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

FORM 10-K

FOR ANNUAL AND TRANSITION REPORTS
PURSUANT TO SECTIONS 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

(Mark One)
☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2003

☐ **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 0-22239

Autobytel Inc.

(Exact Name of Registrant as Specified in Its Charter)

Delaware	**33-0711569**
(State of Incorporation)	(I.R.S. Employer Identification No.)

18872 MacArthur Boulevard
Irvine, California 92612-1400
Telephone: (949) 225-4500
(Address, including zip code, and telephone number, including area code, of registrant's principal offices)

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

Securities registered pursuant to Section 12(g) of the Act:

Common Stock, par value $0.001 per share
(Title of Class)

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

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act). Yes ☒ No ☐

Based on the closing sale price of $6.19 for our common stock on the Nasdaq National Market System on June 30, 2003, the aggregate market value of outstanding shares of common stock held by non-affiliates was approximately $218.6 million.

As of February 29, 2004, 38,475,517 shares of our common stock were outstanding.

Documents incorporated by reference. Portions of our Definitive Proxy Statement for the 2004 Annual Meeting, expected to be filed within 120 days of our fiscal year end, are incorporated by reference into Part III of this Form 10-K.

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Autobytel Inc.

ANNUAL REPORT ON FORM 10-K
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2003

PART I

Item 1. *Business*

The Securities and Exchange Commission encourages companies to disclose forward-looking information so that investors can better understand a company's future prospects and make informed investment decisions. This Annual Report and our proxy statement, parts of which are incorporated herein by reference, contain such forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Words such as "anticipate," "estimate," "expects," "projects," "intends," "plans," "believes" 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, new product expectations and capabilities, and our outlook regarding our performance and growth are forward-looking statements. This Annual Report also contains statements regarding plans, goals and objectives. There is no assurance that we will be able to carry out such plans or achieve such goals and objectives or that we will be able to successfully do so on a profitable basis. These forward-looking statements are just predictions and involve risks and uncertainties such that actual results may differ materially from these statements. Important factors that could cause actual results to differ materially from those reflected in forward-looking statements made in this Annual Report are set forth under the heading "Risk Factors." Stockholders are urged not to place undo reliance on forward-looking statements, which speak only as of the date hereof. We are under no 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. Unless specified otherwise, as used herein, the terms "we," "us" or "our" refer to Autobytel Inc. and its subsidiaries.

Overview

We are an automotive marketing services company that helps dealers sell cars and manufacturers build brands through efficient marketing, advertising and customer relationship management (CRM) tools and programs primarily through the Internet. We own and operate the car buying Web sites—Autobytel.com®, Autoweb.com® and CarSmart.com℠—and an automotive research Web site, AutoSite.com. We own AVV, Inc. (AVV), a leading provider of dealership lead management tools and dealer management system data extraction services. We are also a leading provider of automotive marketing data and technology through our Automotive Information Center (AIC) division. We believe we generated over one billion dollars a month in vehicle sales in 2003 for dealers using our services.

We provide tools and programs to automotive dealers and manufacturers to help them increase market share and reduce customer acquisition costs. Our intent is to garner an increasing share of the approximately $32 billion spent annually by dealers, dealer associations, aftermarket automotive suppliers and manufacturers on marketing and advertising services.

We are among the largest syndicated car buying content networks and reach millions of unique Internet visitors as they make their vehicle buying decisions. As of January 31, 2004, we had a total of 29,100 dealer relationships representing every major domestic and imported make of vehicle and light truck sold in the United States. Our total dealer relationships included 5,300 relationships with program dealers that participate in our online new car marketing programs and our Used Vehicle CyberStore program. Of these program dealer relationships, 2,600 relationships were with the Autobytel.com brand, 2,300 relationships were with the Autoweb.com brand and 400 relationships were with the CarSmart.com brand. As of January 31, 2004, 539 program dealers had more than one dealer relationship with us. A dealer who subscribes to the Autobytel.com new car program, Used Vehicle Cyberstore program and the Autoweb.com new car program accounts for three dealer relationships. Also included in our total dealer relationships as of January 31, 2004, were 18,700 enterprise dealer relationships with major dealer groups and automotive manufacturers or their automotive buying service affiliates through our enterprise sales initiatives and 5,100 CRM dealer relationships. The CRM dealer relationship consist of 3,400 AVV, 1,300 iManager (a lead management tool) and 400 Retention Performance Marketing℠ (RPM℠) dealer relationships.

Dealers participate in our branded networks by entering into contracts with us directly or through a major dealer group or an automotive manufacturer or its automotive buying service affiliate. In turn, we direct consumers to dealers in their local area based on the consumers' vehicle preference. We expect our dealers to promptly provide consumers a haggle-free, competitive offer within 24 hours. We recommend that each dealer have an employee whose principal responsibility is supervising its Internet business, similar to the way in which most dealers have a new vehicle sales manager, used vehicle sales manager and service and parts department managers who are responsible for those dealership functions. We believe that dealers who immediately respond to consumer inquiries, have readily available inventory and provide up-front competitive pricing benefit the most from our marketing services. Program fees paid by participating dealers constituted approximately 63% of our revenues in 2003 compared to 72% of revenues in 2002.

We connnect automotive marketers with the millions of unique car shoppers visiting our four branded Web sites (Autobytel.com, Autoweb.com, CarSmart.com and AutoSite.com) each month. We provide dynamic marketing programs that allow manufacturers to interact with Internet car shoppers as they make their car buying decisions.

Consumers come to our Web sites to research, compare and configure vehicles and to purchase vehicles through one of our network dealers. Once they are ready to buy a vehicle, consumers can submit a purchase request through any of our three online car buying Web sites — Autobytel.com, Autoweb.com or CarSmart.com — to be connected to at least one of our participating dealers. In addition, consumers have access to a diverse suite of related services information and original automotive editorial content at our research Web site, AutoSite.com.

Consumers can also purchase used vehicles at any of our car buying Web sites—Autobytel.com, Autoweb.com or CarSmart.com—through our Used Vehicle CyberStore. The CyberStore allows consumers to search for a used vehicle according to the price, make, model, color, year and location of the vehicle. The CyberStore locates and displays the description, location and, if available, actual photograph of vehicles that satisfy the consumer's search parameters. As part of our used car program, we offer consumers the ability to list used vehicles through our classified advertising service.

Through AVV, we provide dealer lead management tools and data extraction services such as Web Control® and Automotive Download Service (ADS). Web Control is a customer management tool that enables dealers to manage Internet and walk-in sales activity, maintain customer history and activity, measure and report on marketing effectiveness or return on investment, as well as establish automated marketing programs and customize sales process and workflow inside the dealership. ADS extracts data, including new and used car inventory and sales, service and finance records, from the dealership management system. Dealers use this service to post their inventory across the Internet, to report on and measure sales effectiveness, and to generate customer loyalty and retention marketing programs. This data also integrates with AVV's CRM solution, which includes automated sales prospecting and retention marketing. We are migrating our dealers who use the iManager lead management tool to WebControl.

We provide RPM to dealers and manufacturers. RPM is designed to deliver a more efficient method for dealers and manufacturers to retain their car buying and service customers. The product purifies the data in customer records, verifying contact information from within the dealership management system, then automatically outputs welcome letters or e-mails for new car buying and service customers. Service reminders and campaigns can then be sent out on a regular basis based on each customer's specific driving habits. The product also offers dealers a range of reporting and analysis capabilities. Each month, the dealership receives an executive summary that allows the dealership to measure results by showing return on investment, gross revenue generated per active customer name and response rate.

Most automotive manufacturers, including DaimlerChrysler, Ford, General Motors, Hyundai and Honda, currently use our AIC automotive data or technology to power their Web sites. In addition, major consumer portals, including MSN Autos and Yahoo, also use our content or technology.

We are a Delaware corporation. Our principal corporate offices are located in Irvine, California. We completed our initial public offering in March 1999 and our common stock is listed on the Nasdaq National Market under the symbol ABTL. Our corporate Web site is located at *www.autobytel.com*. Information on our Web site is not incorporated by reference in this Annual Report on Form 10-K. At or through the Investor Relations section of such Web site 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 such material is electronically filed with or furnished to the Securities and Exchange Commission. Our Code of Conduct and Ethics for Employees, Officers and Directors is available at the Corporate Governance link of the Investor Relations section of such Web site.

Background

Online Commerce Opportunities. Consumers have rapidly adopted the Internet into their car shopping and purchasing process and are expected to continue to do so in the future. In 1998, 25% of all new car buyers used the Internet during their car purchasing process. According to J.D. Power and Associates, that number rose to 64% in 2003. In addition, according to J.D. Power and Associates, in 2003 nearly one-half of new car buyers indicated that the Internet impacted their make/model purchase decision up from 40% in 2002. According to Jupiter Media Metrix, by 2007, 37% of all new car sales will be the direct result of a specific purchase decision made online. Studies from major third party research companies indicate that consumers prefer independent, multi-brand Web sites for product reviews, comparisons and pricing information.

The Automotive Vehicle Market. Automotive dealers operate in local markets and face significant state regulations and increasing business pressures. These fragmented markets are characterized by:

- a perceived overabundance of dealerships,
- competitive sales within regional markets,
- increasing advertising and marketing costs that continue to reduce dealer profits,
- high-pressure sales tactics with consumers, and
- large investments by dealers in inventory, real estate, construction, personnel and other overhead expenses.

The ongoing rapid adoption of the Internet by consumers during their vehicle purchasing process has resulted, in part, from the fact that consumers have traditionally entered into the highly negotiated sales process with relatively little information regarding manufacturer's costs, leasing costs, financing costs, relative specifications and other important information. In addition, the ongoing growth of new vehicle sales generated online is in part an outgrowth of the high pressure sales tactics consumers associate with the traditional vehicle buying experience. Buying a vehicle is considered to be one of the most significant purchases a United States consumer makes. According to Manheim Auctions, approximately $750 billion and $721 billion was spent on purchasing new and used vehicles in the United States in 2003 and 2002, respectively.

The Autobytel Solution

We believe that our marketing services improve the vehicle purchasing process for dealers, automotive manufacturers and consumers. The Internet's wide reach to consumers allows us to leverage our investment in branding and marketing across a very large audience to create qualified purchase requests for vehicles. For these reasons, we believe that the Internet represents the most efficient method of directing purchase requests to local markets and dealers. We believe our services enable dealers to reach consumers from an attractive demographic base, reduce marketing costs, increase consumer satisfaction and increase vehicle sales and profits. We offer automotive manufacturers qualified car buyers to target during the consumer's research and consideration phase. We offer consumers Web sites with quality automotive information, numerous tools to configure this information, and a convenient and efficient car purchasing process.

Benefits to Dealers. We believe we benefit dealers by reducing the dealers' incremental marketing costs and increasing sales volume. Franchised new car dealers spend an average of $485 in traditional marketing costs on each vehicle sold. We believe dealers' personnel costs could be reduced because we provide dealers access to potential purchasers who have completed their research and should be ready to buy or lease a vehicle. As a result, reaching these consumers and selling or leasing them vehicles costs the dealer little or no additional overhead expense other than the fees paid to us and the personnel costs of a dedicated manager. We believe franchised new car program dealers spend an average of $160 in marketing costs on each vehicle sold by using our new car marketing services. Through our WebControl system, we provide dealers with on-site technology to better track sales, inventory, customer solicitations, responses and other communications.

We direct consumers to dealers in their local area based on the consumers' vehicle preference. We believe this provides dealers access to a large number of well informed, ready-to-buy consumers which allows dealers to compete more effectively.

To incentivize a program dealer to participate in the Autobytel or CarSmart® network, each dealer is assigned an exclusive geographic territory in such network based upon specific vehicle make. A territory allocated by us to a dealer is generally larger than a territory assigned to a dealer by a manufacturer. Autoweb program dealers are not assigned exclusive territories to participate in the Autoweb network.

Benefits to Manufacturers. Research shows that of all new car buyers, 64% use the Internet while shopping. Manufacturers can influence car buyers' decisions by targeting them during their research, consideration and decision process, in particular, by using our dynamic marketing programs. In addition, manufacturers can use our AIC data and technology tools to power their own Web sites allowing consumers to configure and compare cars.

Benefits to Consumers. Because Web sites can be continually updated and provide a large quantity of quality information and because consumers have shown a preference for third party Web sites and a preference for using the Internet during their car shopping experience, we believe the Internet offers the most efficient medium for consumers to learn about and shop for vehicles. Our Web sites provide consumers free of charge up-to-date specifications and pricing information on vehicles and ready-to-print vehicle information summaries of each new make and model on the market. In addition, our consumers gain easy access to valuable automotive information, such as dealer invoice pricing and tools consisting of a lease calculator, a loan calculator to determine monthly payments and a lease or buy decision assistant. Our database of articles allows consumers to perform online library research by accessing documents such as consumer and professional reviews. Various automotive information service providers, such as Kelley Blue Book and Intelliprice, are also available on our Web sites to assist consumers with specific vehicle and related automotive decisions. Armed with such information, the consumer should be more confident and capable of making an informed and intelligent vehicle buying decision.

We believe we offer consumers a significantly different vehicle purchasing experience from that of traditional methods. Consumers using our Web sites are able to shop for a vehicle, and make financing and insurance decisions from the convenience of their own home or office. We expect dealers to provide consumers a haggle-free price quote within 24 hours and a high level of customer service. We form our dealer relationships after careful analysis of automotive sales and demographic data in each region. We seek to include in our dealer network the highest quality dealers within defined territories and terminate dealers that do not comply with the standards we set.

Strategy

We are an automotive marketing services company that helps retailers sell cars and manufacturers build brands through efficient marketing, advertising and CRM tools and programs primarily through the Internet. Since our inception we have invested heavily to build our dealer networks. We consider our dealer networks to be significant strategic assets where new services and products can be deployed. We intend to garner an increasing share of the approximately $32 billion spent annually by dealers, dealer associations, aftermarket automotive suppliers and manufacturers on marketing and advertising services. We intend to achieve this objective through the following principal strategies:

Increase the Quality and Quantity of Purchase Requests that Can Be Monetized. We believe that increasing the quality and quantity of purchase requests that can be monetized is crucial to the long-term growth and success of our business. As part of our strategy to improve the quality of purchase requests, we continue to expand the breadth and depth of information and services available through our Web sites so that well informed, ready-to-buy consumers can be directed to participating dealers. We are also investing in new initiatives to help drive an increasing number of qualified buyers to dealerships. By augmenting the volume of quality purchase requests, we expect to attract additional dealers to our networks, increase fees paid by dealers, and solidify our relationships with existing dealers. Our strategy for increasing traffic to our Web sites and the number of purchase requests that can be monetized includes forming and maintaining online sponsorships and alliances with Internet portals and with Internet automotive information providers.

Increase the Number of Profitable Relationships with Program Dealers Using Our Marketing Services. We believe that strengthening the size and quality of our program dealer networks is important to the success and growth of our business. Our strategy is to increase the size of our program dealer networks by attracting new dealers and strengthening relationships with existing dealers by:

- increasing the monetizable volume and quality of purchase requests,
- participating in industry trade shows aimed at dealers,
- providing customized dealer management reports to enhance dealership operations,
- maintaining our training and support programs to participating dealers, and
- providing our WebControl system to all participating dealers.

Increase Enterprise Sales to Major Dealer Groups and Automotive Manufacturers. We believe that strengthening the size and quality of our relationships with major dealer groups and automotive manufacturers is important to the success and growth of our business. Our strategy is to provide major dealer groups and automotive manufacturers, such as General Motors, Ford and AutoNation, with access to a large number of purchase-minded consumers. Major dealer groups are dealer groups with more than 25 dealerships with whom we have a single agreement. We have existing relationships with most automotive manufacturers and have an opportunity to expand these relationships into our other marketing services. In 2003, revenues for enterprise sales, advertising and other products and services from General Motors accounted for 10% of our total revenues. The loss of such revenues may have a material adverse effect on our business, results of operations and financial condition.

Strengthen the Advertising Component of our Business Model. Our advertising sales effort is primarily targeted to vehicle manufacturers and automotive-related mass market consumer vendors. Using the targeted nature of Internet advertising, manufacturers can advertise their brand image effectively to specific subsets of our consumers. Vehicle manufacturers can target advertisements to consumers who are researching vehicles, thereby increasing the likelihood of influencing their purchase decisions. We provide dynamic marketing programs that allow manufacturers to interact with Internet car shoppers as they make their car buying decisions.

Increase CRM Sales to Program Dealers, Major Dealer Groups and Automotive Manufacturers. We believe that providing CRM products and tools such as Web Control and RPM will strengthen the size and quality of our relationships with program dealers, major dealer groups and automotive manufacturers and will be an integral factor in the success and growth of our business. Our strategy is to provide program dealers, major dealer groups and automotive manufacturers with best in class CRM products and tools.

Enter into Acquisitions and Strategic Alliances. We intend to grow and advance our business, in part, through acquisitions and strategic alliances. We believe that acquisitions and strategic alliances can allow us to increase market share, benefit from advancements in technology and strengthen our business operations by enhancing our offering of products and services. We may acquire businesses that increase our market share in the lead referral and automotive information content businesses. In furtherance of this strategy, we acquired Autoweb.com, Inc. in August 2001. In addition, to complement our core business, we may also acquire businesses primarily focused on automotive customer relations management solutions and services, database marketing services and/or Web site management. In June 2003, we acquired AVV, a leading provider of dealership lead management tools and dealer management system data extraction services.

Invest in Other Core Product Initiatives Designed to Improve Lead Quality and Dealer Profitability. We believe that expanding our products and services offered to both manufacturers and dealers is critical to establishing ourselves as the premier provider of online automotive marketing services. In 2002, we introduced RPM. We also developed a multi-level program to further qualify consumers we send to the dealers using our services. The Autobytel Quality Verification System (QVS) uses filters and validation processes to identify consumers with strong purchase intent. As a result of the implementation of QVS, purchase request quality increased. High quality purchase requests are those that result in high closing ratios. Closing ratio is the ratio of the number of vehicles purchased at a dealer generated from purchase requests to the total number of purchase requests sent to that dealer. We anticipate that improved purchase request quality will help us further reduce customer credits, reduce dealer turnover and increase revenues in the future. In 2003, we announced a customized program for training dealers. The program teaches dealers to incorporate Internet sales, marketing, management and customer service techniques throughout the dealership. The program is designed to help the overall organization to sell more effectively to automotive consumers who have visited the Internet—consumers that now represent nearly two out of three new car buyers. According to J.D. Power and Associates, in 2003 89% of automotive Internet users went online to do research before actually visiting a dealership.

Continue to Build Brand Equity. In the future we intend to continue to market and advertise to enhance the brand recognition of our Web sites with consumers. We believe that continuing to strengthen brand awareness of the Autobytel.com, Autoweb.com, CarSmart.com and AutoSite.com names among consumers is critical to attract vehicle buyers, increase purchase requests and, in turn, maintain and increase the size of our dealer and automotive manufacturer relationships. In 2003, we introduced new consumer features such as personal vehicle reports. Personal vehicle reports are downloadable, printer-friendly reports containing vehicle shopping and buying information. In 2002, we introduced Estimated Market Price (EMP) and AutoEspanol. The EMP data provides the average selling price for hundreds of popular new makes, models and trim levels. AutoEspanol, the first integrated suite of Spanish-language vehicle research and shopping tools for the Internet, includes expert auto information and Spanish versions of leading vehicle research and comparison tools developed by AIC. In addition, in the past, we have advertised through traditional media, such as television, radio and print publications and may do so again in the future.

Ensure the Highest Quality Consumer Experience On Our Web Sites. We believe that consumer satisfaction and loyalty is heavily influenced by the consumer's experience with our Web sites and with our dealers. In order to enhance our appeal to consumers, we intend to continue developing our Web sites by enhancing vehicle information and personalization. We also plan to continue compiling high quality content from third party sources on our Web sites. We believe that consumer satisfaction with the vehicle purchasing experience is also essential to our success and the differentiation of our services from those of our competitors. We intend to continue to invest in our program dealer training and support services to ensure a consistent, high-quality alternative to the traditional vehicle buying process. We actively monitor participating program dealers through ongoing consumer surveys and research conducted by our internal dealer support group. Program dealers that fail to abide by our program guidelines or who generate repeated consumer complaints are reviewed and, if appropriate, terminated.

Enhance and Broaden Content Offerings. We provide high quality content which facilitates consumer buying decisions related to and including the purchase of a vehicle. We work with leading automotive content providers to provide consumers with advice and information on our Web sites. We use AIC data on all four of our Web sites.

Programs, Products and Services

New Vehicle Purchasing Service. Our new vehicle purchasing service enables consumers to shop for and select a new vehicle through our Web sites, Autobytel.com, Autoweb.com and CarSmart.com, by providing research on new vehicles such as pricing, features, specifications and colors. When consumers indicate they are ready to buy a vehicle, consumers can complete a purchase request online, which specifies the type of vehicle and accessories the consumers desire, along with the consumers' contact information. We validate the consumer contact information using our proprietary Quality Verification System and then route it to the nearest participating dealer that sells the type of vehicle requested. We promptly return an e-mail message to the consumer with the dealership's name and phone number and the name of the dedicated manager at the dealership. Program dealers agree in their contracts to contact the consumer within 24 hours of receiving the purchase request with a firm, haggle-free price quote for the requested vehicle. When consumers complete their purchase, they usually take delivery of their vehicle at the dealership showroom. Generally, within 10 days of the submission of a consumer's purchase request, we contact the consumer again by e-mail to conduct a quality assurance survey that allows us to evaluate the sales process at participating program dealers and improve the quality of dealer service.

Dealers participate in our networks by entering into contracts with us or through major dealer groups or automotive manufacturers or their automotive buying service affiliates with whom we have agreements. Generally, our program dealer contracts have terms ranging from 90 days to one year and are terminable on 30 days' notice by either party. The majority of our program fees consist of monthly subscription and transactional fees. We reserve the right to adjust our fees to program dealers upon 30 days notice at anytime during the term of the contract. We do not prevent dealers from entering into agreements with our competitors.

Used Vehicle CyberStore. We launched our CyberStore program in April 1997. The CyberStore allows consumers to search for a certified or non-certified used vehicle according to specific search parameters such as the price, make, model, mileage, year and location of the vehicle. Currently, the CyberStore is available to consumers on all three of our car buying Web sites—Autobytel.com, Autoweb.com and CarSmart.com. CyberStore locates and displays the description, location and, if available, actual digital photograph of vehicles that satisfy the search parameters. The consumer can then submit a purchase request for a specific vehicle and is contacted by the dealer to conclude the sale. To be listed as a certified vehicle in the CyberStore, a used vehicle must pass an extensive inspection and be covered by a 72-hour money-back guarantee or exchange and a three-month, 3,000-mile warranty. During 2003, our Cyberstore program had over 1 million dealer vehicle listings on our Web sites. In January 2004, our average daily inventory of vehicles on our Cyberstore program was approximately 280,000. We charge each vehicle dealer that participates in the CyberStore program a separate additional monthly fee. The CyberStore program provides participating dealers online purchase requests shortly after submission by consumers, as well as the ability to track their inventory on a real-time basis.

In January 2004, we expanded the offerings available under our used car program with the introduction of Premium Pre-Owned services and AutobytelConnect. Autobytel's Premium Pre-Owned offers dealers preferred placement of their vehicle listings and greater advertising opportunities, giving dealers the ability to have more direct impact on consumers. Thumbnail photos of each vehicle listing, with multiple photo view options, are available along with links to the dealership's Web site and online inventory. AutobytelConnect is designed to help generate new sales for dealers by listing a toll-free number next to each pre-owned vehicle. This allows consumers who prefer to speak with a representative of the dealership to call the representative directly. The "800" number can be routed to any land or mobile line, including a direct connection to the Internet department. All call activity is automatically recorded, enabling dealers to review every call, even if the call is busy, abandoned or after hours. Participating dealers can also access user-friendly reports online to measure follow-up and closing performance.

