



October 9, 2017

QUESTIONS AND ANSWERS ABOUT THE TAX BENEFIT PRESERVATION PLAN

This Question and Answer guide is meant as a useful summary and is not intended as a complete description of the AutoWeb, Inc., formerly Autobyte Inc. (“**AutoWeb**” or “**Company**”), Tax Benefit Preservation Plan, as amended from time to time (“**Plan**”). Please refer to the accompanying Summary of Rights to Purchase Shares of Series A Junior Participating Preferred Stock for more information. Additionally, the full text of the Plan is available under “Financial Information” in the “Investor Relations” section of our website located at www.autoweb.com.

1. What is the Plan?

The Plan was adopted by the Company’s Board of Directors (“**Board**”) to preserve the Company’s Net Operating Loss Carryforwards (“**NOLs**”) and other tax attributes and thus reduce the risk of a possible change of ownership under Section 382 of the Internal Revenue Code (“**Section 382**”). Any such change of ownership under Section 382 would limit or eliminate the ability of the Company to use its existing NOLs for federal income tax purposes. Rights issued under the Plan could be triggered upon the acquisition by any person or group of 4.9% or more of the Company’s outstanding common stock and could result in substantial dilution of the acquirer’s percentage ownership in the Company. There is no guarantee that the Plan will achieve the objective of preserving the value of the Company’s NOLs. For more information, please visit <http://investor.autoweb.com/tax.cfm>.

2. What are the tax benefits?

The tax benefits are AutoWeb’s net operating loss carryovers and other tax attributes that can generally be used to offset future taxable income and therefore reduce federal income tax obligations. The Company’s ability to use the tax benefits could be adversely affected if AutoWeb experiences an “ownership change” as defined under Section 382.

3. When does an “ownership change” occur under Section 382?

An ownership change for purposes of Section 382 is a technical concept under the federal tax laws that is different from a change in beneficial ownership under the rules and regulations of the Securities and Exchange Commission (“**SEC**”). In general, an ownership change will occur if AutoWeb’s “five-percent shareholders” (as defined in Section 382) collectively increase their ownership in AutoWeb by more than 50 percentage points over a rolling three-year period.

4. If there is an “ownership change,” what is the risk to AutoWeb’s tax benefits?

If AutoWeb experiences an “ownership change,” as defined under Section 382, AutoWeb’s use of the tax benefits to offset future taxable income, and therefore reduce its federal income tax obligations, could be substantially limited, and AutoWeb may have to write down a significant portion of these assets.

5. How does the Plan work to protect AutoWeb’s tax benefits?

The Plan reduces the likelihood that AutoWeb experiences an ownership change under Section 382 by discouraging any stockholder from becoming a five-percent shareholder under Section 382 and discouraging any existing five-percent shareholders from acquiring additional shares of AutoWeb’s common stock. For additional information regarding a stockholder that triggers the Plan, see Question and Answer 14.

6. How is ownership determined under the Plan?

Under the Plan, ownership is in general determined under the applicable rules and regulations of the Internal Revenue Code, including Section 382, which focus on actual economic ownership by a stockholder and persons related to, or acting in concert with, the stockholder, as well as the concept of “beneficial ownership” of Rule 13d-3 of the Securities Exchange Act of 1934, as amended, which focuses generally on the right to vote and control disposition of the shares.

7. Have other companies adopted similar plans to protect tax benefits?

Yes, many companies have adopted similar plans to protect their tax benefits.

8. Is the Plan subject to stockholder approval?

Yes, our stockholders ratified the Plan at our 2017 Annual Meeting of Stockholders.

9. When will the Rights expire or the Plan terminate?

The Plan was adopted to protect AutoWeb’s tax benefits and will remain effective as long as it helps preserve the tax benefits. Accordingly, the Plan will expire and terminate upon the earliest of:

- the beginning of a taxable year of the Company for which the Board determines that no tax benefits may be carried forward;
- the repeal of Section 382 or any successor statute if the Board determines that the Plan is no longer necessary for the preservation of the Company’s tax benefits;
- the time when the Board determines that a limitation on the use of the tax benefits under Section 382 would no longer be material to the Company; or
- the close of business on May 26, 2020 (unless that date is advanced or extended).

The Board also has the right to redeem the Rights at any time before a stockholder acquires sufficient shares to trigger the Plan.

10. What is the dividend of Rights?

In connection with the Plan, the Board declared a dividend distribution of five Rights for each outstanding share of AutoWeb’s common stock. The Rights are not initially exercisable. If they were exercisable, the terms of the Rights would entitle the holder to purchase 1/100 of a share of a series of preferred stock for \$73.00 or, in certain circumstances, to instead acquire shares of common stock. Each 1/100 of a share of preferred stock is intended to be the economic equivalent of one share of common stock.

11. Why is my Right a right to purchase preferred stock rather than common stock?

Preferred stock is used so that AutoWeb’s authorized common stock could be used for other purposes and would not have to be reserved for issuance upon exercise of the Rights. The dividend and liquidation rights of the preferred stock are designed so that each 1/100 of a share of preferred stock has rights similar to one share of common stock. However, except in specific and limited circumstances, the preferred stock does not have any voting rights. However, if the Rights become exercisable and a stockholder exceeds the ownership limitations in the Plan, as described in Question and Answer 14, they will be exercisable for shares of AutoWeb’s common stock (or in certain circumstances, for common

stock equivalents).

12. How are my Rights evidenced before the Plan is triggered?

Before the Plan is triggered and the Rights become exercisable, the Rights are essentially “stapled” to the common stock and are deemed to be represented by the common stock certificates or the book entry records for common stock. The Rights may only be transferred with the corresponding shares of common stock. Also, Rights will be issued with any newly issued shares of common stock of the Company.

