executed by both parties (which in the case of the Company, must be executed by the Company's Chief Legal Officer) and that expressly negates the "at-will" employment status.

(c) Upon any termination of your employment by either party, whether with or without cause or good reason, you will be entitled to receive only such severance benefits, if any, as are set forth in that certain Severance Benefits Agreement dated as of September 17, 2010 between you and the Company, as amended by that certain Amendment No. 1 to Severance Benefits Agreement dated as of November 30, 2012 (the original Severance Benefits Agreement, as amended, is referred to herein as the "**Severance Benefits Agreement**"), as the Severance Benefits Agreement may be further amended, modified or terminated by agreement of the parties. Receipt of any such severance benefits is subject to your compliance with the terms and conditions of the Severance Benefits Agreement. You agree to assist and cooperate (including, but not limited to, providing information to the Company and/or testifying in a proceeding) in the investigation and handling of any internal investigation, legislative matter, or actual or threatened court action, arbitration, administrative proceeding, or other claim involving any matter that arose during the period of your employment. You shall be reimbursed for reasonable expenses actually incurred in the course of rendering such assistance and cooperation. Your agreement to assist and cooperate shall not affect in any way the content of information or testimony provided by you.

(d) You will be governed by and will comply with by Company policies and procedures, as such policies and procedures may exist from time to time, generally applicable to all Company employees, including the Company's Employee Handbook, Securities Trading Policy, Code of Conduct and Ethics for Employees, Officer and Directors, and Sexual Harassment Policy, copies of which you acknowledge have been provided to you.

2. Compensation, Benefits and Expenses.

(a) As compensation for the services to be rendered by you pursuant to this agreement, the Company hereby agrees to pay you at a Semi-Monthly Rate equal to Ten Thousand Four Hundred Sixteen Dollars and Sixty-Seven Cents (\$10,416.67). The Semi-Monthly Rate shall be paid in accordance with the normal payroll practices of the Company.

(b) You shall be entitled to participate in annual incentive compensation plans, if any, that may be adopted by the Company from time to time and that are afforded generally to persons employed by the Company at your position level (subject to the terms and conditions of any such annual incentive compensation plans). Should such an annual incentive bonus plan be adopted for any annual period, your target annual incentive compensation opportunity will be as established by the Company for each annual period, which may be up to 55% of your annualized rate (i.e., 24 X Semi-Monthly Rate) based on achievement of objectives specified by the Company each annual incentive compensation period (which may include Company-wide performance objectives, divisional or department performance objectives, individual performance objectives and/or subjective performance evaluations, allocated between and among such performance objectives and evaluations as the Company may determine in its sole discretion). Specific annual incentive compensation plan details, target incentive compensation opportunity and objectives for each annual compensation plan period will be set forth in written documents provided to you by the Company. Awards under annual incentive plans may be prorated for a variety of factors, including time employed by the Company during the year, adjustments in base compensation or target award percentage changes during the year, and unpaid leaves. You understand that the Company's annual incentive compensation plans, their structure and components, specific target incentive compensation opportunities and objectives, and the achievement of objectives and payouts, if any, thereunder are subject to the sole discretion of the Company's Board of Directors, or a committee thereof.

(c) You shall be entitled to participate in such ordinary and customary benefits plans afforded generally to persons employed by the Company at your level (subject to the terms and conditions of such benefit plans, your making of any required employee contributions required for your participation in such benefits, your ability to qualify for and satisfy the requirements of such benefits plans).

(d) You are solely responsible for the payment of any tax liability that may result from any compensation, payments or benefits that you receive from the Company. The Company shall have the right to deduct or withhold from the compensation due to you hereunder any and all sums required by applicable federal, state, local or other laws, rules or regulations, including, without limitation federal and state income taxes, social security or FICA taxes, and state unemployment taxes, now applicable or that may be enacted and become applicable during your employment by the Company.

3. Other Employment Documents. You acknowledge and agree that you continue to be subject to and bound by the terms and conditions of the following agreements: (i) Employee Confidentiality and Non-Compete Agreement dated as of September 17, 2010; and (ii) Mutual Agreement to Arbitrate dated as of September 17, 2010.

4. Prior Employment Requirements or Obligations. The Company requires that you comply with all terms and conditions of any employment or other agreements or legal obligations or requirements you may have with or owe to your current or former employers. In particular, the Company requires that you comply with the terms and conditions of any confidentiality or non-disclosure agreements, policies or other obligations You may owe your former employers, and Employee shall not disclose to the Company or provide the Company with copies of any confidential or proprietary information or trade secrets of any former employer. The Company expects that you will comply with any notification requirements relating to the termination of your employment with your current employer and will adjust the anticipated Commencement Date accordingly to accommodate any required notice period. By execution below, you represent and warrant to Company that your employment with the Company will not violate the terms and conditions of any agreement entered into by you prior to your employment with Company.