The WebControl System. In June 2003, we acquired AVV, a leading provider of dealership lead management tools such as WebControl. WebControl is a customer mangagement tool that enables dealers to manage Internet and walk-in sales activity, maintain customer history and activity, measure and report on marketing effectiveness or return on investment, as well as establish automated marketing programs and customize sales process and workflow inside the dealership.

Automotive Download Services (ADS). AVV provides dealers with data extraction services through ADS. ADS extracts data, including new and used car inventory and sales, service and finance records, from the dealership management system. Dealers use this service to post their inventory across the Internet, to report on and increase sales effectiveness, and to generate customer loyalty and retention marketing programs.

RPM. In April 2002, we launched Retention Performance Marketing (RPM), a product that is designed to deliver a more efficient method for dealers and manufacturers to retain their car buying and service customers. The product purifies the data in customer records, verifying contact information from within the dealership management system, then automatically outputs welcome letters or e-mails for new car buying and service customers. Service reminders and campaigns can then be sent out on a regular basis based on each customer's specific driving habits. The product also offers clients a range of reporting and analysis capabilities. Each month, the dealership receives an executive summary that allows the dealership to measure results by showing return on investment, gross revenue generated per active customer name and response rate.

Training. We believe that dealers and their employees require specialized training to learn the skills necessary to serve the Internet user and take full advantage of our proprietary systems. Therefore, we have developed an extensive training program for dealers. We believe that this training is critical to enhancing our brands and reputation. We require program dealers to have their representatives trained on our system. Training is conducted at our headquarters in Irvine, California, at regional training centers and at dealerships' premises. In training our program dealers, we de-emphasize traditional vehicle selling techniques and emphasize our approach of immediately responding to consumer inquiries and providing up-front competitive no-haggle pricing. In February 2003, we announced a customized program for training dealers. The program teaches dealers to incorporate Internet sales, marketing, management and customer service techniques throughout the dealership. The program is designed to help the overall organization to sell more effectively to automotive consumers who have visited the Internet—consumers that now represent nearly two out of three new car buyers.

Advertising Services. We now have four Web site properties to market media products to automotive manufacturers and related businesses. The Web sites offer an audience of car-shopping and car buying consumers that advertisers can target as they make their vehicle purchase decision. We provide dynamic marketing programs that allow manufacturers to interact with Internet car shoppers as they make their car buying decisions. Dynamic Content Placement (DCP) allows manufacturers to automatically present specific comparative information relevant to the vehicle that is being researched to car shoppers using our Web sites. Supported by data and technology provided by AIC, DCP targets consumers deep into the research and decision-making process as they compare various vehicles online. For example, a consumer who is researching a sport utility vehicle can be automatically presented with factual information indicating the advantages of a competing sport utility vehicle model. DCP message advantage statements correlate to thousands of model trim data points and are delivered dynamically as the car buyer compares vehicles on our Web sites. This provides substantial efficiency benefit for advertisers, who are not required to craft thousands of individual messages. We also provide a customizable advertising product, the Featured Model Showcase, that offers manufacturers the opportunity to present detailed, enhanced information about a specific vehicle model to millions of online car shoppers on our Web sites. Each Featured Model Showcase is a collaborative effort with the advertiser to meet specific campaign objectives. Features can include purchase request functionality, image galleries, brochure requests and video.

Automotive Information Center. AIC provides comprehensive automotive information to dealers and manufacturers, major web portals and consumers through its research Web site, AutoSite.com, and data and technology tools. Manufacturers can use our AIC data and technology tools to power their own Web sites allowing consumers to configure and compare cars. Most automotive manufacturers, including DaimlerChrysler, Ford, General Motors, Hyundai and Honda, currently use our AIC automotive data or technology to power their Web sites. In addition, major consumer portals, including MSN Autos and Yahoo, also use our content or technology.

We plan to introduce new products and programs from time to time to enhance our portfolio of dealer, major dealer group and automotive manufacturer offerings.

Service and Maintenance. We believe our Web sites empower consumers with cost effective and efficient processes for dealing with common service and maintenance issues. The Autobytel.com and CarSmart.com Web sites include the My Garage area where consumers can store and receive information about their cars and trucks, such as service reminders, recall information and a lease watch to help keep track of mileage on a leased vehicle. Through our car buying Web sites, consumers can also submit service requests to dealers.

Consumer Products and Other Services. We offer related products and services, including insurance and finance, that we market to consumers through our Web sites and the linked Web sites of participating third party providers.

International. We do not expect to devote substantial resources to international operations, but may continue to explore additional licensing business as opportunities arise. In March 2002, Autobytel.Europe LLC (Autobytel.Europe) completed its restructuring which reduced our ownership to 49%. As a result, we no longer consolidate Autobytel.Europe in our financial statements. Revenues from our customers outside of the United States were 6%, 2% and less than 1% of total revenues for the years ended December 31, 2003, 2002 and 2001, respectively.

Sales and Marketing

Our ability to enhance the recognition of our brand names, as well as increase the number and quality of vehicle purchase requests delivered to our dealers and increase the number and quality of participating dealerships is important to our efforts of positioning ourselves as a leading automotive marketing services provider. We have been the subject of numerous newspaper, magazine, radio and television stories. Television stories featuring us have aired nationally on all major television networks. We believe that ongoing media coverage is an important element in creating consumer awareness of our brand names and has contributed to dealership awareness of, and participation in, our programs.

Our Internet marketing and advertising costs, including annual, monthly and variable fees, were $30.7 million, $31.1 million and $24.9 million in 2003, 2002 and 2001, respectively.

In prior years, we have supplemented our Internet presence with traditional media, such as television, radio and print publications and may do so again in the future.

In addition to our consumer-oriented marketing activities, we also market our programs directly to dealers, participate in trade shows, and encourage participating dealers to recommend our programs to other dealers. In the past, we have advertised in trade publications and major automotive magazines and may do so again in the future.

Intellectual Property

We have registered service marks, including Auto-By-Tel, Autobytel.com, Autoweb, CarSmart and the Autobytel.com logo. We have been issued a patent directed toward an innovative method and system for forming and submitting purchase requests over the Internet and other computer networks from consumers to suppliers of goods and services. The method permits suppliers of goods or services to provide enhanced customer service by making the purchasing process convenient for consumers as well as suppliers. The patent is also directed toward the communication system used to bring consumers and suppliers closer together. The patent expires on January 14, 2019. We cannot assure that the patent will be enforceable and, if enforceable, that the patent will have significant economic value. We have applied for additional service marks and patents. We regard our trademarks, service marks, brand names and patent as important to our business.

Competition

Our vehicle purchasing services compete against a variety of Internet and traditional vehicle purchasing services, automotive brokers and classified advertisement providers. Therefore, we are affected by the competitive factors faced by both Internet commerce companies as well as traditional offline companies within the automotive and automotive-related industries. The market for Internet-based commercial services is relatively new, and competition among commercial Web sites may increase significantly in the future. Our business is characterized by minimal technical barriers to entry, and new competitors can launch a competitive service at relatively low cost. To compete successfully, we must significantly increase awareness of our services and brand names. Failure to compete successfully will cause our revenues to decline and would have a material adverse effect on our business, results of operations and financial condition.

We compete with other entities which maintain similar commercial Web sites including AutoUSA, Microsoft Corporation's MSN Autos, CarsDirect.com, Cars.com, eBayMotors.com, AutoNation and AutoTrader.com. We also compete with vehicle dealers that are not part of our networks. Such companies may already maintain or may introduce Web sites which compete with ours. We also compete indirectly against vehicle brokerage firms and affinity programs offered by several companies, including Costco Wholesale Corporation and Wal-Mart Stores, Inc. In addition, all major automotive manufacturers have their own Web sites and many have launched online buying services, such as General Motors Corporation's BuyPower and Ford Motor Company in its partnership with its dealers through FordDirect.com. AVV competes with companies such as Reynolds and Reynolds and Cobalt Systems Corporation. Our customer relationship management product, RPM, competes with companies that provide marketing services to automotive manufacturers and dealers, including Reynolds and Reynolds, TVI Inc., iDrive Online, Minacs, Online Administrators and Teletech.

We believe that the principal competitive factors in the online market are:

- brand recognition,
- dealer return on investment,

- speed and quality of fulfillment,
- dealer territorial coverage,
- relationships with automotive manufacturers,
- variety of related products and services,
- ease of use,
- customer satisfaction,
- quality of Web site content,
- quality of service, and
- technical expertise.

We cannot assure that we can compete successfully against current or future competitors, many of which have substantially more capital, existing brand recognition, resources and access to additional financing. In addition, competitive pressures may result in increased marketing costs, decreased Web site traffic or loss of market share or otherwise may materially and adversely affect our business, results of operations and financial condition.

Operations and Technology

We believe that our future success is significantly dependent upon our ability to continue to deliver high-performance and reliable Web sites, enhance consumer/dealer communications, maintain the highest levels of information privacy and ensure transactional security. We currently host all Web sites at a secure data center third party hosting facility. The data center includes redundant power infrastructure, redundant network connectivity, fire detection and suppression systems and security systems to prevent unauthorized access. Our network and computer systems are built on industry standard technology. Network security utilizes industry standard products.

System enhancements are primarily intended to accommodate increased traffic across our Web sites, improve the speed in which purchase requests are processed and introduce new and enhanced products and services. System enhancements entail the implementation of sophisticated new technology and system processes. We intend to make investments in technology to accommodate increased traffic.

Government Regulation

Currently few laws or regulations have been adopted that apply directly to Internet business activities. The adoption of additional local, state or national laws or regulations may decrease the growth of Internet usage or the acceptance of Internet commerce.

We believe that our dealer marketing services do not constitute franchising or vehicle brokerage activity in a way that makes franchise, motor vehicle dealer, or vehicle broker licensing laws applicable to us. Through a subsidiary, we are licensed as a motor vehicle dealer and broker. However, if individual state regulatory requirements are deemed applicable to us, or change or additional requirements are imposed on us, we may be required to modify our service programs in such a state in a manner which may undermine our program's attractiveness to consumers or dealers or not offer such service or terminate our operations in such a state, any of which may negatively affect our financial condition and growth. As we introduce new services, we may need to comply with additional licensing regulations and regulatory requirements.

Our services may result in changes in the way vehicles are currently sold or may be viewed as threatening by new and used vehicle dealers who do not subscribe to our programs. Such businesses are often represented by influential lobbying organizations, and such organizations or other persons may propose legislation that, if adopted, could impact our evolving marketing and distribution model.

To date, we have not expended significant resources on lobbying or related government affairs issues but may be required to do so in the future.

Franchise Classification. If our relationship or written agreements with our dealers were found to be a franchise under federal or state franchise laws, we could be subjected to additional regulations, including but not limited to licensing, increased reporting and disclosure requirements. Compliance with varied laws, regulations, and enforcement characteristics found in each state may require us to allocate both staff time and monetary resources, each of which may adversely affect our result of operations. As an additional risk, if our dealer relationships or subscription agreements are determined to establish a franchise, we may be subject to limitations on our ability to quickly and efficiently effect changes in our dealer relationships in response to changing market trends, which may negatively impact our ability to compete in the marketplace.

We believe that neither our relationship with our participating dealers nor our dealer agreements themselves constitute franchises under federal or state franchise laws. This belief has been upheld by a Federal Appeals Court in Michigan that ruled our business relationship and our dealer subscription agreement does not rise to the level of a franchise under Michigan law.

Vehicle Brokerage Activities. We believe that our dealer marketing referral service model does not qualify as an automobile brokerage activity. Accordingly, we believe that state motor vehicles dealer or broker licensing laws generally do not apply to us. Through a wholly-owned subsidiary, we are licensed as a motor vehicle dealer and broker. In the event such laws are deemed applicable to us, we may be required to cease business in any such state, and pay administrative fees, fines, and penalties for failure to comply with such licensing requirements.

In response to concerns about our marketing referral program raised by the Texas Department of Transportation, we modified our program in that state to achieve compliance. These modifications included implementing a pricing model under which all participating dealerships (regardless of brand) in a given zip code in Texas are charged uniform fees and opening our program to all dealerships who wish to apply.

In the event that any other state's regulatory requirements impose state specific requirements on us or include us within an industry-specific regulatory scheme, we may be required to modify our marketing programs in such states in a manner that may undermine the program's attractiveness to consumers or dealers. In the alternative, if we determine that the licensing and related requirements are overly burdensome, we may elect to terminate operations in such state. In each case, our business, results of operations and financial condition could be materially and adversely affected.

Financing Related Activities. We provide a connection through our Web sites that allows a consumer to obtain finance information and loan approval. We receive marketing fees from financial institutions in connection with this advertising activity. We do not demand nor do we receive any fees from consumers for this service. In the event states require us to be licensed as a financial broker, we intend to obtain such licenses. We may be unable to comply with a state's regulations affecting our current operations or newly introduced services, or we could be required to incur significant fees and expenses to license or be compelled to discontinue such operations in those states.

Insurance Related Activities. We provide links on our Web sites to various insurance providers and products so consumers can receive real time quotes for insurance coverage and extended warranty coverage from those insurance providers and submit quote applications online. We receive marketing fees from such participants in connection with this advertising activity. We receive no premiums from consumers nor do we charge consumers fees for our services. All applications are completed on the respective insurance carriers' Web site.

We do not believe that our activity requires us to be licensed under state insurance laws. The use of the Internet in the marketing of insurance products, however, is a relatively new practice. It is not clear whether or to what extent state insurance licensing laws apply to activities similar to ours. Given this uncertainty, we have proactively applied for and currently hold, through a wholly-owned subsidiary, insurance agent licenses or are otherwise authorized to engage in the sale of insurance in numerous states.

Employees

As of February 29, 2004, we had a total of 328 employees. We also utilize independent contractors as required. None of our employees are represented by a labor union. We have not experienced any work stoppages and consider our employee relations to be good.

Risk Factors

In addition to the factors discussed in the "Overview" and "Liquidity and Capital Resources" sections of Part II. Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations" in this Annual Report on Form 10-K, the following additional factors may affect our future results.

We have only been profitable for the last five quarters and otherwise have a history of net losses and cannot assure that we will continue to be profitable. If we are unable to sustain our recent profitability and we lose money, our operations will not be financially viable.

Because of the relatively recent emergence of the Internet-based vehicle information and purchasing industry, none of our senior executives has long-term experience in the industry. This limited operating history contributes to our difficulty in predicting future operating results.

We have incurred losses every quarter through the third quarter of 2002. Having achieved profitability in the fourth quarter of 2002, we might fail to sustain or increase that profitability in the future. We cannot assure that we will be profitable. Autobytel had an accumulated deficit of $153.8 million as of December 31, 2003 and $161.2 million as of December 31, 2002.

Our potential for future profitability must be considered in light of the risks, uncertainties, expenses and difficulties frequently encountered by companies in emerging and rapidly evolving markets, such as the market for Internet commerce. We believe that to achieve profitability, we must, among other things:

- generate increased vehicle buyer traffic to our Web sites,
- successfully introduce new products and services,
- continue to send new and used vehicle purchase requests to dealers that result in sufficient dealer transactions to justify our fees,
- expand the number of dealers in our networks and enhance the quality of dealers,
- sustain and expand our relationships with automotive manufacturers,
- identify and successfully consummate and integrate acquisitions,
- respond to competitive developments,
- maintain a high degree of customer satisfaction,
- provide secure and easy to use Web sites for customers,
- increase visibility of our brand names,
- continue to attract, retain and motivate qualified personnel and
- continue to upgrade and enhance our technologies to accommodate expanded service offerings and increased consumer traffic.

We cannot be certain that we will be successful in achieving these goals or that if we are successful in achieving these goals, that we will continue to be profitable.

If our dealer attrition increases, our dealer networks and revenues derived from these networks may decrease.

The majority of our revenues are derived from fees paid by our networks of participating program and enterprise dealers. A few agreements account for all of our enterprise dealer relationships. From time to time, a major dealer group or automotive manufacturer may significantly increase or decrease the number of enterprise dealers participating in our dealer networks. If dealer attrition increases and we are unable to add new dealers to mitigate the attrition, our revenues will decrease. A material factor affecting dealer attrition is our ability to provide dealers with high quality purchase requests. High quality purchase requests are those that result in high closing ratios. Closing ratio is the ratio of the number of vehicles purchased at a dealer generated from purchase requests to the total number of purchase requests sent to that dealer. If the number of dealers in our networks declines, our revenues will decrease and our business, results of operations and financial condition will be materially and adversely affected. In addition, if automotive manufacturers or major dealer groups force us to decrease the fees we charge for our services, our revenues will decline which could have a material adverse effect on our business, results of operations and financial condition.

Generally, our program dealer agreements have a stated term ranging from 90 days to one year, but such dealer agreements are cancelable by either party upon 30 days notice. Participating program dealers may terminate their relationship with us for any reason, including an unwillingness to accept our subscription terms or as a result of joining alternative marketing programs. We cannot assure that program dealers will not terminate their agreements with us. Our business is dependent upon our ability to attract and retain qualified new and used vehicle program dealers, major dealer groups and automotive manufacturers. In order for us to grow or maintain our dealer networks, we need to reduce our dealer attrition. We cannot assure that we will be able to reduce the level of dealer attrition, and our failure to do so could materially and adversely affect our business, results of operations and financial condition.

We may lose participating program dealers because of the reconfiguration or elimination of exclusive dealer territories. We will lose the revenues associated with any reductions in participating program dealers resulting from such changes.

We may reduce, reconfigure or eliminate exclusive territories currently assigned to Autobytel or CarSmart program dealers. If a program dealer is unwilling to accept a reduction, reconfiguration or elimination of its exclusive territory, it may terminate its relationship with us. A program dealer also could sue to prevent such reduction, reconfiguration or elimination, or collect damages from us. We have experienced one such lawsuit. A material decrease in the number of program dealers participating in our networks or litigation with program dealers could have a material adverse effect on our business, results of operations and financial condition.

We rely heavily on our participating dealers to promote our brand value by providing high quality services to our consumers. If dealers do not provide our consumers high quality services, our brand value will diminish and the number of consumers who use our services may decline causing a decrease in our revenues.

Promotion of our brand value depends on our ability to provide consumers a high quality experience for purchasing vehicles throughout the purchasing process. If our dealers do not provide consumers with high quality service, the value of our brands could be damaged and the number of consumers using our services may decrease. We devote significant efforts to train participating program dealers in practices that are intended to increase consumer satisfaction. Our inability to train program dealers effectively, or the failure by participating dealers to adopt recommended practices, respond rapidly and professionally to vehicle inquiries, or sell and lease vehicles in accordance with our marketing strategies, could result in low consumer satisfaction, damage our brand names and materially and adversely affect our business, results of operations and financial condition.

Competition could reduce our market share and harm our financial performance. Our market is competitive not only because the Internet has minimal technical barriers to entry, but also because we compete directly with other companies in the offline environment.

Our vehicle purchasing services compete against a variety of Internet and traditional vehicle purchasing services, automotive brokers and classified advertisement providers. Therefore, we are affected by the competitive factors faced by both Internet commerce companies as well as traditional, offline companies within the automotive and automotive-related industries. The market for Internet-based commercial services is relatively new, and competition among commercial Web sites may increase significantly in the future. Our business is characterized by minimal technical barriers to entry, and new competitors can launch a competitive service at relatively low cost. To compete successfully, we must significantly increase awareness of our services and brand names. Failure to compete successfully will cause our revenues to decline and would have a material adverse effect on our business, results of operations and financial condition.

We compete with other entities which maintain similar commercial Web sites including AutoUSA, Microsoft Corporation’s MSN Autos, CarsDirect.com, Cars.com, eBayMotors.com, AutoNation and AutoTrader.com. We also compete with vehicle dealers that are not part of our networks. Such companies may already maintain or may introduce Web sites which compete with ours. We also compete indirectly against vehicle brokerage firms and affinity programs offered by several companies, including Costco Wholesale Corporation and Wal-Mart Stores, Inc. In addition, all major automotive manufacturers have their own Web sites and many have launched online buying services, such as General Motors Corporation’s BuyPower and Ford Motor Company in its partnership with its dealers through FordDirect.com. AVV competes with companies such as Reynolds and Reynolds and Cobalt Systems Corporation. Our customer relationship management product, RPM, competes with companies that provide marketing services to automotive manufacturers and dealers, including Reynolds and Reynolds, TVI Inc., iDrive Online, Minacs, Online Administrators and Teletech.

We believe that the principal competitive factors in the online market are:

- brand recognition,
- dealer return on investment,
- speed and quality of fulfillment,
- dealer territorial coverage,
- relationships with automotive manufacturers,
- variety of related products and services,
- ease of use,
- customer satisfaction,
- quality of Web site content,
- quality of service and
- technical expertise.

We cannot assure that we can compete successfully against current or future competitors, many of which have substantially more capital, existing brand recognition, resources and access to additional financing. In addition, competitive pressures may result in increased marketing costs, decreased Web site traffic or loss of market share or otherwise may materially and adversely affect our business, results of operations and financial condition.

Our quarterly financial results are subject to significant fluctuations which may make it difficult for investors to predict our future performance.

Our quarterly operating results have fluctuated in the past and may fluctuate in the future due to many factors. Our expense levels are based in part on our expectations of future revenues which may vary significantly. If revenues do not increase faster than expenses, our business, results of operations and financial condition will be materially and adversely affected. Other factors that may adversely affect our quarterly operating results include:

- our ability to retain existing dealers, attract new dealers and maintain dealer and customer satisfaction,
- the announcement or introduction of new or enhanced sites, services and products by us or our competitors,
- general economic conditions and economic conditions specific to the Internet, online commerce or the automobile industry,
- a decline in the usage levels of online services and consumer acceptance of the Internet and commercial online services for the purchase of consumer products and services such as those offered by us,
- our ability to upgrade and develop our systems and infrastructure and to attract new personnel in a timely and effective manner,
- the level of traffic on our Web sites and other sites that refer traffic to our Web sites,
- technical difficulties, system downtime, Internet brownouts or electricity blackouts,
- the amount and timing of operating costs and capital expenditures relating to expansion of our business, operations and infrastructure,
- governmental regulation and
- unforeseen events affecting the industry.

Seasonality is likely to cause fluctuations in our operating results. Investors may not be able to predict our annual operating results based on a quarter to quarter comparison of our operating results.

The seasonal patterns of Internet usage and vehicle purchasing do not completely overlap. Historically, Internet usage typically declines during summer and certain holiday periods, while vehicle purchasing in the United States is strongest in the spring and summer months. In addition, purchase request volume usually declines in the summer because of the model year change over, as some consumers defer purchases until information regarding the new model year is available, and many manufacturers do not make their data available for publication until later in the year. As seasonality occurs, investors may not be able to predict our annual operating results based on a quarter to quarter comparison of our operating results. Seasonality in the automotive industry, Internet and commercial online service usage and advertising expenditures is likely to cause fluctuations in our operating results and could have a material adverse effect on our business, results of operations and financial condition.

We may be particularly affected by general economic conditions due to the nature of the automotive industry.

The economic strength of the automotive industry significantly impacts the revenues we derive from our dealers, automotive manufacturers and other strategic partners, advertising revenues and consumer traffic to our Web sites. The automotive industry is cyclical, with vehicle sales fluctuating due to changes in national and global economic forces. Purchases of vehicles are typically discretionary for consumers and may be particularly affected by negative trends in the general economy. The success of our operations depends to a significant extent upon a number of factors relating to discretionary consumer spending, including economic conditions (and perceptions of such conditions by consumers) affecting disposable consumer income (such as employment, wages and salaries, business conditions and interest rates in regional and local markets). In addition, because the purchase of a vehicle is a significant investment and is relatively discretionary, any reduction in disposable income in general or a general increase in interest rates or a general tightening of lending may affect us more significantly than companies in other industries.