13. When do my Rights first become exercisable?

The Rights currently are not exercisable. The Rights will “detach” from the common stock and become exercisable only if the Plan is triggered. This generally occurs upon the earlier of: (i) 10 business days following the a public announcement that any person has acquired ownership of 4.90% or more of AutoWeb’s common stock or (ii) 10 business days after the date of commencement of a tender offer or exchange that would result, upon consummation, in that person, entity or group owning 4.90% or more of AutoWeb’s common stock. For stockholders who currently hold 4.90% or more of AutoWeb’s common stock, any further acquisitions of shares of common stock will trigger the Plan and cause the Rights to detach and become exercisable. The Board can exempt transactions and persons from the impact of the Plan if it determines that the acquisition would not be likely to directly or indirectly limit the availability of AutoWeb’s tax benefits or is otherwise in the best interests of the Company. The Board does not have any obligation, implied or otherwise, to grant such an exemption. Also, see Question and Answer 18 below.

14. What happens when the Rights detach and become exercisable?

If the Rights detach and become exercisable and a stockholder has exceeded the ownership thresholds in the Plan, then each holder of a Right, other than Rights held by the stockholder that triggered the Plan or its related persons or transferees, will be entitled to purchase shares of AutoWeb common stock with a value of two times the exercise price of the Rights. The initial exercise price is set at \$73.00 and is subject to anti-dilution adjustments under the terms of the Plan.

15. How are my Rights evidenced if the Plan is triggered?

If the Plan is triggered, the Rights will detach from each share of AutoWeb common stock and Rights Certificates will be distributed to the holders (except for an acquiring stockholder that triggers the Plan, related persons, or transferees, none of whom will be able to exercise the Rights). After that time, the Rights will be solely evidenced by the Right Certificates and will trade separately from the common stock.

16. How can the Rights be exercised after a triggering event?

If the Plan is triggered, the Rights Agent will mail Right Certificates representing the Rights to holders of record (except for the stockholder that triggered the Plan, its related persons and transferees), who may return the completed Form of Election to Purchase along with the exercise price.

Additionally, if the Plan is triggered, the Board has the discretion to permit a “cashless exercise” of the Rights. If the Board permits a “cashless exercise,” then holders of the Rights (except for the stockholder that triggered the Plan, its related persons and transferees) may exercise the Rights without payment of the exercise price, simply by surrendering the Right Certificates and associated Rights for half the number shares of common stock that would otherwise be received upon exercise and payment.

17. May the Board exchange the Rights following a triggering event?

Yes, after a triggering event and before the stockholder that triggered the Plan acquires 50% or more of the shares of AutoWeb common stock, the Board may choose to “exchange” the Rights into shares of common stock at a one-to-one ratio. The holders of Rights would not be required to pay an exercise price. An exchange effected by the Board would likely give each holder of a Right an amount of shares less than the holder would receive under the two methods of exercise described in Question and Answer 16 and, therefore, would have a less dilutive effect on the stockholder that triggered the Plan.

18. Are there exemptions to the terms of the Plan?

Yes. Acquisitions by the Company, its subsidiaries and its employee benefit plans and related entities or trustees are exempt under the Plan.

The Board may choose to exempt an acquisition if the Board determines that the acquisition was inadvertent and the stockholder promptly divests of sufficient shares. Also, the Board may exempt persons or transactions from the terms of the Plan if it determines that the acquisition would not be likely to directly or indirectly limit the availability of AutoWeb’s tax benefits or is otherwise in the best interests of the Company. The Board has no obligation, however, to grant such an exemption.

19. What rights do I have as a Right holder?

Until a Right is exercised or exchanged as described in Questions and Answers 16 and 17, it does not entitle you to any additional rights as a stockholder of the Company, including voting or dividend rights.

20. Will the Plan or the dividend of Rights affect earnings per share or be a taxable event?

No. The adoption of the Plan is not dilutive and will not affect reported earnings per share nor was the distribution of the Rights a taxable event for you as a stockholder or for the Company.

21. Where will the Rights be traded?

Before the Plan is triggered, the Rights are essentially “stapled” to AutoWeb’s common stock and are deemed to be represented by the common stock certificates or the book entry records for AutoWeb common stock. The Rights are listed and traded on the NASDAQ Stock Market with AutoWeb’s common stock, and there is no separate trading market for the Rights.

22. May the Board redeem the Rights and at what price?

In general, the Board of Directors may redeem the Rights at any time until the Rights become exercisable. The redemption price is \$0.001 per Right, subject to rounding to the nearest \$0.01.

23. May additional Rights be issued after the date the Plan is adopted, including in connection with common stock issuances upon the exercise of stock options and convertible security conversions?

As described in Question and Answer 12, before the Plan is triggered, all common stock issued by the Company will be issued with corresponding Rights.

If the Plan were triggered and Right Certificates were distributed, the Company would issue Rights in connection with future issuances of the common stock: only upon the exercise of stock options or under any employee plan or arrangement; upon the exercise, conversion or exchange of securities

issued by the Company; or in connection with a contractual obligation of the Company, in each case, only if such options, employee plans, securities or obligations existed before the Plan was triggered.

24. May the Board amend the provisions of the Plan?

As long as the Rights are redeemable, the Board has the flexibility to amend the terms of the Plan other than to decrease the redemption price. Once the Rights become exercisable and Right Certificates are distributed, the Board is free to amend the terms of the Plan so long as such amendment does not adversely affect the interests of holders of outstanding Rights.

25. Where can I access the full text of the Plan?

The full text of the Plan is available under “Financial Information” in the “Investor Relations” section of AutoWeb’s website located at www.autoweb.com.