5. **Amendments and Waivers.** This agreement may be amended, modified, superseded, or cancelled, and the terms and conditions hereof may be waived, only by a written instrument signed by the parties hereto or, in the case of a waiver, by the party waiving compliance. No delay on the part of any party in exercising any right, power, or privilege hereunder will operate as a waiver thereof, nor will any waiver on the part of any party of any right hereunder, nor any single or partial exercise of any rights hereunder, preclude any other or further exercise thereof or the exercise of any other right hereunder.

6. **Notices.** Any notice required or permitted under this agreement will be considered to be effective in the case of (i) certified mail, when sent postage prepaid and addressed to the party for whom it is intended at its address of record, three (3) days after deposit in the mail; (ii) by courier or messenger service, upon receipt by recipient as indicated on the courier's receipt; or (iii) upon receipt of an Electronic Transmission by the party that is the intended recipient of the Electronic Transmission. The record addresses, facsimile numbers of record, and electronic mail addresses of record for you are set forth on the signature page to this agreement and for the Company as set forth in the letterhead above and may be changed from time to time by notice from the changing party to the other party pursuant to the provisions of this Section 6. For purposes of this Section 6, "**Electronic Transmission**" means a communication (i) delivered by facsimile, telecommunication or electronic mail when directed to the facsimile number of record or electronic mail address of record, respectively, which the intended recipient has provided to the other party for sending notices pursuant to this Agreement and (ii) that creates a record of delivery and receipt that is capable of retention, retrieval, and review, and that may thereafter be rendered into clearly legible tangible form.

7. **Choice of Law.** This agreement, its construction and the determination of any rights, duties or remedies of the parties arising out of or relating to this agreement will be governed by, enforced under and construed in accordance with the laws of the State of Florida, regardless of the laws that might otherwise govern under applicable principles of conflicts of laws of such state.

8. **Severability.** Each term, covenant, condition, or provision of this agreement will be viewed as separate and distinct, and in the event that any such term, covenant, condition or provision will be deemed to be invalid or unenforceable, the arbitrator or court finding such invalidity or unenforceability will modify or reform this agreement to give as much effect as possible to the terms and provisions of this agreement. Any term or provision which cannot be so modified or reformed will be deleted and the remaining terms and provisions will continue in full force and effect.

9. **Interpretation.** Every provision of this agreement is the result of full negotiations between the parties, both of whom have either been represented by counsel throughout or otherwise been given an opportunity to seek the aid of counsel. No provision of this agreement shall be construed in favor of or against any of the parties hereto by reason of the extent to which any such party or its counsel participated in the drafting thereof. Captions and headings of sections contained in this agreement are for convenience only and shall not control the meaning, effect, or construction of this agreement. Time periods used in this Agreement shall mean calendar periods unless otherwise expressly indicated.

10. **Entire Agreement.** This agreement, together with the Company policies and procedures referenced above in Section 1(d) and the agreements referenced above in Sections 1(c) and 3, is intended to be the final, complete and exclusive agreement between the parties relating to your employment by the Company and all prior or contemporaneous understandings, representations and statements, oral or written, are merged herein. No modification, waiver, amendment, discharge or change of this agreement shall be valid unless the same is in writing and signed by the party against which the enforcement thereof is or may be sought.

11. **Counterparts; Facsimile or PDF Signature.** This agreement may be executed in counterparts, each of which will be deemed an original hereof and all of which together will constitute one and the same instrument. This agreement may be executed by facsimile or PDF signature by either party and such signature shall be deemed binding for all purposes hereof, without delivery of an original signature being thereafter required.

This offer shall expire seven (7) calendar days from the date of this offer letter. Should you wish to accept this offer and its terms and conditions, please confirm your understanding of, agreement to, and acceptance of the foregoing by signing and returning to the undersigned the duplicate copy of this offer letter enclosed herewith.

Autobytel Inc., a Delaware corporation

By: /s/ Glenn E. Fuller
Glenn E. Fuller
EVP, Chief Legal and Administrative Officer and Secretary

Accepted and Agreed as of the date first written above:

/s/ William Ferriolo
William Ferriolo
[Personal Information Redacted]

CERTIFICATION

I, Jeffrey H. Coats, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Autobyte Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and we have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 1, 2014

/s/ Jeffrey H. Coats

Jeffrey H. Coats
President and Chief Executive Officer

CERTIFICATION

I, Curtis E. DeWalt, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Autobyte Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and we have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 1, 2014

/s/ Curtis E. DeWalt

Curtis E. DeWalt,
Senior Vice President and
Chief Financial Officer

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Autobytel Inc. (the “*Company*”) on Form 10-Q for the period ended March 31, 2014 (the “*Report*”), we, Jeffrey H. Coats, President and Chief Executive Officer of the Company, and Curtis E. DeWalt, Senior Vice President and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

/s/ Jeffrey H. Coats
Jeffrey H. Coats
President and Chief Executive Officer
May 1, 2014

/s/ Curtis E. DeWalt
Curtis E. DeWalt
*Senior Vice President and
Chief Financial Officer*
May 1, 2014

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signatures that appear in typed form within the electronic version of this written statement required by Section 906, has been provided to Autobytel Inc. and will be retained by Autobytel Inc. and furnished to the Securities and Exchange Commission or its staff upon request.