Zero percent financing offered by manufacturers in 2002 and 2003 may negatively affect vehicle sales in 2004. Consumers may have shifted their planned vehicle purchases from 2004 to 2003 and 2002. At some point in the future, manufacturers may decrease current levels of incentive spending on new vehicles, which has served to drive sales volume in the past. Such a reduction in incentives could lead to a decline in demand for new vehicles. A decline in vehicle purchases may result in a decline in demand for our services which could adversely affect our business, financial condition and results of operations.

Threatened terrorist acts and the ongoing military action have created uncertainties in the automotive industry and domestic and international economies in general. These events may have an adverse impact on general economic conditions, which may reduce demand for vehicles and consequently our services and products which could have an adverse effect on our business, financial condition and results of operations. At this time, however, we are not able to predict the nature, extent and duration of these effects on overall economic conditions on our business, financial condition and results of operations.

We cannot assure that our business will not be materially adversely affected as a result of an industry or general economic downturn.

If any of our relationships with Internet search engines or online automotive information providers terminates, our purchase request volume or quality could decline. If our purchase request volume or quality declines, our participating dealers may not be satisfied with our services and may terminate their relationships with us or force us to decrease the fees we charge for our service. If this occurs, our revenues would decrease.

We depend on a number of strategic relationships to direct a substantial amount of purchase requests and traffic to our Web sites. The termination of any of these relationships or any significant reduction in traffic to Web sites on which our services are advertised or offered, or the failure to develop additional referral sources, could cause our purchase request volume or quality to decline. If this occurs, dealers may no longer be satisfied with our service and may terminate their relationships with us or force us to decrease the fees we charge for our services. If our dealers terminate their relationships with us or force us to decrease the fees we charge for our services, our revenues will decline which could have a material adverse effect on our business, results of operations and financial condition. We receive a significant number of purchase requests through a limited number of Internet search engines, online automotive information providers, and other auto related Internet sites. We periodically negotiate revisions to existing agreements and these revisions could increase our costs in future periods. A number of our agreements with online service providers may be terminated without cause. We may not be able to maintain our relationship with our online service providers or find alternative, comparable marketing sponsorships and alliances capable of originating significant numbers of purchase requests on terms satisfactory to us. If we cannot maintain or replace our relationships with online service providers, our revenues may decline which could have a material adverse effect on our business, results of operations and financial condition.

If any of our relationships with advertising manufacturers terminates, our revenues would decrease.

We depend on a number of manufacturer relationships for substantially all of our advertising revenues. The termination of any of these relationships or any significant failure to develop additional sources of advertising would cause our revenues to decline which could have a material adverse effect on our business, results of operations and financial condition. We periodically negotiate revisions to existing agreements and these revisions could decrease our advertising revenues in future periods. A number of our agreements with such manufacturers may be terminated without cause. We may not be able to maintain our relationship with such manufacturers on favorable terms or find alternative comparable relationships capable of replacing advertising revenues on terms satisfactory to us. If we cannot do so, our revenues would decline which could have a material adverse effect on our business, results of operations and financial condition.

If we cannot build and maintain strong brand loyalty our business may suffer.

We believe that the importance of brand recognition will increase as more companies engage in commerce over the Internet. Development and awareness of the Autobytel.com, Autoweb.com and CarSmart.com brands will depend largely on our ability to obtain a leadership position in Internet commerce. If dealers and manufacturers do not perceive us as an effective channel for increasing vehicle sales, or consumers do not perceive us as offering reliable information concerning new and used vehicles, as well as referrals to high quality dealers, in a user-friendly manner that reduces the time spent for vehicle purchases, we will be unsuccessful in promoting and maintaining our brands. Our brands may not be able to gain widespread acceptance among consumers or dealers. Our failure to develop our brands sufficiently would have a material adverse effect on our business, results of operations and financial condition.

If we lose our key personnel or are unable to attract, train and retain additional highly qualified sales, marketing, managerial and technical personnel, our business may suffer.

Our future success depends on our ability to identify, hire, train and retain highly qualified sales, marketing, managerial and technical personnel. In addition, as we introduce new services we may need to hire additional personnel. We may not be able to attract, assimilate or retain such personnel in the future. The inability to attract and retain the necessary managerial, technical, sales and marketing personnel could have a material adverse effect on our business, results of operations and financial condition.

Our business and operations are substantially dependent on the performance of our executive officers and key employees. The loss of the services of one or more of our executive officers or key employees could have a material adverse effect on our business, results of operations and financial condition.

We are a relatively new business in an emerging industry and need to manage our growth and our entry into new business areas in order to avoid increased expenses without corresponding revenues.

We have been introducing new services to consumers and dealers in order to establish ourselves as a leader in the evolving market for automotive marketing services. The growth of our operations requires us to increase expenditures before we generate revenues. For example, we may need to hire personnel to oversee the introduction of new services before we generate revenues from these services. Our inability to generate satisfactory revenues from such expanded services to offset costs could have a material adverse effect on our business, results of operations and financial condition.

We must also:

- test, introduce and develop new services and products, including enhancing our Web sites,
- expand the breadth of products and services offered,
- expand our market presence through relationships with third parties and
- acquire new or complementary businesses, products or technologies.

We cannot assure that we can successfully achieve these objectives.

If federal or state franchise laws apply to us we may be required to modify or eliminate our marketing programs. If we are unable to market our services in the manner we currently do, our revenues may decrease and our business may suffer.

We believe that neither our relationship with our dealers nor our dealer subscription agreements constitute "franchises" under federal or state franchise laws. A federal court of appeals in Michigan has ruled that our dealer subscription agreement is not a "franchise" under Michigan law. However, if any state's regulatory requirements relating to franchises or our method of business impose additional requirements on us or include us within an industry-specific regulatory scheme, we may be required to modify our marketing programs in such states in a manner which undermines the program's attractiveness to consumers or dealers. If our relationship or written agreement with our dealers were found to be a "franchise" under federal or state franchise laws, we could be subject to other regulations, such as franchise disclosure and registration requirements and limitations on our ability to effect changes in our relationships with our dealers, which may negatively impact our ability to compete and cause our revenues to decrease and our business to suffer. If we become subject to fines or other penalties or if we determine that the franchise and related requirements are overly burdensome, we may elect to terminate operations in such state. In each case, our revenues may decline and our business, results of operations and financial condition could be materially and adversely affected.

We also believe that our dealer marketing service generally does not qualify as an automobile brokerage activity and, therefore, state motor vehicle dealer or broker licensing requirements do not apply to us. Through a subsidiary, we are licensed as a motor vehicle dealer and broker. In response to Texas Department of Transportation concerns, we modified our marketing program in that state to make our program open to all dealers who wish to apply. In addition, we modified the program to include a pricing model under which all participating dealers, regardless of brand, in a given zip code in Texas are charged uniform fees. If other states' regulatory requirements relating to motor vehicle dealers or brokers are deemed applicable to us, we may become subject to fines, penalties or other requirements and may be required to modify our marketing programs in such states in a manner that undermines the attractiveness of the program to consumers or dealers. If we determine that the licensing or other requirements, in a given state are overly burdensome, we may elect to terminate operations in such state. In each case, our revenues may decline and our business, results of operations and financial condition could be materially and adversely affected.

If financial broker and insurance licensing requirements apply to us in states where we are not currently licensed, we will be required to obtain additional licenses and our business may suffer.

If we are required to be licensed as a financial broker, it may result in an expensive and time-consuming process that could divert the effort of management away from day-to-day operations. In the event states require us to be licensed and we are unable to do so, or are otherwise unable to comply with regulations required by changes in current operations or the introduction of new services, we could be subject to fines or other penalties or be compelled to discontinue operations in such states, and our business, results of operations and financial condition could be materially and adversely affected.

We provide links on our Web sites so consumers can receive real time quotes for insurance coverage from third parties and submit quote applications online through such parties' Web sites. We receive fees from such participants in connection with this advertising activity. We do not believe that such activities require us to be licensed under state insurance laws. The use of the Internet in the marketing of insurance products, however, is a relatively new practice. It is not clear whether or to what extent state insurance licensing laws apply to activities similar to ours. Given these uncertainties, we currently hold, through a wholly-owned subsidiary, insurance agent licenses or are otherwise authorized to transact insurance in numerous states.

If we are unable to be licensed to comply with additional regulations, or are otherwise unable to comply with regulations required by changes in current operations or the introduction of new services, we could be subject to fines or other penalties or be compelled to discontinue operations in such states, and our business, results of operations and financial condition could be materially and adversely affected.

There are many risks associated with consummated and potential acquisitions.

We intend to continue to evaluate potential acquisitions which we believe will complement or enhance our existing business. If we acquire other companies in the future, it may dilute the value of existing stockholders' ownership. The impact of dilution may restrict our ability or otherwise not allow us to consummate acquisitions. Issuance of equity securities may restrict utilization of net operating loss carryforwards because of an annual limitation due to ownership change limitations under the Internal Revenue Code. We may also incur debt and losses related to the impairment of goodwill and other intangible assets if we acquire another company, and this could negatively impact our results of operations. We currently do not have any definitive agreements to acquire any company or business, and we may not be able to identify or complete any acquisition in the future.

Acquisitions involve numerous risks. For example:

- It may be difficult to assimilate the operations and personnel of an acquired business into our own business,
- Management information and accounting systems of an acquired business must be integrated into our current systems,
- We may lose dealers participating in both our network as well as that of the acquired business, if any,
- Our management must devote its attention to assimilating the acquired business which diverts attention from other business concerns,
- We may enter markets in which we have limited prior experience, and
- We may lose key employees of an acquired business.

Internet commerce has yet to attract significant regulation. Government regulations may result in increased costs that may reduce our future earnings.

There are currently few laws or regulations that apply directly to the Internet. Because our business is dependent on the Internet, the adoption of new local, state or national laws or regulations may decrease the growth of Internet usage or the acceptance of Internet commerce which could, in turn, decrease the demand for our services and increase our costs or otherwise have a material adverse effect on our business, results of operations and financial condition.

Tax authorities in a number of states are currently reviewing the appropriate tax treatment of companies engaged in Internet commerce. New state tax regulations may subject us to additional state sales, use and income taxes.

Evolving government regulations may require future licensing which could increase administrative costs or adversely affect our revenues.

In a regulatory climate that is uncertain, our operations may be subject to direct and indirect adoption, expansion or reinterpretation of various laws and regulations. Compliance with these future laws and regulations may require us to obtain appropriate licenses at an undeterminable and possibly significant initial monetary and annual expense. These additional monetary expenditures may increase future overhead, thereby potentially reducing our future results of operations.

We have identified what we believe are the areas of domestic government regulation, which if changed, would be costly to us. These laws and regulations include franchise laws, motor vehicle brokerage licensing laws, motor vehicle dealership licensing laws, insurance licensing laws and financial services laws, which are or may be applicable to aspects of our business. There could be laws and regulations applicable to our business which we have not identified or which, if changed, may be costly to us.

Our success is dependent on keeping pace with advances in technology. If we are unable to keep pace with advances in technology, consumers may stop using our services and our revenues will decrease.

The Internet and electronic commerce markets are characterized by rapid technological change, changes in user and customer requirements, frequent new service and product introductions embodying new technologies and the emergence of new industry standards and practices that could render our existing Web sites and technology obsolete. These market characteristics are exacerbated by the emerging nature of the market and the fact that many companies are expected to introduce new Internet products and services in the near future. If we are unable to adapt to changing technologies, our business, results of operations and financial condition could be materially and adversely affected. Our performance will depend, in part, on our ability to continue to enhance our existing services, develop new technology that addresses the increasingly sophisticated and varied needs of our prospective customers, license leading technologies and respond to technological advances and emerging industry standards and practices on a timely and cost-effective basis. The development of our Web sites and CRM systems and other proprietary technology entails significant technical and business risks. We may not be successful in using new technologies effectively or adapting our Web sites and CRM systems, or other proprietary technology to customer requirements or to emerging industry standards.

We are vulnerable to electricity blackouts and communications system interruptions. The majority of our primary servers are located in a single location. If electricity or communications to that location or to our headquarters were interrupted, our operations would be adversely affected.

We presently host our production Web sites and certain systems, including Autobytel.com, Autoweb.com, CarSmart.com, AutoSite.com, AVV.com and RPM, at secure hosting facilities in Irvine, California and Columbus, Ohio. Although backup servers are available, our primary servers are vulnerable to interruption by damage from fire, earthquake, flood, power loss, telecommunications failure, break-ins and other events beyond our control. In the event that we experience significant system disruptions, our business, results of operations and financial condition would be materially and adversely affected. We have, from time to time, experienced periodic systems interruptions and anticipate that such interruptions will occur in the future.

Our main production systems and our accounting, finance and contract management systems are hosted in a secure facility with generators and other alternate power supplies in case of a power outage. However, our corporate offices, where we have the users and applications for our accounting, finance and contract management systems, are vulnerable to wide-scale power outages. To date, we have not been significantly affected by blackouts or other interruptions in service. In the event we are affected by interruptions in service, our business, results of operations and financial condition could be materially and adversely affected.

We maintain business interruption insurance which pays up to $12.5 million for the actual loss of business income sustained due to the suspension of operations as a result of direct physical loss of or damage to property at our offices. However, in the event of a prolonged interruption, this business interruption insurance may not be sufficient to fully compensate us for the resulting losses.

Internet commerce is relatively new and evolving with few profitable business models. We cannot assure that our business model will continue to be profitable.

The market for Internet-based purchasing services has only recently begun to develop and is rapidly evolving. While many Internet commerce companies have grown in terms of revenues, few are profitable. We cannot assure that we will continue to be profitable. As is typical for a new and rapidly evolving industry, demand and market acceptance for recently introduced services and products over the Internet are subject to a high level of uncertainty and there are few proven services and products. Moreover, since the market for our services is new and evolving, it is difficult to predict the future growth rate, if any, and size of this market. The extent to which other participants in the automotive industry will accept the role of third party all make, all model services like us is not yet known.

If consumers do not continue to adopt Internet commerce as a mainstream medium of commerce or if automotive industry participants resist the role of third party online services, our revenues may not grow and our earnings may suffer.

The success of our services will continue to depend upon the adoption of the Internet by consumers and dealers as a mainstream medium for commerce and/or the willingness of automotive manufacturers to cooperate with third party services. While we believe that our services offer significant advantages to consumers and dealers, there can be no assurance that widespread acceptance of Internet commerce in general, or of our services in particular, will occur or that automotive companies will continue to accept a role for third party services such as ours. Our success assumes that consumers and dealers who have historically relied upon traditional means of commerce to purchase or lease vehicles, and to procure vehicle financing and insurance, will accept new methods of conducting business and exchanging information and that automotive manufacturers will accept, rather than resist, a role for all make, all model third party sites such as ours that allow for comparisons. In addition, dealers must be persuaded to adopt new selling models and be trained to use and invest in developing technologies. If the market for Internet-based vehicle marketing services fails to develop, develops slower than expected, faces opposition or becomes saturated with competitors, or if our services do not achieve market acceptance, our business, results of operations and financial condition may be materially and adversely affected.

Internet-related issues may reduce or slow the growth in the use of our services in the future.

Critical issues concerning the commercial use of the Internet, such as ease of access, security, privacy, reliability, cost, and quality of service, remain unresolved and may impact the growth of Internet use. If Internet usage continues to increase rapidly, the Internet infrastructure may not be able to support the demands placed on it by this growth, and its performance and reliability may decline. The recent growth in Internet traffic has caused frequent periods of decreased performance, outages and delays. Our ability to increase the speed with which we provide services to consumers and to increase the scope and quality of such services is limited by and dependent upon the speed and reliability of the Internet, which is beyond our control. If periods of decreased performance, outages or delays on the Internet occur frequently or other critical issues concerning the Internet are not resolved, overall Internet usage or usage of our Web sites could increase more slowly or decline, which would cause our business, results of operations and financial condition to be materially and adversely affected.

The public market for our common stock may continue to be volatile, especially since market prices for Internet-related and technology stocks have often been unrelated to operating performance.

Prior to the initial public offering of our common stock in March 1999, there was no public market for our common stock. We cannot assure that an active trading market will be sustained or that the market price of the common stock will not decline. Recently, the stock market in general and the shares of emerging companies in particular have experienced significant price fluctuations. The market price of our common stock is likely to continue to be highly volatile and could be subject to wide fluctuations in response to factors such as:

- actual or anticipated variations in our quarterly operating results,
- historical and anticipated operating metrics such as the number of participating dealers, the visitors to our Web sites and the frequency with which they transact,
- announcements of new product or service offerings,
- technological innovations,
- competitive developments, including actions by automotive manufacturers,
- changes in financial estimates by securities analysts,
- conditions and trends in the Internet, electronic commerce and automotive industries,
- adoption of new accounting standards affecting the technology or automotive industry and
- general market conditions and other factors.

Further, the stock markets, and in particular the Nasdaq National Market, have experienced extreme price and volume fluctuations that have particularly affected the market prices of equity securities of many technology companies and have often been unrelated or disproportionate to the operating performance of such companies. These broad market factors have and may adversely affect the market price of our common stock. In addition, general economic, political and market conditions, such as recessions, interest rates, international currency fluctuations, terrorist acts, military actions or wars, may adversely affect the market price of the common stock. In the past, following periods of volatility in the market price of a company's securities, securities class action litigation has often been instituted against companies with publicly traded securities. Such litigation could result in substantial costs and a diversion of management's attention and resources, which would have a material adverse effect on our business, results of operations and financial condition.

Changing legislation affecting the automotive industry could require increased regulatory and lobbying costs and may harm our business.

Our services may result in changing the way vehicles are sold which may be viewed as threatening by new and used vehicle dealers who do not subscribe to our programs. Such businesses are often represented by influential lobbying organizations, and such organizations or other persons may propose legislation which could impact the evolving marketing and distribution model which our services promote. Should current laws be changed or new laws passed, our business, results of operations and financial condition could be materially and adversely affected. As we introduce new services, we may need to comply with additional licensing regulations and regulatory requirements.

To date, we have not spent significant resources on lobbying or related government affairs issues but we may need to do so in the future. A significant increase in the amount we spend on lobbying or related activities could have a material adverse effect on our results of operations and financial condition.

International activities may adversely affect our results of operations and financial condition.

Our licensees currently have Web sites in the United Kingdom, Sweden, The Netherlands and Japan. Revenue from our licensees may be adversely affected by risks in conducting business in their markets, such as regulatory requirements, changes in political conditions, potentially weaker intellectual property protections and educating consumers and dealers who may be unfamiliar with the benefits of online marketing and commerce. In addition, our investment in licensees may be impaired. We may expand our brand into other foreign markets primarily through licensing our trade names. In the past we incurred losses in our international activities. We cannot be certain that we will be successful in introducing or marketing our services abroad. Our results of operations and financial condition may be adversely affected by our international activities.

Our computer infrastructure may be vulnerable to security breaches. Any such problems could jeopardize confidential information transmitted over the Internet, cause interruptions in our operations or cause us to have liability to third persons.

Our computer infrastructure is potentially vulnerable to physical or electronic computer break-ins, viruses and similar disruptive problems and security breaches. Any such problems or security breaches could cause us to have liability to one or more third parties and disrupt all or part of our operations. A party who is able to circumvent our security measures could misappropriate proprietary information, jeopardize the confidential nature of information transmitted over the Internet or cause interruptions in our operations. Concerns over the security of Internet transactions and the privacy of users could also inhibit the growth of the Internet in general, particularly as a means of conducting commercial transactions. To the extent that our activities or those of third party contractors involve the storage and transmission of proprietary information such as personal financial information, security breaches could expose us to a risk of financial loss, litigation and other liabilities. Our current insurance program may protect us against some, but not all, of such losses. Any of these events could have a material adverse effect on our business, results of operations and financial condition.

We depend on continued technological improvements in our systems and in the Internet overall. If we are unable to handle an unexpectedly large increase in volume of consumers using our Web sites, we cannot assure our consumers or dealers that purchase requests will be efficiently processed and our business may suffer.

If the Internet continues to experience significant growth in the number of users and the level of use, then the Internet infrastructure may not be able to continue to support the demands placed on it by such potential growth. The Internet may not prove to be a viable commercial medium because of inadequate development of the necessary infrastructure, timely development of complementary products such as high speed modems, delays in the development or adoption of new standards and protocols required to handle increased levels of Internet activity or increased government regulation.

An unexpectedly large increase in the volume or pace of traffic on our Web sites or the number of orders placed by customers may require us to expand and further upgrade our technology, transaction-processing systems and network infrastructure. We may not be able to accurately project the rate or timing of increases, if any, in the use of our Web sites or expand and upgrade our systems and infrastructure to accommodate such increases. In addition, we cannot assure that our dealers will efficiently process purchase requests.

Any of such failures regarding the Internet in general or our Web sites, technology systems and infrastructure in particular, or with respect to our dealers, would have a material and adverse affect on our business, results of operations and financial condition.

Misappropriation of our intellectual property and proprietary rights could impair our competitive position.

Our ability to compete depends upon our proprietary systems and technology. While we rely on trademark, trade secret, patent and copyright law, confidentiality agreements and technical measures to protect our proprietary rights, we believe that the technical and creative skills of our personnel, continued development of our proprietary systems and technology, brand name recognition and reliable Web site maintenance are more essential in establishing and maintaining a leadership position and strengthening our brands. As part of our confidentiality procedures, we generally enter into confidentiality agreements with our employees and consultants and limit access to our trade secrets and technology. Despite our efforts to protect our proprietary rights, unauthorized parties may attempt to copy aspects of our services or to obtain and use information that we regard as proprietary. Policing unauthorized use of our proprietary rights is difficult. We cannot assure that the steps taken by us will prevent misappropriation of technology or that the agreements entered into for that purpose will be enforceable. Effective trademark, service mark, copyright and trade secret protection may not be available in every country in which our products and services are made available online. In addition, litigation may be necessary in the future to enforce or protect our intellectual property rights or to defend against claims or infringement or invalidity. Misappropriation of our intellectual property or potential litigation could have a material adverse effect on our business, results of operations and financial condition.

We face risk of claims from third parties relating to intellectual property. In addition, we may incur liability for retrieving and transmitting information over the Internet. Such claims and liabilities could harm our business.

As part of our business, we make Internet services and content available to our customers. This creates the potential for claims to be made against us, either directly or through contractual indemnification provisions with third parties. We could face liability for information retrieved from or transmitted over the Internet and liability for products sold over the Internet. We could be exposed to liability with respect to third-party information that may be accessible through our Web sites, links or car review services. Such claims might, for example, be made for defamation, negligence, patent, copyright or trademark infringement, personal injury, breach of contract, unfair competition, false advertising, invasion of privacy or other legal theories based on the nature, content or copying of these materials. Such claims might assert, among other things, that, by directly or indirectly providing links to Web sites operated by third parties, we should be liable for copyright or trademark infringement or other wrongful actions by such third parties through such Web sites. It is also possible that, if any third-party content information provided on our Web sites contains errors, consumers could make claims against us for losses incurred in reliance on such information. Any claims could result in costly litigation, divert management's attention and resources, cause delays in releasing new or upgrading existing services or require us to enter into royalty or licensing agreements.

We also enter into agreements with other companies under which any revenue that results from the purchase of services through direct links to or from our Web sites is shared. Such arrangements may expose us to additional legal risks and uncertainties, including disputes with such parties regarding revenue sharing, local, state and federal government regulation and potential liabilities to consumers of these services, even if we do not provide the services ourselves. We cannot assure that any indemnification provided to us in our agreements with these parties, if available, will be adequate.

Even to the extent such claims do not result in liability to us, we could incur significant costs in investigating and defending against such claims. The imposition upon us of potential liability for information carried on or disseminated through our system could require us to implement measures to reduce our exposure to such liability, which might require the expenditure of substantial resources or limit the attractiveness of our services to consumers, dealers and others.

Litigation regarding intellectual property rights is common in the Internet and software industries. We expect that Internet technologies and software products and services may be increasingly subject to third-party infringement claims as the number of competitors in our industry segment grows and the functionality of products in different industry segments overlaps. There can be no assurance that our services do not infringe on the intellectual property rights of third parties.

In the past, plaintiffs have brought these types of claims and sometimes successfully litigated them against online services. Our general liability insurance may not cover all potential claims to which we are exposed and may not be adequate to indemnify us for all liability that may be imposed. Any imposition of liability that is not covered by insurance or is in excess of our insurance coverage could have a material adverse effect on our business, results of operations and financial condition.

We could be adversely affected by litigation. If we were subject to a significant adverse litigation outcome, our financial condition could be materially adversely affected.

We are a defendant in certain proceedings which are described in "Part I. Item 3. Legal Proceedings" herein.

From time to time, we are involved in other litigation matters arising from the normal course of our business activities. The actions filed against us 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 our business, results of operations and financial condition.

We are uncertain of our ability to obtain additional financing for our future capital needs. If we are unable to obtain additional financing we may not be able to continue to operate our business.

We currently anticipate that our cash, cash equivalents and short-term and long-term investments will be sufficient to meet our anticipated needs for working capital and other cash requirements at least for the next 12 months. We may need to raise additional funds sooner, however, in order to fund more rapid expansion, to develop new or enhance existing services or products, to respond to competitive pressures or to acquire complementary products, businesses or technologies. There can be no assurance that additional financing will be available on terms favorable to us, or at all. If adequate funds are not available or are not available on acceptable terms, our ability to fund our expansion, take advantage of potential acquisition opportunities, develop or enhance services or products or respond to competitive pressures would be significantly limited. In addition, our ability to continue to operate our business may also be materially adversely affected in the event additional financing is not available when required. Such limitation could have a material adverse effect on our business, results of operations, financial condition and prospects.

Our certificate of incorporation and bylaws and Delaware law contain provisions that could discourage a third party from acquiring us or limit the price third parties are willing to pay for our stock.

Provisions of our amended and restated certificate of incorporation and bylaws relating to our corporate governance could make it difficult for a third party to acquire us, and could discourage a third party from attempting to acquire control of us. These provisions allow us to issue preferred stock with rights senior to those of the common stock without any further vote or action by the stockholders. These provisions provide that the board of directors is divided into three classes, which may have the effect of delaying or preventing changes in control or change in our management because less than a majority of the board of directors are up for election at each annual meeting. In addition, these provisions impose various procedural and other requirements which could make it more difficult for stockholders to effect corporate actions such as a merger, asset sale or other change of control of us. Such charter provisions could limit the price that certain investors might be willing to pay in the future for shares of our common stock and may have the effect of delaying or preventing a change in control. The issuance of preferred stock also could decrease the amount of earnings and assets available for distribution to the holders of common stock or could adversely affect the rights and powers, including voting rights, of the holders of the common stock.

We are also subject to the anti-takeover provisions of Section 203 of the Delaware General Corporation Law. In general, the statute prohibits a publicly held Delaware corporation from engaging in a "business combination" with an "interested stockholder" for a period of three years after the date of the transaction in which the person became an interested stockholder, unless the business combination is approved in a prescribed manner. For purposes of Section 203, a "business combination" includes a merger, asset sale or other transaction resulting in a financial benefit to the interested stockholder, and an "interested stockholder" is a person who, together with affiliates and associates, owns or did own 15% or more of the corporation's voting stock.

Our actual results could differ from forward-looking statements in this report.

This report contains forward-looking statements based on current expectations which involve risks and uncertainties. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of many factors, including the risk factors set forth above and elsewhere in this Annual Report on Form 10-K. The cautionary statements made in this report should be read as being applicable to all forward-looking statements wherever they appear in this Annual Report on Form 10-K.

Item 2. *Properties*

Our headquarters are located in a single office building in Irvine, California. We lease four floors, for a total of approximately 49,000 square feet. The lease expires in September 2005. AVV is located in a single office building in Westerville, Ohio and occupies approximately 17,000 square feet. The lease expires in September 2009. We relocated AIC's operations to our Irvine office from Westborough, Massachusetts in 2003. We continue to pay rent on the former AIC premises in Westborough. The lease expires in May 2005.

We believe that our existing facilities are adequate to meet our needs and that existing needs and future growth can be accommodated by leasing alternative or additional space.

Item 3. *Legal Proceedings*

In August 2001, a purported class action lawsuit was filed in the United States District Court for the Southern District of New York against Autobytel and certain of Autobytel's current and former directors and officers (the "Autobytel Individual Defendants") and underwriters involved in Autobytel's initial public offering. The complaints against Autobytel have been consolidated with two other complaints that relate to its initial public offering but do not name it as a defendant, and a Consolidated Amended Complaint, which is now the operative complaint, was filed on April 19, 2002. This action purports to allege violations of the Securities Act of 1933 and the Securities Exchange Act of 1934. Plaintiffs allege that the underwriter defendants agreed to allocate stock in Autobytel's initial public offering to certain investors in exchange for excessive and undisclosed commissions and agreements by those investors to make additional purchases of stock in the aftermarket at pre-determined prices. Plaintiffs allege that the prospectus for Autobytel's initial public offering was false and misleading in violation of the securities laws because it did not disclose these arrangements. The action seeks damages in an unspecified amount. The action is being coordinated with approximately 300 other nearly identical actions filed against other companies. A motion to dismiss addressing issues common to the companies and individuals who have been sued in these actions was filed on July 15, 2002. On October 9, 2002, the Court dismissed the Autobytel Individual Defendants from the case without prejudice based upon Stipulations of Dismissal filed by the plaintiffs and the Autobytel Individual Defendants.

On February 19, 2003, the Court denied the motion to dismiss the complaint against Autobytel. Autobytel has approved a Memorandum of Understanding ("MOU") and related agreements which set forth the terms of a settlement between Autobytel, the plaintiff class and the vast majority of the other approximately 300 issuer defendants. Among other provisions, the settlement contemplated by the MOU provides for a release of Autobytel and the Autobytel Individual Defendants for the conduct alleged in the action to be wrongful and for Autobytel to undertake certain responsibilities, including agreeing to assign away, not assert, or release certain potential claims Autobytel may have against its underwriters. It is anticipated that any potential financial obligation of Autobytel to plaintiffs pursuant to the terms of the MOU and related agreements will be covered by existing insurance. Therefore, we do not expect that the settlement will involve any payment by Autobytel. The MOU and related agreements are subject to a number of contingencies, including the negotiation of a settlement agreement and its approval by the court. We cannot determine whether or when a settlement will occur or be finalized and whether the outcome of the litigation will have a material impact on our results of operations or financial condition in any future period.

Between April and June 2001, eight separate purported class actions virtually identical to the one filed against Autobytel were filed against Autoweb.com, Inc. ("Autoweb"), certain of Autoweb's current and former directors and officers (the "Autoweb Individual Defendants") and underwriters involved in Autoweb's initial public offering. The complaints against Autoweb have been consolidated into a single action, and a Consolidated Amended Complaint, which is now the operative complaint, was filed on April 19, 2002. The foregoing action purports to allege violations of the Securities Act of 1933 and the Securities Exchange Act of 1934. Plaintiffs allege that the underwriter defendants agreed to allocate stock in Autoweb's initial public offering to certain investors in exchange for excessive and undisclosed commissions and agreements by those investors to make additional purchases of stock in the aftermarket at pre-determined prices. Plaintiffs allege that the prospectus for Autoweb's initial public offering was false and misleading in violation of the securities laws because it did not disclose these arrangements. The action seeks damages in an unspecified amount. The action is being coordinated with approximately 300 other nearly identical actions filed against other companies. A motion to dismiss addressing issues common to the companies and individuals who have been sued in these actions was filed on July 15, 2002. On October 9, 2002, the Court dismissed the Autoweb Individual Defendants from the case without prejudice based upon Stipulations of Dismissal filed by the plaintiffs and the Autoweb Individual Defendants. On February 19, 2003, the Court dismissed the Section 10(b) claim without prejudice and with leave to replead but denied the motion to dismiss the claim under Section 11 of the Securities Act of 1933 against Autoweb. Autoweb has approved the MOU and related agreements which set forth the terms of a settlement between Autoweb, the plaintiff class and the vast majority of the other approximately 300 issuer defendants. Among other provisions, the settlement contemplated by the MOU provides for a release of Autoweb and the Autoweb Individual Defendants for the conduct alleged in the action to be wrongful and for Autoweb to undertake certain responsibilities, including agreeing to assign away, not assert, or release certain potential claims Autoweb may have against its underwriters. It is anticipated that any potential financial obligation of Autoweb to plaintiffs pursuant to the terms of the MOU and related agreements will be covered by existing insurance. Therefore, we do not expect that the settlement will involve any payment by Autoweb. The MOU and related agreements are subject to a number of contingencies, including the negotiation of a settlement agreement and its approval by the court. We cannot determine whether or when a settlement will occur or be finalized and whether the outcome of the litigation will have a material impact on our results of operations or financial condition in any future period.

We have reviewed the above class action matters and do not believe that it is probable that a loss contingency has occurred, therefore, no amounts have been recorded in our financial statements.

From time to time, we are involved in other litigation matters relating to claims arising out of the ordinary course of business. We believe that there are no claims or actions pending or threatened against us, the ultimate disposition of which would have a material adverse effect on our business, results of operations and financial condition. However, if a court or jury rules against us and the ruling is ultimately sustained on appeal and damages are awarded against us, such ruling could have a material and adverse effect on our business, results of operations and financial condition.

Item 4. ***Submission of Matters to a Vote of Security Holders***

No matters were submitted to a vote of security holders during the fourth quarter of 2003.

PART II

Item 5. Market for Registrant's Common Equity and Related Stockholder Matters

Our common stock, par value $0.001 per share, has been quoted on the Nasdaq National Market under the symbol "ABTL" since March 26, 1999. Prior to this time, there was no public market for our common stock. The following table sets forth, for the calendar quarters indicated, the range of high and low sales prices of our common stock as reported on the Nasdaq National Market.

Year	High	Low
2002		
First Quarter	$ 3.94	$1.71
Second Quarter	$ 4.24	$2.33
Third Quarter	$ 3.00	$1.45
Fourth Quarter	$ 3.25	$1.77
2003		
First Quarter	$ 4.02	$2.45
Second Quarter	$ 6.83	$3.48
Third Quarter	$10.75	$5.51
Fourth Quarter	$12.70	$7.74
2004		
First Quarter (through March 1, 2004)	$14.40	$9.03

As of February 29, 2004, there were 569 holders of record of our common stock. We have never declared or paid any cash dividends on our common stock. We intend to retain all of our future earnings, if any, for use in our business, and therefore we do not expect to pay any cash dividends on our common stock in the foreseeable future.

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Item 6. Selected Consolidated Financial Data

The following selected consolidated financial data should be read in conjunction with our consolidated financial statements and related notes and Part II. Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations" appearing elsewhere in this Annual Report on Form 10-K. Our consolidated financial statements and related notes and Part II Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations" provide detailed information regarding acquisitions, deconsolidation, impairment, restructuring and other charges which have impacted our results of operation and financial condition and affect the comparability of the financial data provided below. The statement of operations data for the years ended December 31, 2003, 2002, 2001, 2000 and 1999 and the balance sheet data as of December 31, 2003, 2002, 2001, 2000 and 1999 are derived from our audited consolidated financial statements.

	Years Ended December 31,				
	2003	2002	2001	2000	1999
	(Dollar amounts in thousands, except per share data)				
Statement of Operations Data:					
Revenues	$ 88,943	$ 80,855	$ 71,068	$ 66,532	$ 40,298
Operating expenses:					
Sales and marketing	52,646	49,082	50,648	65,266	44,176
Product and technology development	18,723	22,695	20,410	22,847	14,262
General and administrative	11,461	9,876	14,973	13,797	8,595
Goodwill impairment	—	—	22,867	—	—
Autobytel.Europe restructuring, impairment and other international charges	—	15,015	7,229	—	—
Domestic restructuring and other charges, net	(27)	1,800	4,514	—	—
Total operating expenses	82,803	98,468	120,641	101,910	67,033
Income (loss) from operations	6,140	(17,613)	(49,573)	(35,378)	(26,735)
Loss on recapitalization of Autobytel.Europe	—	(4,168)	—	—	—
Other income, net	1,288	207	3,264	6,017	3,468
Income (loss) before minority interest and income taxes	7,428	(21,574)	(46,309)	(29,361)	(23,267)
Minority interest	—	866	1,485	369	—
Income (loss) before income taxes	7,428	(20,708)	(44,824)	(28,992)	(23,267)
Provision for income taxes	8	6	27	42	53
Net income (loss)	$ 7,420	$ (20,714)	$ (44,851)	$ (29,034)	$(23,320)
Basic net income (loss) per share	$ 0.22	$ (0.67)	$ (1.84)	$ (1.45)	$ (1.48)
Diluted net income (loss) per share	$ 0.20	$ (0.67)	$ (1.84)	$ (1.45)	$ (1.48)
Shares used in computing basic net income (loss) per share	34,508	31,143	24,404	20,047	15,766
Shares used in computing diluted net income (loss) per share	37,626	31,143	24,404	20,047	15,766

	December 31,				
	2003	2002	2001	2000	1999
Balance Sheet Data:					
Cash and cash equivalents	$ 51,643	$ 27,571	$ 61,837	$ 81,945	$ 85,457
Short-term investments	3,991	—	—	—	—
Working capital	53,608	25,276	51,562	68,447	74,756
Long-term investments	6,000	—	—	—	—
Total assets	96,326	55,224	90,781	123,618	93,582
Non-current liabilities	—	255	—	—	—
Accumulated deficit	(153,772)	(161,192)	(140,478)	(95,627)	(66,593)
Stockholders' equity	$ 82,810	$ 42,422	$ 60,395	$ 91,806	$ 76,706

Item 7. *Management's Discussion And Analysis Of Financial Condition And Results Of Operations*

You should read the following discussion of our results of operations and financial condition in conjunction with our consolidated financial statements and related notes included elsewhere in this Annual Report on Form 10-K. This discussion contains forward-looking statements based on current expectations that involve risks and uncertainties. Actual results and the timing of certain events may differ significantly from those projected in such forward-looking statements due to a number of factors, including those discussed in the section entitled "Risk Factors" in Part I. Item 1. "Business" in this Annual Report on Form 10-K.

Overview

We are an automotive marketing services company that helps dealers sell cars and manufacturers build brands through efficient marketing, advertising and customer relationship management (CRM) tools and programs primarily through the Internet. We own and operate the automotive Web sites Autobytel.com, Autoweb.com, CarSmart.com and AutoSite.com. We own AVV, a leading provider of dealership lead management tools and dealer management system data extraction services. We are also a leading provider of automotive marketing data and technology through our Automotive Information Center division.

On June 4, 2003, we acquired Applied Virtual Vision, Inc., now AVV, Inc. We acquired AVV for 711,109 shares of our common stock and $4.7 million in cash. We have included AVV's financial position and results of operations, including revenues, expenses, cash flows and other relevant operating activity, from the date of acquisition in the discussion and analysis of our consolidated financial position and results of operations below.

On June 24, 2003, we completed the sale of a total of 5,000,000 shares of common stock to six institutional investor groups in a private placement for gross proceeds of $27.0 million, or $5.40 per share. Net proceeds after commissions and other transaction costs were $25.6 million. We intend to use the proceeds for general corporate purposes, including potential acquisitions.

Fiscal year 2003 was our first year of profitability. We are currently experiencing growth in revenue and net income. In addition, in the past several quarters we have been able to better diversify our revenue mix. Our current business strategy is to grow our existing business and make acquisitions.

As of December 31, 2003, we had $61.6 million in cash, cash equivalents, and short-term and long-term investments. We generated $9.4 million in cash from operations during 2003. We expect to continue generating cash from operations in 2004.

In the first half of 2003, our number of program dealer relationships declined. In the second half of 2003, we achieved positive net additions to our number of program dealer relationships. We had 5,300 program dealer relationships as of December 31, 2003 compared to 5,400 as of December 31, 2002. We expect to maintain positive net additions to program dealer relationships in 2004.

As of December 31, 2003 and December 31, 2002, we had approximately 29,000 and 20,200 dealer relationships, respectively. As of December 31, 2003, our dealer relationships consisted of approximately 18,700 enterprise dealer relationships, 5,300 program dealer relationships and 5,000 CRM dealer relationships, including approximately 3,400 AVV, 1,200 iManager (a lead management tool) and 400 RPM dealer relationships. As of December 31, 2002 our dealer relationships consisted of approximately 14,700 enterprise dealer relationships, 5,400 program dealer relationships and 100 RPM dealer relationships. AVV was acquired in June 2003 and we did not count iManager dealer relationships in 2002.

We conduct our business within one business segment, which is defined as providing automotive marketing services primarily through the Internet.

Program fees consist of fees paid by program dealers who participate in our Autobytel.com, Autoweb.com and CarSmart.com online car buying referral networks. Program fees also consist of fees paid by dealers who use our lead management tools. Fees paid by program dealers participating in our car buying referral networks are comprised of monthly subscription and transaction fees for qualified consumer leads, or purchase requests, which are directed to participating program dealers. Autobytel.com program dealers using our referral services pay ongoing monthly subscription fees based, among other things, on the size of territory, demographics and, indirectly, the transmittal of qualified purchase requests to them. Autoweb.com and CarSmart.com program dealers using our referral services pay ongoing monthly subscription fees or transaction fees based on the number of qualified purchase requests provided to them each month. Program dealers using our lead management tools pay ongoing monthly subscription fees based on the level of functionality they have selected from our suite of lead management tools. Program fees include revenues from AVV beginning on the date of acquisition, June 4, 2003. We expect to be primarily dependent on our program dealers for revenues in the foreseeable future.

Generally, our program dealer contracts have terms ranging from 90 days to one year and are terminable on 30 days' notice by either party. The majority of our program fees consist of monthly subscription and transactional fees which are recognized in the period service is provided. For the years ended December 31, 2003, 2002 and 2001, program fees were $56.1 million, $58.0 million and $52.3 million, or 63%, 72% and 74% of total revenues, respectively. Average monthly program fees per dealer were $871, $810 and $721 in 2003, 2002 and 2001, respectively.

Enterprise sales include fees from major dealer groups and automotive manufacturers for purchase requests delivered to enterprise dealers and for use of our lead management tools and services as well as fees from manufacturers and other users for automotive marketing data and technology. Enterprise dealers consist of (i) dealers that are part of major dealer groups with more than 25 dealerships with whom we have a single agreement and (ii) dealers that are eligible to receive purchase requests from us and/or use our lead management tools and services as part of a single agreement with an automotive manufacturer or its automotive buying service affiliate. Major dealer groups include AutoNation and automotive manufacturers include manufacturers such as General Motors, Ford, Mercedes Benz and Mazda. A program with a major manufacturer accounted for approximately 10,000 enterprise dealer relationships as of December 31, 2003. The program automatically extends in one month increments until terminated by us or the manufacturer. From time to time, a major dealer group or automotive manufacturer may significantly increase or decrease the number of enterprise dealers participating in our dealer networks. We intend to strengthen the size and quality of our relationships with major dealer groups, automotive manufacturers and other users of automotive marketing services and technology. Enterprise sales include revenues from AVV beginning on the date of acquisition, June 4, 2003. Revenues from enterprise sales were $15.2 million, $10.5 million and $6.6 million, or 17%, 13% and 9% of total revenues, in 2003, 2002 and 2001, respectively.

Advertising revenues represent fees from automotive manufacturers and other advertisers who target car buyers during the research, consideration and decision making process on our Web sites. Using the targeted nature of Internet advertising, manufacturers can advertise their brands effectively on any of our four Web sites by targeting advertisements to consumers who are researching vehicles, thereby increasing the likelihood of influencing their purchase decisions. Our customizable advertising product, the Featured Model Showcase, offers manufacturers the opportunity to present detailed, enhanced information about a specific vehicle model to millions of online car shoppers on our Web sites. Features can include purchase request functionality, image galleries, brochure requests and video. With further selling of our advertising inventory and an increase in Internet advertising spending by automotive manufacturers, we anticipate that our advertising business in 2004 will increase compared to 2003. Revenues from advertising were $11.8 million, $7.9 million and $4.3 million in 2003, 2002 and 2001, or 13%, 10% and 6% of total revenues, respectively.

Revenues from other products and services include fees from our customer loyalty and retention marketing program for dealerships and manufacturers called RPM, classified listings for used cars, data extraction services, international licensing agreements and other products and services. Beginning on June 4, 2003, the acquisition date of AVV, revenues from other products and services also include fees from our data extraction service. We expect to increase the number of dealers subscribing to our RPM program. In 2003, 2002 and 2001, revenues from other products and services were $5.8 million, $4.4 million and $7.8 million, or 7%, 5% and 11% of total revenues, respectively.

To enhance the quality of purchase requests, each purchase request is passed through our Quality Verification System (QVS)SM which uses filters and validation processes to identify consumers with strong purchase intent before delivering the purchase request to our program and enterprise dealers. We have also implemented additional custom filters and validation processes to further enhance our existing process of validating consumer information. The implementation of these quality enhancing processes allows us to deliver high quality purchase requests to our program and enterprise dealers. High quality purchase requests are those that result in high closing ratios. Closing ratio is the ratio of the number of vehicles purchased at a dealer generated from purchase requests to the total number of purchase requests sent to that dealer. We anticipate that improved purchase request quality will help us further reduce customer credits, reduce dealer turnover and increase revenues in the future.

We delivered approximately 3.1 million and 3.6 million purchase requests through our online systems to program and enterprise dealers in 2003 and 2002, respectively. Of these, approximately 2.2 million and 3.1 million were delivered to program dealers and approximately 0.9 million and 0.5 million were delivered to enterprise dealers in 2003 and 2002, respectively. Purchase requests delivered to program dealers in 2003 decreased by 0.9 million, or 27%, compared to 2002. The decrease was a result of the implementation of QVS in August 2002, as we rejected purchase requests that did not meet our higher qualification standards. The decrease was also a result of a decline in our number of program dealer relationships during 2003 compared to 2002, due, in part, to our efforts to retain dealers that provide a reasonable profit to us. Our revenue per purchase request from program dealers increased to $23.89 in 2003 from $18.61 in 2002. Purchase requests delivered to enterprise dealers in 2003 increased by 0.4 million, or 61%, compared to 2002, due to the addition of a major manufacturer to our enterprise program during 2002. We expect the number of purchase requests we deliver to our program and enterprise dealers to increase in 2004 compared to 2003.

To enhance our program dealers' ability to sell cars using our programs, we developed and implemented various tools and processes to improve our dealer support. We contact all program dealers new to our programs to confirm their initiation on our programs and train their personnel on the use of our programs and tools. We also contact our program dealers on a regular basis to identify program dealers who are not using our programs effectively, develop relationships with program dealer principals and their personnel responsible for calling our customers and to inform our program dealers about their effectiveness using surveys completed by our purchase-intending customers. In 2003, we realigned and invested additional resources in our sales and support departments to improve our program dealer relationships.

Our relationship with program dealers may terminate for various reasons including:

- termination by the dealer due to issues with purchase request volume, purchase request quality, fee increases or lack of dedicated personnel to manage the program effectively,
- termination by us due to the dealer providing poor customer service to consumers or for nonpayment of fees by the dealer,
- termination by us of dealers that cannot provide us with a reasonable profit,
- extinction of the manufacturer brand, or
- selling or termination of the dealer franchise.

In the second half of 2003, we achieved positive net additions to our number of program dealer relationships. However, we cannot assure that we will be able to continue to reduce our dealer turnover. Our inability or failure to reduce dealer turnover could have a material adverse effect on our business, results of operations and financial condition.

Because our primary revenue source is from program fees, our business model is significantly different from many other Internet commerce sites. The automobiles requested through our Web sites are sold by dealers; therefore, we derive no direct revenues from the sale of a vehicle and have no significant cost of goods sold, no procurement, carrying or shipping costs and no inventory risk.

Sales and marketing costs consist primarily of:

- fees paid to our Internet purchase request providers, including Internet portals and online automotive information providers,
- promotion and advertising expenses to build our brand awareness and encourage potential customers to visit our Web sites and
- personnel and other costs associated with sales, marketing, training and support of our dealer networks.

Our Internet marketing and advertising costs, including annual, monthly and variable fees, were $30.7 million, $31.1 million and $24.9 million in 2003, 2002 and 2001, respectively. Also included in sales and marketing expenses are the costs related to signing up new dealers and their ongoing training and support, costs to support our advertising and RPM revenues and costs associated with traditional media, such as television, radio and print advertising. Sales and marketing costs are recorded as an expense in the period the service is provided. We expect sales and marketing expenses as a percentage of revenue to be approximately the same in 2004 as in 2003.

Critical Accounting Policies and Estimates

Our consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States which require us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, and disclosure of contingent assets and liabilities. We believe the following critical accounting policies, among others, require significant judgment in determining estimates and assumptions used in the preparation of our consolidated financial statements. There can be no assurance that actual results will not differ from our estimates and assumptions. For a detailed discussion of the application of these and other accounting policies, see Note 2. of the "Notes to Consolidated Financial Statements" in Part IV. Item 15. "Exhibits, Financial Statement Schedules and Reports on Form 8-K" of this Annual Report on Form 10-K.

Accounts Receivable. We maintain allowances for bad debts and customer credits. The allowance for bad debts is our estimate of bad debt expense that could result from the inability or refusal of our customers to pay for our services. The estimated provision for bad debts is charged to operating expenses. The allowance for customer credits is our estimate of adjustments for purchase requests or other services that do not meet our customers' quality expectations. The estimated provision for customer credits is recorded as a reduction in revenues. Our estimates are based on our historical bad debt expense and customer credit experience.

In prior periods, significant increases in required allowances for bad debts and customer credits have been recorded. During 2003, we experienced an improvement in our collection of accounts receivable due to vigorous collection efforts and the improved quality of our products and services. Based on this improvement, we have reduced our allowances for bad debts and customer credits to 6% and 10% of accounts receivable, respectively, as of December 31, 2003, compared to 17% and 21% of accounts receivable, respectively, as of December 31, 2002. The reductions included a $0.9 million decrease in the allowance for bad debts in the fourth quarter of 2003. If we continue to improve the quality of our accounts receivable, we may further reduce our allowances for bad debts and customer credits. Reductions in the estimated provisions for bad debts and customer credits are recorded as a decrease in operating expenses and an increase in revenues, respectively.

However, if there is a decline in the general economic environment that negatively affects the financial condition of our customers or an increase in the number of customers that are dissatisfied with our services, additional allowances for bad debts and customer credits may be required and the impact on our business, results of operations or financial condition could be material.

As of December 31, 2003 and 2002, accounts receivable and allowances for bad debts and customer credits were as follows:

	As of December 31,	
	2003	2002
Accounts receivable	$12,653	$10,971
Allowance for bad debts	(814)	(1,912)
Allowance for customer credits	(1,252)	(2,302)
	(2,066)	(4,214)
Accounts receivable, net	$10,587	$ 6,757

Investment in Equity Investee. We hold minority interests in unconsolidated subsidiaries. The subsidiaries are not publicly traded and, therefore, the value of our minority interest is difficult to determine. Adverse changes in market conditions or poor operating results of the subsidiary underlying each investment could result in losses or an inability to recover the carrying value of our investment. We use estimates and make assumptions to determine if our investment has experienced a decline in value that is other than temporary and to determine the fair value of the investment. In future periods, if the carrying value of our investments is determined to be in excess of the estimated fair value we will recognize a non-cash charge for the impairment of our investment. During 2002, we recognized an $11.0 million non-cash charge for the impairment of our investment in Autobytel.Europe. In 2003, we received $2.2 million from Autobytel.Europe as a partial return of capital. As of December 31, 2003 our investment in Autobytel.Europe was $2.8 million.

Capitalized Software. Changes in strategy and/or market conditions could significantly impact the estimated value of our capitalized software. We use estimates and make assumptions to determine the related estimated useful lives and the fair value of capitalized software. In future periods, if the carrying value of capitalized software is determined to be in excess of the estimated fair value, we will recognize a non-cash charge for the impairment of capitalized software. During 2002 and 2001, we recognized non-cash charges of $1.9 million and $1.4 million, respectively, for the impairment of capitalized software. As of December 31, 2003, we had capitalized software, net of amortization of $1.0 million.

Goodwill. Goodwill represents the excess of the purchase price for acquisitions over the fair value of identifiable assets and liabilities acquired. We use estimates and make assumptions to determine the fair value of acquired assets and liabilities. If estimates or assumptions change in the future, we may be required to record goodwill impairment charges. During 2001, we recorded a $22.9 million non-cash charge for the full impairment of goodwill related to our acquisition of A.I.N. Corporation. Based on our transitional evaluation in 2002 and annual evaluations in 2002 and 2003 of goodwill related to our acquisition of Autoweb, no impairment charge was recognized. In 2003, we recorded goodwill of $8.5 million related to the acquisition of AVV. In future periods, if goodwill is determined to be impaired we will recognize a non-cash charge equal to the excess of the carrying value over the determined fair value. There can be no assurance that future goodwill impairment tests will not result in a charge to earnings. As of December 31, 2003, the balance of goodwill related to the Autoweb and AVV acquisitions was $16.8 million.

Contingencies. We are subject to proceedings, lawsuits and other claims. We are required to assess the likelihood of any adverse judgments or outcomes of these matters as well as potential ranges of probable losses. We are required to record a loss contingency when an unfavorable outcome is probable and the amount of the loss can be reasonably estimated. The amount of reserves required, if any, for these contingencies is determined after analysis of each individual case. The amount of reserves may change in the future if there are new material developments in each matter.

Income Taxes. We account for income taxes in accordance with SFAS No. 109, "Accounting for Income Taxes." Under SFAS No. 109, deferred income tax assets and liabilities are determined based on the differences between the book and tax basis of assets and liabilities and are measured using the currently enacted tax rates and laws. A valuation allowance is recorded against deferred tax assets when it is more likely than not that such deferred tax assets will not be realized. As of December 31, 2003, we have recorded a full valuation allowance against our deferred tax assets.

Results of Operations

The following table sets forth our results of operations as a percentage of revenues:

	Years Ended December 31,		
	2003	2002	2001
Revenues			
Program fees	63%	72%	74%
Enterprise sales	17	13	9
Advertising	13	10	6
Other products and services	7	5	11
Total revenues	100	100	100
Operating expenses:			
Sales and marketing	59	61	71
Product and technology development	21	28	29
General and administrative	13	12	21
Goodwill impairment		—	32
Autobytel.Europe restructuring, impairment and other international charges	—	19	10
Domestic restructuring and other charges, net	—	2	6
Total operating expenses	93	122	170
Income (loss) from operations	7	(22)	(70)
Other income (expense)	1	(5)	5
Income (loss) before minority interest and income taxes	8	(27)	(65)
Minority interest	—	1	2
Income (loss) before income taxes	8	(26)	(63)
Provision for income taxes	—	—	—
Net income (loss)	8%	(26)%	(63)%

2003 Compared to 2002

Revenues. Our revenues increased by $8.0 million, or 10%, to $88.9 million in 2003 compared to $80.9 million in 2002 due to growth in enterprise sales, advertising and other products and services. As a result of the acquisition of AVV on June 4, 2003, revenues include $3.6 million from dealers using our AVV products and services in 2003.

Program Fees. Program fees consist of fees paid by program dealers who participate in our new and used online car buying referral networks. Program fees also consist of fees paid by dealers who use our lead management tools. Fees paid by program dealers participating in our referral networks are comprised of monthly subscription and transaction fees for qualified consumer leads, or purchase requests, which are directed to participating program dealers. Dealers using our referral services pay transaction fees based on the number of qualified purchase requests provided to them each month, or ongoing monthly subscription fees based, among other things, on the size of territory, demographics and, indirectly, the transmittal of qualified purchase requests to them. Program dealers using our lead management tools pay ongoing monthly subscription fees based on the level of functionality selected from our suite of lead management tools. Program fees decreased by $1.9 million, or 3%, to $56.1 million in 2003 compared to $58.0 million in 2002. The decrease was primarily due to a decline during the first half of 2003 in the number of paying dealers participating in our referral networks and the quantity of purchase requests delivered to them partially offset by an increase in average monthly program fees per dealer and revenue per purchase request. The number of program dealer relationships was 5,283 and 5,362 as of December 31, 2003 and 2002, respectively. The number of purchase requests delivered to them was 2.2 million and 3.1 million, average monthly program fees per dealer were $871 and $810 and revenue per purchase request was $23.89 and $18.61 in 2003 and 2002, respectively. The decrease in program fees was also partially offset by fees from dealers using our lead management tools as a result of the AVV acquisition. We expect our program fee revenues to increase in 2004 compared to 2003 as we continue our efforts to increase the number of purchase requests we send to our program dealers, send dealers only qualified purchase requests, improve dealer support and retention, increase our fees per purchase request and increase our revenues from dealers using our lead management tools.

Enterprise Sales. Enterprise sales include fees from major dealer groups and automotive manufacturers for purchase requests delivered to enterprise dealers and for use of our lead management tools and services as well as fees from manufacturers and other users for automotive marketing data and technology. Enterprise dealers consist of (i) dealers that are part of major dealer groups with more than 25 dealerships with whom we have a single agreement and (ii) dealers that are eligible to receive purchase requests from us and/or use our lead management tools and services as part of a single agreement with an automotive manufacturer or its automotive buying service affiliate. Major dealer groups include AutoNation and automotive manufacturers include General Motors, Ford, Mercedes Benz and Mazda. Enterprise sales increased by $4.7 million, or 45%, to $15.2 million in 2003 compared to $10.5 million in 2002. The increase was primarily due to adding new enterprise customers, selling more purchase requests to existing customers, improving the quality of our purchase requests and the acquisition of AVV. As of December 31, 2003 and 2002, the number of enterprise dealer relationships was 18,710 and 14,733, respectively. The number of purchase requests delivered to enterprise dealers was 0.9 million and 0.5 million in 2003 and 2002, respectively. We have added new enterprise customers and, therefore, expect revenues from enterprise sales to increase in 2004 compared to 2003.

Advertising. Revenues from advertising represent fees received from automotive manufacturers and other advertisers who target car buyers during the research, consideration and decision making process on our Web sites. Advertising revenue increased by $3.9 million, or 49%, to $11.8 million in 2003 compared to $7.9 million in 2002. The increase was primarily due to higher spending by automotive manufacturers, more effective selling of our advertising inventory, an increase in the pricing of our advertising, and an increase in the number of automotive manufacturer customers. With further selling of our available advertising inventory and an increase in Internet advertising spending by automotive manufacturers, we expect our advertising revenues to increase in 2004 compared to 2003.

Other Products and Services. Revenues from other products and services include fees from RPM, international licensing agreements and other products and services. Also, with the acquisition of AVV on June 4, 2003, revenues from other products and services include fees from our data extraction service. Revenues from other products and services increased by $1.4 million, or 31%, to $5.8 million in 2003 compared to $4.4 million in 2002. The increase was primarily due to an increase in RPM revenues and fees from dealers using our AVV products and services as a result of the acquisition, partially offset by a decrease in revenues from international licensing, financing and other products and services. We continue to focus our efforts on offering marketing services to dealers and automotive manufacturers. We expect increases in revenues from RPM and AVV products and services in 2004 compared to 2003.

Sales and Marketing. Sales and marketing expense primarily includes advertising and marketing expenses paid to our purchase request providers and for developing our brand equity, as well as personnel and other costs associated with dealer sales, RPM and AVV sales, web site advertising sales, and dealer training and support. Sales and marketing expense increased by $3.5 million, or 7%, to $52.6 million in 2003 compared to $49.1 million in 2002. This represents 59% and 61% as a percent of total revenues in 2003 and 2002, respectively. The increase was primarily due to a $1.7 million increase in costs associated with sales and customer relationship maintenance, including AVV, which was acquired on June 4, 2003, a $1.3 million increase in costs related to our growing RPM program as well as other marketing and advertising related expenses, a $0.5 million increase in traditional advertising expenses, and a $0.5 million increase in marketing personnel and related costs, partially offset by a $0.5 million decrease in online advertising as a result of the cost saving efficiencies of QVS and improved purchase request acquisition and distribution processes. We expect our sales and marketing expenses as a percentage of revenues to remain flat in 2004 compared to 2003.

Product and Technology Development. Product and technology development expense primarily includes personnel costs related to developing new products, enhancing the features, content and functionality of our Web sites and our Internet-based communications platform, costs associated with our telecommunications and computer infrastructure, costs related to data and technology development and amortization of software development costs. Product and technology development expense decreased by $4.0 million, or 18%, to $18.7 million in 2003 compared to $22.7 million in 2002. This represents 21% and 28% of total revenues in 2003 and 2002, respectively. The decrease was primarily due to a $1.1 million decrease in personnel and related costs, a $0.8 million decrease in professional consulting fees due to more effective use of internal resources, a $0.6 million decrease in amortization of software development costs and a $1.5 million decrease in other product and technology development expenses, including research, hosting fees, data and licensing. In 2003, we did not capitalize software development costs since any costs that were incurred did not meet specified criteria under our software capitalization policy. In 2002, we capitalized $1.4 million of software development costs related to enhancements to RPM. We expect our product and technology development expenses as a percentage of revenues to remain flat in 2004 compared to 2003.

General and Administrative. General and administrative expense primarily consists of executive, financial and legal personnel expenses and costs related to being a public company. General and administrative expense increased by $1.6

million, or 16%, to $11.5 million in 2003 compared to $9.9 million in 2002. This represents 13% and 12% of total revenues in 2003 and 2002, respectively. The increase was primarily due to $0.4 million related to the relocation of our AIC operations from Westborough, Massachusetts to our corporate office in Irvine, California, a $0.3 million increase in legal and public company expenses and a $0.9 million increase in other general and administrative expenses, including personnel and related costs. We expect our general and administrative expenses as a percentage of revenues to slightly increase in 2004 compared to 2003 due to fees associated with regulatory requirements for public companies.

Autobytel.Europe Restructuring, Impairment and Other International Charges. In 2002, we recorded non-cash charges of $4.0 million for terminated Autobytel.Europe contracts and $11.0 million for the impairment of our investment in Autobytel.Europe.

Domestic restructuring charges and other benefits, net. In 2003, a benefit was recorded for a reduction in accrued restructuring charges due to the final reconciliation of CarSmart's leased facility maintenance costs by the landlord. In 2002, we recorded a net charge of $1.8 million in domestic restructuring and other charges. The net charge consisted of $1.9 million for the write-off of previously capitalized software which was originally intended to be a standardized technology platform for global web site development. The charge was partially offset by a net benefit of $0.1 million consisting of a $1.0 million benefit related to a reduction in the original estimate of a negotiated settlement with a vendor, discounted legal fees and recovered legal costs from an insurance company, partially offset by charges of $0.9 million related to our lease obligation on the vacant portion of AIC's office facilities, severance costs for the restructuring of our operations to reduce costs and enhance efficiencies and abandoned acquisition costs.

Loss on Recapitalization of Autobytel.Europe. In 2002, we recorded a non-cash charge of $4.2 million related to the partial disposition of our investment in Autobytel.Europe.

Interest Income. In 2003, interest income decreased by $0.4 million, or 54%, to $0.3 million compared to $0.7 million in 2002 due to declining interest rates.

Income (Loss) in Equity Investees. In 2003, we recognized $0.2 million as our share of income in Autobytel.Europe. In 2002, the loss recognized for Autobytel Australia was $0.4 million and the loss recognized for Autobytel.Europe was $0.1 million. Autobytel Australia ceased operations in August 2002.

Other Income (Expense). Other income (expense) increased by $0.8 million in 2003 compared to 2002 due to the negotiated settlement of an outstanding note receivable and compensation liability with a former Autoweb employee.

Minority Interest. As of March 29, 2002, Autobytel.Europe was no longer a majority-owned subsidiary as we reduced our ownership to 49%. Accordingly, we had no minority interest in 2003.

Income Taxes. No provision for federal income taxes has been recorded as we generated taxable losses through December 31, 2002 and had nominal taxable income for the year ended December 31, 2003 which will be offset by net operating loss carryforwards. As of December 31, 2003, we had approximately $63.0 million of federal and $34.0 million of state net operating loss carryforwards available to offset future taxable income. These net operating loss carryforwards expire in various years through 2022. We also have federal and state research tax credit carryforwards of $0.7 million and $0.5 million, respectively. These research tax credits expire in various years through 2022. Utilization of these carryforwards is subject to an annual limitation due to the ownership change limitations provided by the Internal Revenue Code and similar state provisions. The annual limitation may result in the expiration of the carryforwards before utilization. Additionally, the state of California has suspended the deduction for net operating loss carryovers for the 2003 tax year.

2002 Compared to 2001

Revenues. Our revenues increased by $9.8 million, or 14%, to $80.9 million in 2002 compared to $71.1 million in 2001.

Program Fees. Program fees consist of fees paid by program dealers who participate in our Autobytel.com, Autoweb.com and CarSmart.com online car buying referral networks. These fees are comprised of initial fees and monthly subscription and transaction fees for qualified consumer leads, or purchase requests, which are directed to participating program dealers. Autobytel.com program dealers using our services pay initial subscription fees, as well as ongoing monthly subscription fees based, among other things, on the size of territory, demographics and, indirectly, the transmittal of qualified purchase requests to them. Autoweb.com program dealers using our services primarily pay transaction fees based on the number of qualified purchase requests provided to them each month, and in certain instances, initial fees. CarSmart.com program dealers using our services pay initial subscription fees as well as ongoing monthly subscription fees or transaction fees based on the number of qualified purchase requests provided to them each month. Beginning in the second quarter of 2002, program fees also include fees for our new dealer call center and dealer training. Program fees increased by $5.7 million, or 11%, to $58.0 million in 2002 compared to $52.3 million in 2001. The increase was primarily due to a $13.9 million increase as a result of our acquisition of Autoweb partially offset by an $8.2 million, or 18%, decrease in Autobytel and CarSmart program fees due to a decline in the number of paying dealers and the average fee paid per dealer. We intend to continue our efforts to send dealers only qualified purchase requests, improve dealer support and increase our prices per purchase request.

Enterprise Sales. Enterprise sales include fees from major dealer groups and automotive manufacturers for purchase requests delivered to enterprise dealers and fees from manufacturers and other users for automotive marketing data and technology provided by AIC. Enterprise dealers consist of (i) dealers that are part of major dealer groups with more than 25 dealerships with whom we have a single agreement and (ii) dealers that are eligible to receive purchase requests from us as part of a single agreement with an automotive manufacturer or its automotive buying service affiliate. Automotive manufacturers include manufacturers such as General Motors and Ford. Enterprise sales increased by $3.9 million, or 59%, to $10.5 million in 2002 compared to $6.6 million in 2001. The increase was primarily related to a $5.2 million increase in sales to new enterprise customers as a result of the acquisition of Autoweb, a $2.7 million increase due to sending more purchase requests to existing customers and adding new enterprise customers, partially offset by a $4.0 million decrease in Autobytel enterprise sales due to the completion in November 2001 of a one-time online locate-to-order vehicle test program.

Advertising. Revenues from advertising represent fees received from automotive manufacturers and other advertisers who target car buyers during the research, consideration and decision making process on our Web sites. Advertising revenue increased by $3.6 million, or 83%, to $7.9 million in 2002 compared to $4.3 million in 2001. The increase was due to a $2.1 million increase as a result of our acquisition of Autoweb and an increase of $1.5 million, or 96%, in Autobytel and CarSmart advertising revenues.

Other Products and Services. Revenues from other products and services include fees for new products, continued products, legacy products and international licensing agreements. New products include RPM. Continued products include products and services which we continue to offer such as database marketing and classified listings. Legacy products include consumer oriented products and services which we have redirected resources away from, such as financing, insurance and warranties. International licensing agreements include agreements with international third parties that are licensed to use our Autobytel brand name and, in most cases, technology in their respective countries. Revenues from other products and services decreased by $3.4 million, or 43%, to $4.4 million in 2002 compared to $7.8 million in 2001. In 2002, revenue from our new product, RPM, was $0.7 million. Revenue from classified listings, database marketing and other continued products increased $0.6 million, or 73%. These revenues were offset by a $4.7 million, or 67%, decline in fees from legacy products, including insurance, financing, warranties and web site maintenance, and international licensing.

Sales and Marketing. Sales and marketing expense primarily includes advertising and marketing expenses paid to our purchase request providers and for developing our brand equity, as well as personnel and other costs associated with dealer sales, training and support. Sales and marketing expense decreased by $1.5 million, or 3%, to $49.1 million in 2002 compared to $50.6 million in 2001. This represents 61% and 71% as a percent of total revenue for 2002 and 2001, respectively. The decrease was primarily due to a $6.2 million, or 79%, decrease in television, print, radio and other traditional advertising, a $1.6 million, or 9%, decrease in other sales and marketing expenses, partially offset by an increase in online advertising of $6.3 million, or 25%. The decline in offline advertising was a result of better efficiency of marketing spent on online advertising. The increase in online advertising expenses was due to the delivery of purchase requests to dealers added as a result of the acquisition of Autoweb.

Product and Technology Development. Product and technology development expense primarily includes personnel costs related to developing new products, enhancing the features, content and functionality of our Web sites, our Internet-based communications platform, costs associated with our telecommunications and computer infrastructure, costs related to data and technology development at AIC and amortization of software development costs. Product and technology development expense increased by $2.3 million, or 11%, to $22.7 million in 2002 compared to $20.4 million in 2001. This represents 28% and 29% of total revenue for 2002 and 2001, respectively. The increase was primarily due to a $2.2 million, or 22%, increase in personnel and related costs largely resulting from the acquisition of Autoweb, a $1.0 million, or 134%, increase in amortization of software development costs related to iManager and RPM, partially offset by a $0.5 million, or 100%, decrease in executive severance, and a $0.4 million, decrease in other product and technology development expenses. In addition, we capitalized $1.4 million of software development costs related to enhancements to RPM in 2002. Software development costs capitalized in 2001 were $3.1 million and were primarily related to the enhancement of software licensed to our international licensees.

General and Administrative. General and administrative expense primarily consists of executive, financial and legal personnel expenses and costs related to being a public company. General and administrative expense decreased by $5.1 million, or 34%, to $9.9 million in 2002 compared to $15.0 million in 2001. This represents 12% and 21% of total revenue for 2002 and 2001, respectively. The decrease was primarily due to a $2.9 million, or 81%, decrease in legal expenses due to resolution of litigation matters in 2001, a $1.0 million, or 100%, decrease in executive severance, a $0.9 million, or 100%, decrease in goodwill amortization as result of the adoption of the non-amortization provisions of SFAS No. 142 on January 1, 2002, and a $0.3 million, or 3%, decrease in other general corporate expenses.

Goodwill Impairment. In accordance with SFAS No. 142, goodwill of $8.4 million recorded on our balance sheet in connection with our acquisition of Autoweb in August 2001 is not amortized. Instead, on at least an annual basis, we evaluate the carrying value of goodwill for impairment. Based on our transitional and annual evaluations of goodwill in 2002, no impairment charge was recognized. In future periods, if goodwill is determined to be impaired, we will recognize a non-cash charge equal to the excess of the carrying value over the fair value. There can be no assurance that future goodwill impairment tests will not result in a charge to earnings. In 2001, we recorded a non-cash charge of $22.9 million to reflect the impairment of goodwill related to the acquisition of CarSmart.

Autobytel.Europe restructuring, impairment and other international charges. In 2002, we recorded non-cash charges of $4.0 million for terminated Autobytel.Europe contracts and $11.0 million for the impairment of our investment in Autobytel.Europe. In 2001, we recorded a charge of $7.2 million related to our international operations which consists of $3.1 million related to the restructuring of Autobytel.Europe's operations, $1.4 million related to the impairment of obsolete international software and $2.7 million related to the impairment of investments in European joint ventures.

Domestic restructuring and other charges. In 2002, we recorded a net charge of $1.8 million which included a $1.9 million charge for the impairment of previously capitalized software which was originally intended to be a standardized technology platform for global web site development. We also incurred a charge of $0.9 million related to our lease obligation on the vacant portion of AIC's office facilities, severance costs for the restructuring of our operations to reduce costs and enhance efficiencies and abandoned acquisition costs. The charge was partially offset by a $1.0 million benefit related to a reduction in the original estimate of a negotiated settlement with a vendor, discounted legal fees and recovered legal costs from an insurance company. In 2001, we recorded a charge of $4.5 million which primarily consists of $2.6 million in compensation costs related to the integration of Autoweb into our business, restructuring costs of $1.0 million related to the reorganization of our dealer operations, including personnel costs, elimination of duplicate facilities, and the impairment of fixed assets and contract termination costs of $0.9 million related to online advertising and the aftermarket program on our Web site as well as the impairment of previously capitalized software related to the aftermarket program.

Loss on recapitalization of Autobytel.Europe. In 2002, we recorded a non-cash charge of $4.2 million related to the partial disposition of our investment in Autobytel.Europe.

Interest Income. In 2002, interest income decreased by $2.6 million, or 79%, to $0.7 million compared to $3.3 million in 2001 due to lower average cash balances and declining interest rates.

Foreign Currency Exchange Gain (Loss.). Due to foreign exchange rate fluctuations in Canada, a nominal loss was realized in 2002. Primarily due to foreign exchange rate fluctuations in Europe, a $0.4 million gain was realized in 2001. As a result of a decrease in our ownership of Autobytel.Europe, we no longer consolidate Autobytel.Europe in our financial statements.

Losses in Equity Investees. Losses in equity investees represent our share of losses in our Australian venture and Autobytel.Europe. The loss recognized for Autobytel Australia has been limited to the amount of our investment in Australia, or $0.4 million and $0.5 million, in 2002 and 2001, respectively.

Minority Interest. Minority interest represents the portion of Autobytel.Europe's net loss allocable to other Autobytel.Europe shareholders. A portion of the loss generated by Autobytel.Europe, our majority-owned subsidiary through March 28, 2002, was allocated to its other shareholders resulting in a gain of $0.9 million in 2002 compared to a gain of $1.5 million in 2001. As of March 29, 2002, Autobytel.Europe is no longer a majority-owned subsidiary as we reduced our ownership to 49%.

Income Taxes. No provision for federal income taxes has been recorded as we incurred net operating losses through December 31, 2002. As of December 31, 2002, we had approximately $127.7 million of federal and $77.4 million of state net operating loss carryforwards available to offset future taxable income. Of the $127.7 million of federal and $77.4 million of state net operating loss carryforwards, $16.6 million and $16.6 million, respectively, relate to Autoweb activities prior to the acquisition. These net operating loss carryforwards expire in various years through 2022. Also, Autobytel has federal and state research tax credit carryforwards of $0.2 million and $0.2 million, respectively. Utilization of the net operating losses may be subject to an annual limitation due to the ownership change limitations provided by the Internal Revenue Code and similar state provisions. The annual limitation may result in the expiration of net operating loss carryforwards before utilization. Additionally, the state of California has suspended the deduction for net operating loss carryovers for the tax years 2002 and 2003.

Stock-Based Compensation

In the first quarter of 1999, stock options were granted to employees and directors at exercise prices of $13.20 and $16 per share, which were below the fair market value at the date of grant. In relation to these grants, we recognized estimated compensation expense of $1.7 million ratably over the vesting terms of one to four years. Compensation expense of $20,000 and $0.2 million was classified as general and administrative expense in 2002 and 2001, respectively. As of December 31, 2002, compensation expense related to these stock option grants was fully recognized.

Stock Options Granted in 2003

In 2003, we granted stock options to purchase 3,304,500 shares of common stock under our 1996 Stock Incentive Plan, 1998 Stock Option Plan, 1999 Stock Option Plan, 1999 Employee and Acquisition Related Stock Option Plan, 2000 Stock Option Plan and Amended and Restated 2001 Restricted Stock and Option Plan. The stock options were granted at Autobytel's common stock closing price on the date of grant. As of December 31, 2003, we had 7,664,670 outstanding stock options.

Option Exchange Offer

On December 14, 2001 we commenced an offer to exchange all options outstanding under our stock option plans, including Autoweb options we assumed in connection with the acquisition of Autoweb, that had an exercise price per share of more than $4.00 for new options.

The offer expired on January 15, 2002. Pursuant to the offer, we accepted for cancellation on January 16, 2002, options to purchase 1,450,534 shares of common stock, representing approximately 29% of the options that were eligible to be tendered for exchange. On July 18, 2002, we granted new options to purchase an aggregate of 747,355 shares of common stock in exchange for those options we accepted for cancellation at a price of $2.35 per share which was the fair market value on the date of grant. No compensation expense was recorded as a result of the option exchange.

Liquidity and Capital Resources

As of December 31, 2003, we had $51.6 million in cash and cash equivalents. Our cash, cash equivalents and short-term and long-term investments totaled $61.6 million as of December 31, 2003, an increase of $34.1 million in 2003 compared to a decrease of $34.3 million in 2002.

Net cash provided by operating activities was $9.4 million in 2003 compared to net cash used of $3.2 million in 2002 and $19.7 million in 2001. Net cash provided in 2003 resulted from net income for the year before non-cash charges and benefits increased primarily by cash savings from the amortization of a prepaid online marketing agreement and insurance premium, the receipt of funds from an escrow settlement and the receipt of funds from a settlement with a former Autoweb employee partially offset by an increase in accounts receivable through higher billing of our customers as result of our increased revenues.

Net cash used in operating activities in 2002 resulted primarily from the net loss for the year before non-cash charges, including recapitalization, restructuring and impairment of Autobytel.Europe, and a decrease in accounts payable, accrued expenses and deferred revenues.

Net cash used in operating activities in 2001 resulted primarily from the net loss for the year before non-cash charges, including impairment of goodwill, and a decrease in prepaid expenses, interest income receivable, accounts payable, accrued expenses and restructuring liabilities.

Net cash used in investing activities was $13.7 million, $30.9 million and $0.1 million in 2003, 2002 and 2001, respectively. Cash used in investing activities in 2003 was related to the purchase of short-term investments in commercial paper and long-term investments in government sponsored agency bonds, our acquisition of AVV and the purchase of property and equipment offset by a partial return of our investment in Autobytel.Europe. Cash used in investing activities in 2002 was primarily due to the deconsolidation of Autobytel.Europe, expenditures for capitalized software related to our customer relationship management software, RPM, an investment in Autobytel Australia and the purchase of computer hardware and software. Cash used in investing in 2001 primarily was for expenditures for capitalized software and the purchase of computer hardware and software offset by cash acquired in the Autoweb transaction.

Net cash provided by financing activities was $28.4 million, $0.3 million and $2.1 million in 2003, 2002 and 2001, respectively. Cash provided by financing activities in 2003 was primarily due to $25.6 million in net proceeds from the sale of common stock in a private placement and $3.0 million from the sale of common stock through stock option exercises and our employee stock purchase plan. Cash provided by financing activities in 2002 was due to proceeds received from the sale of common stock through stock option exercises and our employee stock purchase plan. Cash provided by financing activities in 2001 was from funding received from an investor for investment in Autobytel.Europe.

Our cash requirements depend on several factors, including:

- the level of expenditures on marketing and advertising, including the cost of contractual arrangements with Internet portals, online information providers and other referral sources,
- the level of expenditures on product and technology development,
- the ability to increase the volume of purchase requests and transactions related to our Web sites,
- the amount and timing of cash collection and disbursements, and
- the cash portion of acquisition transactions and joint ventures.

We maintain allowances for bad debts and customer credits. The allowance for bad debts is our estimate of bad debt expense that could result from the inability or refusal of our customers to pay for our services. The estimated provision for bad debts is charged to operating expenses. The allowance for customer credits is our estimate of adjustments for purchase requests or other services that do not meet our customers' quality expectations. The estimated provision for customer credits is recorded as a reduction in revenue. Our estimates are based on our historical bad debt expense and customer credit experience.

In prior periods, significant increases in required allowances for bad debts and customer credits have been recorded. During 2003, we experienced an improvement in our collection of accounts receivable due to vigorous collection efforts and the improved quality of our products and services. Based on this improvement, we have reduced our allowances for bad debts and customer credits to 6% and 10% of accounts receivable, respectively, as of December 31, 2003 compared to 17% and 21% of accounts receivable, respectively, as of December 31, 2002. The reductions include a $0.9 million decrease in the allowance for bad debts in the fourth quarter of 2003. If we continue to improve the quality of our accounts receivable, we may further reduce our allowances for bad debts and customer credits. Reductions in the estimated provisions for bad debts and customer credits are recorded as a decrease in operating expenses and an increase in revenues, respectively.

However, if there is a decline in the general economic environment that negatively affects the financial condition of our customers or an increase in the number of customers that are dissatisfied with our services, additional allowances for bad debts and customer credits may be required and the impact on our business, results of operations or financial condition could be material.

We do not have debt. We believe our current cash and cash equivalents are sufficient to meet our anticipated cash needs for working capital and capital expenditures for at least the next 12 months.

Our contractual commitments primarily consist of operating leases related to our facilities in Irvine, California, Westborough, Massachusetts, and Westerville, Ohio, and our technology and communications infrastructure. The following are our contractual commitments associated with our lease obligations and vendor obligations as of December 31, 2003:

	Years Ending December 31,						
	2004	2005	2006	2007	2008	2009	Total
Operating leases	$1,256	$1,023	$209	$209	$193	$144	$3,034
Traditional advertising	78	—	—	—	—	—	78
Hosting and communication	286	286	191	—	—	—	763
Total	$1,620	$1,309	$400	$209	$193	$144	$3,875

While we forecast and budget cash requirements, assumptions underlying the estimates may change and could have a material impact on our cash requirements. If capital requirements vary materially from those currently planned, we may require additional financing sooner than anticipated. We have no commitments for any additional financing, and there can be no assurance that any such commitments can be obtained on favorable terms, if at all.

Any additional equity financing may be dilutive to our stockholders, and debt financing, if available, may involve restrictive covenants with respect to dividends, raising capital and other financial and operational matters which could restrict our operations or finances. If we are unable to obtain additional financing as needed or on terms favorable to us, we may be required to reduce the scope of or discontinue our operations or delay or discontinue any expansion, which could have a material adverse effect on our business, results of operations and financial condition.

Recent Accounting Pronouncements

In January 2003, the FASB issued FIN 46, "Consolidation of Variable Interest Entities," an Interpretation of Accounting Research Bulletin No. 51. FIN 46 requires certain variable interest entities to be consolidated by the primary beneficiary of the entity if the equity investors in the entity do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. FIN 46 is effective immediately for all new variable interest entities created or acquired after January 31, 2003. In December 2003, the FASB issued FIN 46R with respect to variable interest entities created before January 31, 2003, which among other things, revised the implementation date to the first fiscal year or interim period ending after March 15, 2004, with the exception of Special Purpose Entities ("SPE"). The consolidation requirements apply to all SPE's in the first fiscal year or interim period ending after December 15, 2003. We do not expect the adoption of FINs 46 and 46R to have a material effect on our financial position or results of operations.

In December 2003, the Securities and Exchange Commission issued Staff Accounting Bulletin (SAB) No. 104, "Revenue Recognition," which revises or rescinds portions of its previously existing revenue recognition guidance in order to make it consistent with current authoritative accounting and auditing guidance and Securities and Exchange Commission rules and regulations. The adoption did not have a material effect on our financial position or results of operations.

Item 7A. *Quantitative and Qualitative Disclosures About Market Risk*

None.

Item 8. *Financial Statements And Supplementary Data*

Our Balance Sheets as of December 31, 2003 and 2002 and our Statements of Operations, Stockholders' Equity and Cash Flows for each of the years in the three-year period ended December 31, 2003, together with the reports of our independent auditors, begin on page F-1 of this Annual Report on Form 10-K and are incorporated herein by reference.

Item 9. *Changes In And Disagreements With Accountants On Accounting And Financial Disclosure*

On May 21, 2002, we dismissed Arthur Andersen LLP as our independent accountants.

The report of Arthur Andersen on our consolidated financial statements for 2001 contained no adverse opinion or disclaimer of opinion and were not qualified or modified as to uncertainty, audit scope or accounting principle.

The decision to change independent accountants was recommended by the Audit Committee and approved by the Board of Directors.

During 2000 and 2001 and through May 21, 2002, we had no disagreements with Arthur Andersen on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure, which disagreements if not resolved to the satisfaction of Arthur Andersen would have caused it to make reference thereto in its report on our consolidated financial statements for such years.

During 2000 and 2001 and through May 21, 2002, we had no reportable events (as defined in Item 304(a)(1)(v) of Regulation S-K).

Arthur Andersen furnished us with a letter addressed to the Securities and Exchange Commission stating that it agrees with the above statements. A copy of such letter, dated May 22, 2002, is incorporated by reference as Exhibit 16 to this Annual Report on Form 10-K.

We engaged PricewaterhouseCoopers LLP as our new independent accountants as of May 21, 2002. During 2000 and 2001 and through May 21, 2002, we did not consult with PricewaterhouseCoopers LLP on items which (1) were or should have been subject to SAS 50 or (2) concerned the subject matter of a disagreement or reportable event with the former auditor (as described in Item 304(a)(2) of Regulation S-K).

Item 9A. ***Controls and Procedures***

Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of our disclosure controls and procedures, as such term is defined in Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934, as amended, as of December 31, 2003. Based on their evaluation, our principal executive officer and principal financial officer concluded that our disclosure controls and procedures are effective in alerting our management, including our principal executive officer and principal financial officer, to material information required to be included in our periodic reports filed with the Securities and Exchange Commission. It should be noted that the design of any system of controls 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, regardless of how remote.

On a regular basis, we review and modify our internal controls and procedures. There have been no changes in our internal controls and procedures during our fiscal quarter ended December 31, 2003 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART III

Item 10. ***Directors And Executive Officers Of The Registrant***

We will file the information called for in this item not later than 120 days after our fiscal year end (December 31, 2003) in our definitive Proxy Statement in connection with our 2004 Annual Meeting of Stockholders pursuant to Regulation 14A of the Securities Exchange Act of 1934, as amended, or in an amendment to this Annual Report on Form 10-K.

Item 11. ***Executive Compensation***

We will file the information called for in this item not later than 120 days after our fiscal year end (December 31, 2003) in our definitive Proxy Statement in connection with our 2004 Annual Meeting of Stockholders pursuant to Regulation 14A of the Securities Exchange Act of 1934, as amended, or in an amendment to this Annual Report on Form 10-K.

Item 12. ***Security Ownership Of Certain Beneficial Owners And Management***

We will file the information called for in this item not later than 120 days after our fiscal year end (December 31, 2003) in our definitive Proxy Statement in connection with our 2004 Annual Meeting of Stockholders pursuant to Regulation 14A of the Securities Exchange Act of 1934, as amended, or in an amendment to this Annual Report on Form 10-K.

Item 13. ***Certain Relationships And Related Transactions***

We will file the information called for in this item not later than 120 days after our fiscal year end (December 31, 2003) in our definitive Proxy Statement in connection with our 2004 Annual Meeting of Stockholders pursuant to Regulation 14A of the Securities Exchange Act of 1934, as amended, or in an amendment to this Annual Report on Form 10-K.

Item 14. ***Principal Accounting Fees and Services***

We will file the information called for in this item not later than 120 days after our fiscal year end (December 31, 2003) in our definitive Proxy Statement in connection with our 2004 Annual Meeting of Stockholders pursuant to Regulation 14A of the Securities Exchange Act of 1934, as amended, or in an amendment to this Annual Report on Form 10-K.

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PART IV

Item 15. Exhibits, Financial Statement Schedules, and Reports on Form 8-K

(a) The following documents are filed as a part of this Annual Report on Form 10-K:

(1) *Financial Statements:*

(2) *Financial Statement Schedules:*

All other schedules have been omitted since the required information is presented in the financial statements and the related notes or is not applicable.

(3) *Exhibits:*

The exhibits filed or furnished as part of this Annual Report on Form 10-K are listed in the Index to Exhibits immediately preceding such exhibits, which Index to Exhibits is incorporated herein by reference.

(b) *Reports on Form 8-K:*

The following report on Form 8-K was furnished during the last quarter of the period covered by this Annual Report on Form 10-K:

On October 28, 2003, we furnished a Form 8-K under Item 12 announcing our financial results for the third quarter of 2003.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on the 12th day of March 2004.

AUTOBYTEL INC.

By: /s/ JEFFREY A. SCHWARTZ

Jeffrey A. Schwartz
Chief Executive Officer, President and Director

POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that each of Autobytel Inc., a Delaware corporation, and the undersigned Directors and Officers of Autobytel Inc. hereby constitute and appoint Jeffrey A. Schwartz, Hoshi Printer or Ariel Amir as its, his or her true and lawful attorneys-in-fact and agents, for it, him or her and in its, his or her name, place and stead, in any and all capacities, with full power to act alone, to sign any and all amendments to this report, and to file each such amendment to this report, with all exhibits thereto, and any and all documents in connection therewith, with the Securities and Exchange Commission, hereby granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform any and all acts and things requisite and necessary to be done in connection therewith, as fully to all intents and purposes as it, he or she might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, or any of them may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ MICHAEL FUCHS Michael Fuchs	Chairman of the Board and Director	March 12, 2004
/s/ JEFFREY A. SCHWARTZ Jeffrey A. Schwartz	Chief Executive Officer, President and Director (Principal Executive Officer)	March 12, 2004
/s/ HOSHI PRINTER Hoshi Printer	Executive Vice President and Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)	March 12, 2004
/s/ JEFFREY H. COATS Jeffrey H. Coats	Director	March 12, 2004
/s/ ROBERT S. GRIMES Robert S. Grimes	Director	March 12, 2004
/s/ MARK N. KAPLAN Mark N. Kaplan	Director	March 12, 2004
/s/ RICHARD A. POST Richard A. Post	Director	March 12, 2004
/s/ MARK R. ROSS Mark R. Ross	Director	March 12, 2004

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Autobytel Inc.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

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REPORT OF INDEPENDENT AUDITORS

To the Board of Directors and Stockholders of
Autobytel Inc.:

In our opinion, the consolidated financial statements listed in the index appearing under Item 15.(a)(1) on page 40 present fairly, in all material respects, the financial position of Autobytel Inc. and its subsidiaries at December 31, 2003 and 2002, and the results of their operations and their cash flows for each of the two years in the period ended December 31, 2003 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule listed in the index appearing under Item 15.(a)(2) on page 40 presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. These financial statements and the financial statement schedule are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements and the financial statement schedule based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion. The consolidated financial statements and the financial statement schedule of the Company for the year ended December 31, 2001 were audited by other independent accountants who have ceased operations. Those independent accountants expressed an unqualified opinion on those financial statements and the financial statement schedule in their report dated January 25, 2002, before the revisions described in Note 8.

As discussed above, the financial statements of Autobytel Inc. and its subsidiaries for the year ended December 31, 2001, were audited by other independent accountants who have ceased operations. As described in Note 8., these financial statements have been revised to include the transitional disclosures required by Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets," which was adopted by the Company as of January 1, 2002. We audited the transitional disclosures described in Note 8. In our opinion, the transitional disclosures for 2001 in Note 8. are appropriate. However, we were not engaged to audit, review, or apply any procedures to the 2001 financial statements of the Company other than with respect to such disclosures and, accordingly, we do not express an opinion or any other form of assurance on the 2001 financial statements taken as a whole.

/s/ PRICEWATERHOUSECOOPERS LLP

PricewaterhouseCoopers LLP
Orange County, California
March 10, 2004

The following report is a copy of a report previously issued by Arthur Andersen LLP. This report has not been reissued by Arthur Andersen LLP.

REPORT OF PREVIOUS INDEPENDENT PUBLIC ACCOUNTANTS

To the Board of Directors and Stockholders of
Autobytel Inc.:

We have audited the accompanying consolidated balance sheets of Autobytel Inc., a Delaware corporation, and subsidiaries as of December 31, 2001 and 2000, and the related consolidated statements of operations, stockholders' equity and cash flows for each of the three years in the period ended December 31, 2001. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Autobytel Inc. and subsidiaries as of December 31, 2001 and 2000, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2001 in conformity with accounting principles generally accepted in the United States.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedule listed in the index of financial statements is presented for purposes of complying with the Securities and Exchange Commission's rules and is not part of the basic financial statements. The schedule has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, fairly state in all material respects the financial data required to be set forth therein in relation to the basic financial statements taken as a whole.

ARTHUR ANDERSEN LLP

Los Angeles, California
January 25, 2002

AUTOBYTEL INC.

CONSOLIDATED BALANCE SHEETS
(Dollar amounts in thousands, except share and per share data)

	December 31, 2003	December 31, 2002
ASSETS		
Current assets:		
Cash and cash equivalents	$ 51,643	$ 27,571
Short-term investments	3,991	—
Accounts receivable, net of allowances for bad debts and customer credits of $2,066 and $4,214, respectively (Note 2.)	10,587	6,757
Prepaid expenses and other current assets	903	3,495
Total current assets	67,124	37,823
Long-term investments	6,000	—
Property and equipment, net	2,138	2,088
Capitalized software, net	1,024	2,105
Investment in equity investee	2,810	4,745
Goodwill	16,830	8,367
Other assets	400	96
Total assets	$ 96,326	$ 55,224
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 4,063	$ 3,529
Accrued expenses	5,034	4,795
Deferred revenues	3,720	3,575
Customer deposits	—	76
Accrued restructuring—current	258	223
Other current liabilities	441	349
Total current liabilities	13,516	12,547
Accrued restructuring—non-current	—	255
Total liabilities	13,516	12,802
Commitments and contingencies (Note 9.)		
Stockholders' equity:		
Preferred stock, $0.001 par value; 11,445,187 shares authorized; none outstanding	—	—
Common stock, $0.001 par value; 200,000,000 shares authorized; 37,786,767 and 31,195,681 shares issued and outstanding, respectively	38	31
Additional paid-in capital	236,544	203,623
Accumulated other comprehensive loss	—	(40)
Accumulated deficit	(153,772)	(161,192)
Total stockholders' equity	82,810	42,422
Total liabilities and stockholders' equity	$ 96,326	$ 55,224

The accompanying notes are an integral part of these consolidated financial statements.

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AUTOBYTEL INC.

CONSOLIDATED STATEMENTS OF OPERATIONS
(Dollar amounts in thousands, except share and per share data)

	Years Ended December 31,		
	2003	2002	2001
Revenues:			
Program fees	$ 56,141	$ 58,008	$ 52,306
Enterprise sales	15,184	10,504	6,610
Advertising	11,819	7,914	4,321
Other products and services	5,799	4,429	7,831
Total revenues	88,943	80,855	71,068
Operating expenses:			
Sales and marketing	52,646	49,082	50,648
Product and technology development	18,723	22,695	20,410
General and administrative	11,461	9,876	14,973
Goodwill impairment	—	—	22,867
Autobytel.Europe restructuring, impairment and other international charges	—	15,015	7,229
Domestic restructuring and other charges, net	(27)	1,800	4,514
Total operating expenses	82,803	98,468	120,641
Income (loss) from operations	6,140	(17,613)	(49,573)
Loss on recapitalization of Autobytel.Europe	—	(4,168)	—
Interest income	316	686	3,338
Foreign currency exchange gain (loss)	10	(2)	426
Income (loss) in equity investees	217	(434)	(500)
Other income (expense)	745	(43)	—
Income (loss) before minority interest and income taxes	7,428	(21,574)	(46,309)
Minority interest	—	866	1,485
Income (loss) before income taxes	7,428	(20,708)	(44,824)
Provision for income taxes	8	6	27
Net income (loss)	$ 7,420	$ (20,714)	$ (44,851)
Net income (loss) per share:			
Basic	$ 0.22	$ (0.67)	$ (1.84)
Diluted	$ 0.20	$ (0.67)	$ (1.84)
Shares used in computing net income (loss) per share:			
Basic	34,508,035	31,143,099	24,403,609
Diluted	37,625,645	31,143,099	24,403,609
Comprehensive income (loss):			
Net income (loss)	$ 7,420	$ (20,714)	$ (44,851)
Translation adjustment	40	(512)	(2,422)
Comprehensive income (loss)	$ 7,460	$ (21,226)	$ (47,273)

The accompanying notes are an integral part of these consolidated financial statements.

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AUTOBYTEL INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(Dollar amounts in thousands, except share and per share data)

	Common Stock						
	Number of Shares	Amount	Warrants	Additional Paid-In Capital	Accumulated Other Comprehensive Loss	Accumulated Deficit	Total
Balance, December 31, 2000	20,336,083	20	1,332	186,097	(16)	(95,627)	91,806
Issuance of common stock upon acquisition of Autoweb	10,504,803	11	—	14,320	—	—	14,331
Issuance of common stock upon exercise of stock options	6,667	—	—	5	—	—	5
Issuance of common stock under employee stock purchase plan	121,824	—	—	118	—	—	118
Expiration of warrants	—	—	(1,332)	1,332	—	—	—
Stock-based compensation	—	—	—	242	—	—	242
Net gain on sale of subsidiary stock	—	—	—	1,166	—	—	1,166
Foreign currency translation adjustment	—	—	—	—	(2,422)	—	(2,422)
Net loss	—	—	—	—	—	(44,851)	(44,851)
Balance, December 31, 2001	30,969,377	31	—	203,280	(2,438)	(140,478)	60,395
Issuance of common stock upon exercise of stock options	98,295	—	—	163	—	—	163
Issuance of common stock under employee stock purchase plan	128,020	—	—	160	—	—	160
Adjustment for fractional shares on exchange of Autoweb shares for Autobytel shares	(11)	—	—	—	—	—	—
Stock-based compensation	—	—	—	20	—	—	20
Deconsolidation of Autobytel.Europe	—	—	—	—	2,910	—	2,910
Foreign currency translation adjustment	—	—	—	—	(512)	—	(512)
Net loss	—	—	—	—	—	(20,714)	(20,714)
Balance, December 31, 2002	31,195,681	31	—	203,623	(40)	(161,192)	42,422
Issuance of common stock upon acquisition of AVV, Inc.	711,109	1	—	4,315	—	—	4,316
Issuance of common stock upon private placement, net of transaction costs of $1,435	5,000,000	5	—	25,560	—	—	25,565
Issuance of common stock upon exercise of stock options	789,759	1	—	2,812	—	—	2,813
Issuance of common stock under employee stock purchase plan	90,223	—	—	183	—	—	183
Adjustment for fractional shares on exchange of Autoweb shares for Autobytel shares	(5)	—	—	—	—	—	—
Stock-based compensation				51	—	—	51
Foreign currency translation adjustment	—	—	—	—	40	—	40
Net income	—	—	—	—	—	7,420	7,420
Balance, December 31, 2003	37,786,767	$ 38	—	$236,544	$ —	$(153,772)	$ 82,810

The accompanying notes are an integral part of these consolidated financial statements.

AUTOBYTEL INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS
(Dollar amounts in thousands, except share and per share data)

	Year Ended December 31		
	2003	2002	2001
Cash flows from operating activities:			
Net income (loss)	$ 7,420	$ (20,714)	$ (44,851)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Non-cash charges:			
Depreciation and amortization	2,608	3,366	3,092
Provision for (recovery of) bad debt	(568)	1,220	3,356
Loss on disposal of property and equipment	38	41	561
Stock-based compensation	51	20	242
Autobytel.Europe restructuring and impairment	—	15,015	—
Loss on recapitalization of Autobytel.Europe	—	4,168	—
(Income) loss in equity investees	(217)	434	500
Minority interest	—	(866)	(1,485)
Impairment of goodwill	—	—	22,867
Impairment of investments in foreign entities	—	—	2,142
Impairment of property and equipment	—	—	257
Write-down of capitalized software costs	—	1,937	1,434
Changes in assets and liabilities, excluding the effect of acquisitions:			
Accounts receivable	(2,449)	770	978
Prepaid expenses and other current assets	2,617	908	3,026
Other assets	21	58	3
Accounts payable	388	(5,541)	(1,781)
Accrued expenses	(457)	(3,123)	(4,858)
Deferred revenues	145	(1,133)	(920)
Customer deposits	(76)	(16)	(84)
Accrued restructuring—current	35	(88)	(3,644)
Other current liabilities	68	106	(71)
Accrued restructuring—non current	(255)	255	(482)
Net cash provided by (used in) operating activities	9,369	(3,183)	(19,718)
Cash flows from investing activities:			
Deconsolidation of Autobytel.Europe	—	(28,163)	—
Acquisition of business, net of cash acquired	(4,852)	—	5,697
Purchases of short-term and long-term investments	(9,991)	—	—
Sale of investment in foreign entities	—	—	109
Return of investment (investment) in foreign entities	2,152	(400)	(413)
Investment in debt security of foreign entities	—	—	(88)
Notes receivable from foreign entity	—	—	(109)
Repayment of notes receivable from foreign entity	—	—	292
Purchases of property and equipment	(1,057)	(1,087)	(2,444)
Proceeds from sale of property and equipment	7	168	—
Capitalized software costs	—	(1,412)	(3,135)
Net cash used in investing activities	(13,741)	(30,894)	(91)
Cash flows from financing activities:			
Capital lease payments	(157)	—	—
Net proceeds from sale of common stock	28,561	323	123
Net proceeds from sale of subsidiary company stock	—	—	2,000
Net cash provided by financing activities	28,404	323	2,123
Effect of exchange rates on cash	40	(512)	(2,422)
Net increase (decrease) in cash and cash equivalents	24,072	(34,266)	(20,108)
Cash and cash equivalents, beginning of period	27,571	61,837	81,945
Cash and cash equivalents, end of period	$ 51,643	$ 27,571	$ 61,837
Supplemental disclosure of cash flow information:			
Cash paid during the period for income taxes	$ 8	$ 6	$ 27

Cash paid during the period for interest	$ 18	$ 2	$ 5

The accompanying notes are an integral part of these consolidated financial statements.

Supplementaldisclosure of non-cash investing and financing activities:

- In August 2002, due to a change in our original estimate of accounts receivable acquired in the Autoweb.com, Inc. acquisition, we increased accounts receivable and decreased goodwill by $277.
- In June 2003, in conjunction with the acquisition of AVV, Inc., assets of $10,191 were acquired (including $173 of fixed assts acquired under capital leases), liabilities of $1,023 were assumed and 711,109 shares of common stock valued at $4,316 were issued. (See Note 5.)

The accompanying notes are an integral part of these consolidated financial statements.

AUTOBYTEL INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollar amounts in thousands, except share and per share data)

1. Organization and Operations of Autobytel

Autobytel Inc. (Autobytel) is an automotive marketing services company that helps dealers sell cars and manufacturers build brands through efficient marketing, advertising and customer relationship management (CRM) tools and programs primarily through the Internet. Autobytel owns and operates the automotive Web sites Autobytel.com, Autoweb.com, CarSmart.com and Autosite.com. Autobytel owns AVV, Inc. (AVV), a provider of dealership lead management tools and dealer management system data extraction services. Autobytel is also a provider of automotive marketing data and technology through its Automotive Information Center (AIC) division.

Autobytel provides tools and programs to automotive dealers and manufacturers to help them increase marketing efficiency and reduce customer acquisition costs.

Autobytel is a Delaware corporation incorporated on May 17, 1996. Autobytel was previously formed in Delaware in January 1995 as a limited liability company under the name Auto-By-Tel LLC. Its principal corporate offices are located in Irvine, California. Autobytel completed an initial public offering in March 1999 and its common stock is listed on the Nasdaq National Market under the symbol ABTL.

Autobytel achieved net income for the year ended December 31, 2003. However, from its inception in January 1995 through December 31, 2002, Autobytel has experienced annual operating losses and has an accumulated deficit of $153,772 as of December 31, 2003. Autobytel believes current cash and cash equivalents are sufficient to meet anticipated cash needs for working capital and capital expenditures for at least the next 12 months.

2. Summary of Significant Accounting Policies

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of Autobytel and its wholly and majority owned direct and indirect subsidiaries. Autobytel's wholly and majority owned subsidiaries include: Autobytel Services Corporation, Autoweb.com, Inc. (Autoweb), AVV, Inc., A.I.N. Corporation (A.I.N. or CarSmart), Auto-By-Tel Acceptance Corporation, Auto-By-Tel Insurance Services, Inc., e-autosdirect.com inc., Autobytel Information Services Inc. and Autobytel Acquisition Corp.

Autobytel.ca inc., Kre8.net inc., iBuy Inc., AutoVisions Communications, Inc. and I-Net Training Technologies, LLC are included in Autobytel's consolidated financial statements as of December 31, 2002. As a result of the dissolution of these entities during 2003, they are no longer included in Autobytel's consolidated financial statements except for their results of operations through the date of dissolution which was September 30, 2003 for Autobytel.ca inc., Kre8.net inc., iBuy Inc. and AutoVisions Communications, Inc. and October 31, 2003 for I-Net Training Technologies, LLC. There was no impact on Autobytel's financial position, results of operations or cash flows as a result of the dissolution of these entities.

Autobytel no longer consolidates Autobytel.Europe LLC (Autobytel.Europe), Autobytel.Europe Investment B.V., Autobytel.Europe Holdings B.V. and Autobytel France SA in its financial statements as a result of a reduction in Autobytel's ownership in Autobytel.Europe in March 2002. (See Note 3.)

Investments in entities in which Autobytel has the ability to exercise significant influence, but not control, are accounted for using the equity method. Autobytel accounts for its investment in Autobytel.Europe (See Note 3.), Autobytel Japan and Autobytel Australia under the equity method. The application of the equity method with respect to Autobytel's investment of $126 in Autobytel Japan has been suspended, as this amount was fully expensed in 1999. Autobytel will resume application of the equity method when its share of net income equals its share of net losses unrecognized during the suspension period. Autobytel's investments of $500 and $400 in Autobytel Australia were fully expensed in 2001 and 2002, respectively. Autobytel Australia ceased operations in August 2002.

All intercompany transactions and balances have been eliminated in consolidation.

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with generally accepted accounting principles requires Autobytel to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

For purposes of the consolidated balance sheets and the consolidated statements of cash flows, Autobytel considers all highly liquid investments with a maturity of three months or less at the date of purchase to be cash equivalents.

Short-Term and Long-Term Investments

In 2003, Autobytel began investing in short-term and long-term securities. Autobytel considers all investments with a remaining maturity of three months to one year to be short-term investments and those with a remaining maturity of more than one year to be long-term investments. All of Autobytel's long-term investments mature within 24 months. In accordance with Financial Accounting Standards Board (FASB) Statement of Financial Accounting Standards (SFAS) No. 115 "Accounting for Certain Investments in Debt and Equity Securities" and based on Autobytel's intentions, all marketable debt securities and long-term debt investments are classified as held-to-maturity and reported at amortized cost. As of December 31, 2002 Autobytel had no cash invested in short-term or long-term securities.

As of December 31, 2003, the amortized cost basis, aggregate fair value, unrealized gains and losses by security type were as follows:

	Amortized Cost Basis	Aggregate Fair Value	Unrealized Gains	Unrealized Losses
Short-term investments, held-to-maturity:				
Commercial paper	$ 3,991	$ 3,991	$ —	$ —
Long-term investments, held-to-maturity:				
Government sponsored agency bonds	6,000	6,020	20	—
	$ 9,991	$10,011	$ 20	$ —

The following represents the maturities of investments as of December 31, 2003:

	Amortized Cost Basis
Due in one year or less	$ 3,991
Due in more than one year to two years	6,000
	$ 9,991

Accounts Receivable, Net of Allowances for Bad Debts and Customer Credits

Autobytel maintains allowances for bad debts and customer credits. The allowance for bad debts is an estimate of bad debt expense that could result from the inability or refusal of customers to pay for services. The estimated provision for bad debts is charged to operating expenses. The allowance for customer credits is an estimate of adjustments for purchase requests or other services that do not meet our customers' quality expectations. The estimated provision for customer credits is recorded as a reduction in revenue. The estimates are based on Autobytel's historical bad debt expense and customer credit experience.

In prior periods, significant increases in required allowances for bad debts and customer credits have been recorded. During 2003, Autobytel experienced an improvement in its collection of accounts receivable due to vigorous collection efforts and the improved quality of its products and services. Based on this improvement, Autobytel reduced its allowances for bad debts and customer credits to 6% and 10% of accounts receivable, respectively, as of December 31, 2003 compared to 17% and 21% of accounts receivable, respectively, as of December 31, 2002. The reductions included a $0.9 million decrease in the allowance for bad debts in the fourth quarter of 2003. Reductions in the estimated provisions for bad debts and customer credits are recorded as a decrease in operating expenses and an increase in revenues, respectively.

AUTOBYTEL INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

As of December 31, 2003 and 2002, accounts receivable and allowances for bad debts and customer credits were as follows:

	As of December 31,	
	2003	2002
Accounts receivable	$12,653	$10,971
Allowance for bad debts	(814)	(1,912)
Allowance for customer credits	(1,252)	(2,302)
	(2,066)	(4,214)
Accounts receivable, net	$10,587	$ 6,757

Fair Value of Financial Instruments

Our financial instruments, including cash, cash equivalents, accounts receivable and accounts payable are carried at cost, which approximates their fair value because of the short-term maturity of these instruments.

Concentration of Credit Risk

Financial instruments that potentially subject Autobytel to concentrations of credit risk consist primarily of cash, cash equivalents, short-term and long-term investments and accounts receivable. Cash, cash equivalents and short-term and long-term investments are primarily maintained with two financial institutions in the United States. Deposits held by banks may exceed the amount of insurance provided for such deposits. Generally these deposits may be redeemed upon demand. Accounts receivable are primarily derived from fees billed to automotive dealers and automotive manufacturers. Autobytel generally requires no collateral to support customer receivables and maintains an allowance for bad debts for potential credit losses. Historically, such losses have been within Autobytel's expectations. As of December 31, 2003 and 2002, Autobytel had a balance of $814 and $1,912 in allowance for bad debts, respectively.

Property and Equipment

Property and equipment are stated at cost less accumulated depreciation. Depreciation is provided using the straight-line method over the estimated useful lives of the respective assets, generally three years. Amortization of leasehold improvements is provided using the straight-line method over the shorter of the remaining lease term or the estimated useful lives of the improvements. Repair and maintenance costs are charged to operating expenses as incurred. Gains or losses resulting from the retirement or sale of property and equipment are recorded as operating income or expenses, respectively. In 2003, 2002 and 2001, Autobytel recorded losses on the disposal of property and equipment of $38, $41 and $561, respectively.

Effective January 1, 2002, Autobytel adopted SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." For purposes of SFAS No. 144, impairment exists when the carrying value of a long-lived asset exceeds its fair value. An impairment loss is recognized only if the carrying value of a long-lived asset is not recoverable and exceeds its fair value. The carrying value of a long-lived asset is not recoverable if it exceeds the sum of the undiscounted cash flows expected to result from the use and eventual disposition of the asset.

Capitalized Software

In 2002, Autobytel began capitalizing costs to develop internal use software under the provisions of Statement of Position (SOP) 98-1, "Accounting for the Costs of Computer Software Development or Obtained for Internal Use." SOP 98-1 requires the capitalization of external and internal computer software costs incurred during the application development stage. The application development stage is characterized by software design and configuration activities, coding, testing and installation. Training costs and maintenance are expensed as incurred while upgrades and enhancements are capitalized if it is probable that such expenditures will result in additional functionality. Capitalized internal use software development costs are amortized using the straight-line method over an estimated useful life of three years.

Prior to 2002, Autobytel capitalized costs to develop external use software in accordance with SFAS No. 86, "Accounting for the Costs of Computer Software to be Sold, Leased or Otherwise Marketed." Costs incurred subsequent to technological feasibility were capitalized on a product by product basis. Costs incurred prior to technological feasibility were expensed. Amortization is provided using the greater of (i) the ratio that current gross revenues for a product bear to the total of current anticipated future gross revenues from that product or (ii) the straight-line method over the remaining estimated economic life of the product, beginning when the product is available for general release to customers. The economic life of each product is generally three years.

No software development costs related to internal or external use software costs were capitalized in 2003. In 2002, capitalized software development costs related to internal use software totaled $1,413. No software development costs related to external use software costs were capitalized in 2002. Amortization expense of $1,081, $1,690 and $720 was recognized in 2003, 2002 and 2001, respectively. In addition, an impairment charge of $1,937 and $1,434 was recognized in 2002 and 2001, respectively.

Goodwill and Intangibles

Goodwill represents the excess of the purchase price for acquisitions over the fair value of identifiable assets and liabilities acquired. Autobytel uses estimates and makes assumptions to determine the fair value of acquired assets and liabilities. Goodwill acquired prior to June 30, 2001 was amortized on a straight-line basis over its estimated useful life of 15 years. Autobytel evaluated the carrying value of goodwill in accordance with SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of" through December 31, 2001. Under SFAS No. 121, Autobytel evaluated whether there was impairment whenever events or circumstances indicated that the carrying value might not be recoverable. In 2001, an estimate of undiscounted cash flows indicated impairment and an impairment loss equal to the excess of the carrying value over the fair value of goodwill was recognized. (See Note 8.)

Effective January 1, 2002, Autobytel adopted SFAS No. 142, "Goodwill and Other Intangible Assets," which requires Autobytel to record an impairment charge whenever an event occurs or circumstances change that would more likely than not reduce the fair value below carrying value, or at least annually. SFAS No. 142 uses a two-step process for evaluating whether goodwill has been impaired. Impairment is the condition that exists when the carrying amount of goodwill exceeds its fair value. The first step of the goodwill impairment test, used to identify potential impairment, compares the fair value of Autobytel with its carrying value, including goodwill. If the fair value exceeds its carrying amount, goodwill is not impaired. If the carrying value exceeds its fair value, Autobytel compares the fair value of goodwill with the carrying value of that goodwill. If the carrying value of goodwill exceeds the fair value of that goodwill, an impairment loss is recognized in an amount equal to that excess.

Intangible assets with identifiable lives are amortized on a straight-line basis over their estimated useful life. Amortization is charged to operating expenses. Autobytel evaluates the carrying value of these intangibles for impairment in accordance with SFAS No. 144, "Accounting for Impairment or Disposal of Long-Lived Assets."

Accrued Expenses

Autobytel accrues expenses that are likely to occur and can be reasonably estimated based on the facts and circumstances available. As of December 31, 2003 and 2002, accrued expenses consisted of the following:

	As of December 31,	
	2003	2002
Compensation and related costs	$3,967	$3,746
Other accrued expenses	1,067	1,049
Total accrued expenses	$5,034	$4,795

Revenue Recognition

Autobytel recognizes revenues from program fees, enterprise sales, advertising and other products and services when earned as defined by Staff Accounting Bulletin (SAB) No. 104. SAB No. 104 considers revenue realized after all four of the following criteria are met: (i) persuasive evidence of an arrangement exists, (ii) delivery has occurred or services have been rendered, (iii) the seller's price to the buyer is fixed or determinable and (iv) collectibility is reasonably assured.

Program fees consist of fees paid by program dealers located in the United States who participate in the Autobytel.com, Autoweb.com and CarSmart.com online car buying referral networks. Program fees also consist of fees paid by dealers who use our lead management tools. Fees paid by program dealers participating in our car buying referral networks are comprised of monthly subscription and transaction fees for qualified consumer leads, or purchase requests, which are delivered to participating program dealers. Program dealers using our lead management tools pay monthly subscription fees based on the level of functionality they have selected from our suite of lead management tools. Monthly fees are recognized in the period services are provided. Transaction fees are recognized in the period purchase requests are delivered to the program dealers.

Enterprise sales include fees from major dealer groups and automotive manufacturers for purchase requests delivered to enterprise dealers and for use of our lead management tools and services as well as fees from manufacturers and other users for automotive marketing data and technology. Enterprise dealers consist of (i) dealers that are part of major dealer groups with more than 25 dealerships with whom we have a single agreement and (ii) dealers that are eligible to receive purchase requests from us and/or use our lead management tools and services as part of a single agreement with an automotive manufacturer or its automotive buying service affiliate. Enterprise sales for the year ended December 31, 2001, include fees received from General Motors Corporation for consulting services related to an online locate-to-order vehicle inventory test program. The test program involved modification of the existing Autobytel.com Web site, project management, dealer training, demonstration and debriefings. The consulting agreement commenced in February 2001 and expired in November 2001. Revenues and expenses related to the test program were accounted for using the percentage of completion method based upon the achievement of certain agreed upon milestones specified in the agreement. Consulting fees of $4,035 are included in enterprise sales for the year ended December 31, 2001. Other fees from major dealer groups and automotive manufacturers, including transaction fees paid by major dealer groups for purchase requests, are recognized in the period purchase requests are delivered or services are provided to the enterprise dealers.

Advertising revenues represent fees received from automotive manufacturers and other advertisers who target car-buyers during the research, consideration and decision making process on the Web sites. Advertising revenues are recognized as the advertisements are displayed on the Web sites.

Revenues from other products and services include fees from our customer loyalty and retention marketing program for dealerships and manufacturers called RPM, classified listings for used cars, data extraction services and other products and services. Fees from these products are recognized as services are provided. Revenues from other products and services also include fees from international licensing agreements These agreements grant the licensees the right to use Autobytel's brand, proprietary software, technology and other business procedures to market new and used vehicles in exchange for certain fees. Fees from international licensing agreements include: (i) orientation fees, which are recognized on the effective date of the license and service agreements, (ii) localization and development fees and minimum annual maintenance fees, which are recognized as services are provided, and (iii) minimum annual license fees, which are recognized ratably over a 12 month period beginning on the date the international Web site is launched. In 2002, Autobytel modified the licenses to provide for annual fees for the use of its brand.

Fees billed prior to Autobytel providing services are deferred, as they do not satisfy all of the revenue recognition criteria in SAB No. 104. Deferred revenues are recognized as revenue over the periods services are provided or purchase requests are delivered.

Risks Due to Concentration of Significant Customers and Export Sales

In 2003, Autobytel recognized revenues for enterprise sales, advertising and other products and services from one automotive manufacturer that accounted for 10% of Autobytel's total revenues. The loss of these revenues may have a material adverse effect on our business, results of operations and financial condition. In 2002 and 2001, no dealer, major dealer group, manufacturer, international licensee or other customer accounted for greater than 10% of revenues.

Autobytel conducts its business within one industry segment. Revenues from customers outside of the United States were 6%, 2% and less than 1% of total revenues for the years ended December 31, 2003, 2002 and 2001, respectively.

Sales and Marketing

Sales and marketing expense primarily includes Internet marketing and advertising expenses, fees paid to purchase request providers, promotion and advertising expenses to develop brand equity and encourage potential customers to visit Autobytel's Web sites and personnel and other costs associated with sales, marketing, training and support of Autobytel's dealer networks. Sales and marketing costs are recorded as expenses are incurred. Online and traditional advertising expenses were $32,802, $32,762 and $32,658 in 2003, 2002 and 2001, respectively.

Product and Technology Development

Product and technology development expense primarily includes personnel costs related to developing new dealer and manufacturer programs and products and enhancing the features, content and functionality of Autobytel's Web sites and its Internet-based dealer communications platform. It also includes expenses associated with the customization of Autobytel's software for international licensees and telecommunications and computer infrastructure. Product and technology development expenditures are expensed as incurred or capitalized as appropriate. In 2001, product and technology development expense includes a charge of $500 related to an executive severance payment.

General and Administrative

General and administrative expense primarily consists of executive, financial and legal personnel expenses and costs related to being a public company. General and administrative expenditures are expensed as incurred. In 2001, general and administrative expense includes a charge of $1,006 related to an executive severance payment.

Foreign Currency Translation

The assets and liabilities of Autobytel's foreign subsidiaries, whose functional currencies are the local currencies, are translated into United States dollars at the current exchange rate as of the applicable balance sheet date. Revenues and expenses are translated at the average exchange rate prevailing during the period. Gains and losses resulting from the translation of the financial statements are reported as a separate component of stockholders' equity.

Transaction gains and losses arising from exchange rate fluctuations on transactions denominated in a currency other than the functional currency are included in foreign currency exchange gain (loss).

Income Taxes

Autobytel accounts for income taxes in accordance with SFAS No. 109, "Accounting for Income Taxes." Under SFAS No. 109, deferred income tax assets and liabilities are determined based on the differences between the book and tax basis of assets and liabilities and are measured using the currently enacted tax rates and laws. A valuation allowance is recorded against deferred tax assets when it is more likely than not that such deferred tax assets will not be realized.

Computation of Basic and Diluted Net Income (Loss) per share

Net income (loss) per share has been calculated under SFAS No. 128, "Earnings per Share." SFAS No. 128 requires companies to compute earnings per share under two different methods, basic and diluted. Basic net income (loss) per share is calculated by dividing the net income (loss) by the weighted average shares of common stock outstanding during the period. Diluted net income (loss) per share is calculated by dividing the net income (loss) by the weighted average shares of common stock outstanding during the period and potential shares of common stock. Potential shares of common stock, as determined under the treasury stock method, consist of shares of common stock issuable upon exercise of stock options net of shares of common stock assumed to be repurchased by the company from the exercise proceeds. Potential shares of common stock are excluded from the computation if their effect is antidilutive.

For the years ended December 31, 2003, 2002 and 2001, there were 3,117,610, 782,688 and 143,878 potential shares of common stock, respectively. Potential shares of common stock equivalents were excluded from the calculation of diluted net loss per share for the years ended December 31, 2002 and 2001 as they were antidilutive.

Stock-Based Compensation

As permitted under SFAS No. 148, "Accounting for Stock-Based Compensation-Transition and Disclosure," which amended SFAS No. 123, "Accounting for Stock-Based Compensation", Autobytel has elected to continue to account for its stock-based compensation using the intrinsic value method in accordance with the provisions of Accounting Principles Board Opinion (APB) No. 25, "Accounting for Stock Issued to Employees." Under APB 25, compensation expense is recognized over the vesting period based on the excess of the closing price over the exercise price on the grant date.

For disclosure purposes, stock compensation expense has been estimated using the Black-Scholes option-pricing model on the date of grant and assumptions related to dividend yield, stock price volatility, weighted-average risk free interest rate and expected life of the stock options which is a fair value based method. Had the provisions of SFAS No. 123 been applied to Autobytel's stock option grants for its stock-based compensation plans, Autobytel's net income (loss) and net income (loss) per share for the years ended December 31, 2003, 2002 and 2001, would approximate the pro forma amounts below:

	Years Ended December 31,		
	2003	2002	2001
Net income (loss):			
As reported	$ 7,420	$(20,714)	$(44,851)
Add: Stock-based compensation included in reported net income (loss), net of tax	51	20	242
Less: Stock-based compensation determined under the fair value based method, net of tax	(4,807)	(2,714)	(4,674)
Pro forma	$ 2,664	$(23,408)	$(49,283)
Net income (loss) per share—basic:			
As reported	$ 0.22	$ (0.67)	$ (1.84)
Pro forma	$ 0.08	$ (0.75)	$ (2.02)
Net income (loss) per share—diluted:			
As reported	$ 0.20	$ (0.67)	$ (1.84)
Pro forma	$ 0.07	$ (0.75)	$ (2.02)

The effects of applying SFAS No. 123 in this pro forma disclosure are not indicative of future amounts.

Autobytel granted 3,304,500, 1,959,020 and 1,564,664 stock options to employees and directors in 2003, 2002 and 2001, respectively. The options granted were estimated to have a weighted average fair value of $10,491, $3,658 and $1,758 for the years ended December 31, 2003, 2002 and 2001, respectively, based on the Black-Scholes option-pricing model on the date of grant and the following assumptions: (1) no dividend yield, (2) volatility of 78.55%, 92.73% and 92.63% for the years ended December 31, 2003, 2002, and 2001, respectively, (3) weighted-average risk-free interest rate of approximately 2.149%, 3.82%, and 4.78% for the years ended December 31 2003, 2002, and 2001, respectively, and (4) a weighted-average expected life of 3.7 years, 5.0 years and 5.3 years for the years ended December 31, 2003, 2002 and 2001, respectively.

As of December 31, 2003, Autobytel had a total of 7,664,670 stock options outstanding, of which 6,663,096 stock options had exercise prices below the closing price per share of Autobytel's common stock on that date.

Business Segment

Autobytel conducts its business within one business segment which is defined as providing automotive marketing services primarily through the Internet.

New Accounting Pronouncements

In January 2003, the FASB issued FIN 46, "Consolidation of Variable Interest Entities," an Interpretation of Accounting Research Bulletin No. 51. FIN 46 requires certain variable interest entities to be consolidated by the primary beneficiary of the entity if the equity investors in the entity do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. FIN 46 is effective immediately for all new variable interest entities created or acquired after January 31, 2003. In December 2003, the FASB issued FIN 46R with respect to variable interest entities created before January 31, 2003, which among other things, revised the implementation date to the first fiscal year or interim period ending after March 15, 2004, with the exception of Special Purpose Entities ("SPE"). The consolidation requirements apply to all SPE's in the first fiscal year or interim period ending after December 15, 2003. Autobytel does not expect the adoption of FINs 46 and 46R to have a material effect on Autobytel's financial position or results of operations.

In December 2003, the Securities and Exchange Commission issued Staff Accounting Bulletin (SAB) No. 104, "Revenue Recognition," which revises or rescinds portions of its previously existing revenue recognition guidance in order to make it consistent with current authoritative accounting and auditing guidance and Securities and Exchange Commission rules and regulations. The adoption did not have a material effect on our financial position or results of operations.

3. Autobytel.Europe LLC

Autobytel.Europe was organized in August 1997 and began operations in the fourth quarter of 1999. Autobytel.Europe was formed to expand the Autobytel business model and operations throughout Europe.

AUTOBYTEL INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

In January 2000, Autobytel.Europe and Autobytel entered into an operating agreement with strategic investors to carryout the expansion plan. In the first quarter of 2000, a total of $36,700 was invested in Autobytel.Europe. The investment was comprised of a $31,700 contribution from strategic investors. Autobytel contributed $5,000 in cash, an exclusive, royalty-free, perpetual license to use or sublicense the "Autobytel" brand name and proprietary software, and assigned its existing License and Services Agreements for the United Kingdom, Scandinavia and Finland to Autobytel.Europe. In March 2001, a strategic investor contributed $2,000 to Autobytel.Europe. Cash contributed to Autobytel.Europe was for use as directed by Autobytel.Europe. These funds were not available to Autobytel. Autobytel does not anticipate contributing additional cash to Autobytel.Europe above the $5,000 it initially contributed.

Autobytel.Europe was considered a start-up company. In accordance with SAB No. 51, the difference between Autobytel's carrying amount of the investment in Autobytel.Europe and its ownership interest in the underlying net book value of Autobytel.Europe immediately after the investment was reflected as a capital transaction and credited directly to Autobytel's stockholders' equity.

Effective January 1, 2001, Autobytel.Europe changed its functional currency from U.S. Dollars to the Euro.

In June 2001, due to a decline in the general economic climate and the environment for Internet related activities in Europe, Autobytel announced the restructuring of Autobytel.Europe. The restructuring primarily consisted of a reduction in staff of approximately 20 employees from all departments within Autobytel.Europe and lead to changes in Autobytel.Europe's capital structure because of the reduction of its business activities.

Autobytel.Europe's results of operations are consolidated in Autobytel's results of operations through March 28, 2002, including a non-cash charge of $4,000 for terminated Autobytel.Europe contracts. On March 28, 2002, Autobytel.Europe completed a recapitalization which reduced Autobytel's ownership of Autobytel.Europe from 76.5% to 49%. As a result of the reduction in Autobytel's ownership interest, Autobytel recorded a non-cash charge of $4,168 related to the partial disposition of its investment in Autobytel.Europe. Autobytel no longer consolidates Autobytel.Europe in its financial statements but accounts for its remaining investment in Autobytel.Europe under the equity method. At March 28, 2002, Autobytel reviewed its 49% investment in Autobytel.Europe and reduced the carrying amount to its estimated fair value. The impairment of the investment resulted in a non-cash charge of $11,015 to Autobytel. In September 2003, Autobytel received $2,152 from Autobytel.Europe as a partial return of capital. The return of capital did not change Autobytel's ownership interest or the underlying equity in Autobytel.Europe's net assets. As of December 31, 2003, Autobytel had an investment in Autobytel.Europe with a balance of $2,810.

4. Acquisition of Autoweb.com, Inc.

On August 14, 2001, Autobytel acquired all of the outstanding common stock of Autoweb, an Internet automotive service.

Autoweb stockholders were issued 0.3553 shares of Autobytel common stock for each share of Autoweb common stock outstanding on the date of the acquisition for a total of 10,504,787 shares. The acquisition has been accounted for using the purchase method of accounting.

The aggregate purchase price was $17,131 and consisted of common stock valued at $14,331 and transaction costs of $2,800. The value of the stock issued was determined based on the average market price of Autobytel's common stock for the three days before and after the date the acquisition agreement was announced. The purchase price has been allocated to the assets acquired and liabilities assumed on the basis of their respective estimated fair values on the acquisition date as follows:

Purchase price:	
Common stock	$14,331
Transaction costs paid by Autobytel	2,800
Total purchase price	$17,131
Allocation of purchase price:	
Assets:	
Cash	$ 8,647
Accounts receivable	7,183
Prepaid expenses and other	4,148
Goodwill	8,367
Liabilities:	
Historical liabilities	(6,530)
Liabilities from exit costs and restructuring	(4,684)
Total purchase price	$17,131

The excess of the purchase price over the estimated fair value of the assets acquired and the liabilities assumed was initially recorded as goodwill in the amount of $10,399. In December 2001 and August 2002, the allocation of the purchase price was adjusted as described below and goodwill was reduced to $8,367. In accordance with SFAS No. 142, goodwill acquired in the Autoweb acquisition is not amortized, rather it is evaluated on at least an annual basis for impairment as the acquisition was completed subsequent to June 30, 2001. Goodwill is not deductible for income tax purposes.

In conjunction with the acquisition, Autobytel estimated the exit costs of anticipated facilities integration, personnel costs and other expenses directly related to the contemplated consolidation of significant operations of Autoweb and Autobytel and accrued $5,789 for such costs and expenses. The employee termination costs consisted primarily of compensation and benefits for approximately 80 employees at Autoweb in conjunction with the integration of operations into the Autobytel Irvine facility. In December 2001, the allocation of the purchase price was adjusted as a result of a reduction in Autobytel's estimates and events and circumstances. Estimated outstanding transaction costs were reduced by $150, historical liabilities were reduced by $500 and liabilities from exit costs and restructuring were reduced by $1,105. The reduction in liabilities from exit costs and restructuring was a result of a negotiated release from Autoweb's facilities lease and lower than expected employee termination costs. From the date of acquisition through December 31, 2002, $1,934 and $2,750 was paid for rent and compensation, respectively. In August 2002, the allocation of the purchase price was adjusted due to a $277 increase in the original estimate of accounts receivable. As of December 31, 2002, there was no remaining accrual balance.

Autoweb's financial position and results of operations from the date of acquisition on August 14, 2001 through December 31, 2003 have been included in the accompanying consolidated financial statements.

The following summarized unaudited pro forma consolidated results of operations are presented as if the acquisition of Autoweb had occurred on January 1, 2001. The unaudited pro forma results are not necessarily indicative of future earnings or earnings that would have been reported had the acquisition been completed as presented.

	Year Ended December 31, 2001
	(unaudited)
Revenue	$ 94,794
Net loss	(65,131)
Basic and diluted net loss per share	(2.11)

5. Acquisition of Applied Virtual Vision, Inc.

On June 4, 2003, Autobytel acquired all of the outstanding common stock of Applied Virtual Vision, Inc., now AVV, Inc., a provider of CRM and sales management tools and data extraction services, in exchange for cash and common stock. The acquisition of AVV complements Autobytel's core business with its automotive customer relations management solutions and data extraction services. The acquisition has been accounted for using the purchase method of accounting.

The aggregate purchase price was $9,314 and consisted of $4,700 in cash, 711,109 shares of common stock valued at $4,316 and transaction costs of $298. The value of the stock issued was determined based on the average market price of Autobytel's common stock for the 2 days before through the 2 days after the date the acquisition agreement was consummated. The purchase price has been allocated to the assets acquired and liabilities assumed on the basis of their respective estimated fair values on the acquisition date as follows:

Purchase price:	
Cash	$4,700
Common stock (711,109 shares at $6.07 per share)	4,316
Transaction costs paid by Autobytel	298
Total purchase price	$9,314
Allocation of purchase price:	
Assets:	
Cash	$ 146
Other current assets	838
Non-current assets	470
Goodwill	8,463
Intangibles	420
Liabilities:	
Current liabilities	(964)
Non-current liabilities	(59)
Total purchase price	$9,314

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The excess of the purchase price over the estimated fair value of the assets acquired and the liabilities assumed was initially recorded as goodwill in the amount of $8,472. Goodwill has subsequently been adjusted to reflect a $100 decrease in the purchase price as a result of the final audit of AVV's working capital prior to the acquisition and a $91 increase in our original estimate of accrued expenses acquired. The amount of goodwill is subject to further adjustment as additional information regarding the fair value of the assets acquired and liabilities assumed becomes available. In accordance with SFAS No. 142, goodwill acquired in the AVV acquisition is not amortized, rather it is evaluated on at least an annual basis for impairment. Goodwill is not deductible for income tax purposes. Intangible assets acquired consist of developed technology and customer relationships and are amortized over an estimated useful life of three years or less.

AVV's financial position and results of operations from the date of acquisition on June 4, 2003 through December 31, 2003 have been included in the accompanying consolidated financial statements.

The following summarized unaudited pro forma consolidated results of operations are presented as if the acquisition of AVV had occurred on January 1, 2002. The unaudited pro forma results are not necessarily indicative of future earnings or earnings that would have been reported had the acquisition been completed as presented.

	Years Ended December 31,	
	2003	2002
	(unaudited)	
Revenue	$91,336	$ 85,617
Net income (loss)	$ 7,329	$(20,269)
Net income (loss) per share:		
Basic	$ 0.21	$ (0.64)
Diluted	$ 0.19	$ (0.64)

6. Acquired Intangible Assets

Intangible assets recorded as a part of the AVV acquisition are amortized over an estimated life of three years or less and consist of the following:

	As of December 31, 2003		
	Gross Carrying Amount	Accumulated Amortization	Net Amount
Developed technology	$ 220	$ (43)	$ 177
Customer relationships	200	(62)	138
Total	$ 420	$ (105)	$ 315

Amortization expense for the year ended December 31, 2003 was $105. Amortization expense for the remaining lives of the intangible assets is estimated to be as follows:

	Amortization Expense
2004	$ 155
2005	$ 113
2006	$ 47

7. Property and Equipment

Property and equipment consists of the following:

	As of December 31,	
	2003	2002
Computer software and hardware	$ 5,667	$ 6,877
Furniture and equipment	1,455	1,274
Leasehold improvements	795	748
Capital leases – computer hardware and equipment	173	—
	8,090	8,899
Less – Accumulated depreciation and amortization	(5,952)	(6,811)
	$ 2,138	$ 2,088

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Depreciation and amortization expense related to property and equipment was $1,422, $1,678 and $1,483 in 2003, 2002 and 2001, respectively.

8. Goodwill and Goodwill Impairment

During 2001, CarSmart experienced a decline in its number of dealers, primarily resulting from a reduction in sales and marketing resources allocated to the CarSmart.com brand, which led to substantial declines in sales and operating cash flow. As a result of Autobytel's evaluation of the operations, all of CarSmart's operations were transferred to Autobytel's Irvine facility. Due to the economic changes discussed above and the decision to close CarSmart's facility, Autobytel performed an evaluation of the recoverability of all of the assets of CarSmart as described in SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of." In June 2001, based on an analysis of undiscounted cash flows, Autobytel determined that goodwill recorded on its balance sheet in connection with its acquisition of CarSmart was in excess of the current fair value of $1,300. As a result, Autobytel recorded a $21,614 non-cash charge for the impairment of goodwill. During the second half of 2001, CarSmart dealer counts declined further than anticipated. In December 2001, Autobytel determined that the CarSmart goodwill was fully impaired and wrote-off the remaining unamortized balance of $1,253 for a total non-cash charge of $22,867 for the impairment of goodwill in 2001.

In accordance with SFAS No. 142, goodwill is not amortized, rather it is evaluated on at least an annual basis for impairment. In June 2003, Autobytel performed an annual impairment test of goodwill acquired in the Autoweb acquisition using the minority interest public market approach and concluded that goodwill was not impaired. Also in June 2003, Autobytel acquired AVV and recorded goodwill of $8,463.

In future periods, if goodwill is determined to be impaired, Autobytel will recognize a non-cash charge equal to the excess of the carrying value over the fair value. There can be no assurance that future evaluations of goodwill will not result in impairment and a charge to earnings. The following summarizes the balance of goodwill:

	Years Ended December 31,	
	2003	2002
Autoweb	$ 8,367	$ 8,367
AVV	8,463	—
	$ 16,830	$ 8,367

During 2001, Autobytel recorded a $22,867 non-cash charge for the full impairment of goodwill and $888 in amortization expense related to CarSmart. Had SFAS No. 142 been in effect in 2001, Autobytel would not have recorded amortization expense of $888 for goodwill related to the acquisition of CarSmart in 2001. The following summarizes net loss adjusted to exclude goodwill amortization expense:

	Years Ended December 31,	
	2002	2001
Net loss as reported	$ (20,714)	$ (44,851)
Goodwill amortization	—	888
Net loss as adjusted	$ (20,714)	$ (43,963)
Basic & diluted loss per share as reported	$ (0.67)	$ (1.84)
Basic & diluted loss per share as adjusted	$ (0.67)	$ (1.80)

9. Commitments and Contingencies

Operating Leases

Autobytel leases its facilities and certain office equipment under operating leases which expire on various dates through 2009. As of December 31, 2003, future minimum lease payments on leases with non-cancelable terms in excess of one year were as follows:

Years Ending December 31,	
2004	$1,256
2005	1,023
2006	209
2007	209
2008	193
Thereafter	144
	$3,034

Rent expense was $1,533, $1,578 and $1,911 for the years ended December 31, 2003, 2002 and 2001, respectively. In 2001, Autobytel leased cars for its Autobytel.Europe employees. The majority of these leases were terminated in 2001 as part of the restructuring of Autobytel.Europe. Approximately $210 related to the car leases has been included in rent expense for 2001.

Employment Agreements

Autobytel has agreements with Jeffrey A. Schwarz, Chief Executive Officer, Hoshi Printer, Executive Vice President and Chief Financial Officer, Ariel Amir, Executive Vice President and General Counsel, Andrew F. Donchak, Executive Vice President and Chief Marketing Officer, and Richard Walker, Executive Vice President, Corporate Development and Strategy. In the event of termination without cause, Messrs. Printer, Amir, Donchak and Walker are entitled to payments of one year base salary, and Mr. Schwartz is entitled to receive payments equal to three years base salary plus the average bonus of the two fiscal years prior to the year of termination. Messrs. Schwartz, Printer, Donchak, Walker and Amir are also entitled to additional severance payments in the event of termination within a specified time period of a change of control. The term of agreement of Mr. Schwartz expires on December 31, 2006. The terms of the agreements of Messrs. Printer and Amir are for two years with one year renewals. The agreements of Messrs. Schwartz, Printer, Donchak, Walker and Amir provide for a two year extension upon a change of control. In addition, their agreements provide for vesting of options upon a change of control.

Litigation

On October 10, 2002, Morrison & Foerster LLP, a law firm that represented Autobytel, A.I.N., Inc. and Michael Gorun, former President of A.I.N., at various points in litigation which was settled in 2002, filed an action entitled Morrison & Foerster LLP v. Autobytel.com Inc. et al. in the Santa Clara Superior Court against Autobytel, A.I.N. and Mr. Gorun asserting claims for damages for beach of contract for failure to pay legal fees and expenses plus interest accrued thereon in the aggregate amount of approximately $660. On July 15, 2003, Autobytel, A.I.N. and Morrison & Foerster LLP settled the matter described above. The settlement amount was paid in 2003.

In August 2001, a purported class action lawsuit was filed in the United States District Court for the Southern District of New York against Autobytel and certain of Autobytel's current and former directors and officers (the "Autobytel Individual Defendants") and underwriters involved in Autobytel's initial public offering. The complaints against Autobytel have been consolidated with two other complaints that relate to its initial public offering but do not name it as a defendant, and a Consolidated Amended Complaint, which is now the operative complaint, was filed on April 19, 2002. This action purports to allege violations of the Securities Act of 1933 and the Securities Exchange Act of 1934. Plaintiffs allege that the underwriter defendants agreed to allocate stock in Autobytel's initial public offering to certain investors in exchange for excessive and undisclosed commissions and agreements by those investors to make additional purchases of stock in the aftermarket at pre-determined prices. Plaintiffs allege that the prospectus for Autobytel's initial public offering was false and misleading in violation of the securities laws because it did not disclose these arrangements. The action seeks damages in an unspecified amount. The action is being coordinated with approximately 300 other nearly identical actions filed against other companies. A motion to dismiss addressing issues common to the companies and individuals who have been sued in these actions was filed on July 15, 2002. On October 9, 2002, the Court dismissed the Autobytel Individual Defendants from the case without prejudice based upon Stipulations of Dismissal filed by the plaintiffs and the Autobytel Individual Defendants. On February 19, 2003, the Court denied the motion to dismiss the complaint against Autobytel. Autobytel has approved a Memorandum of Understanding ("MOU") and related agreements which set forth the terms of a settlement between Autobytel, the plaintiff class and the vast majority of the other approximately 300 issuer defendants. Among other provisions, the settlement contemplated by the MOU provides for a release of Autobytel and the Autobytel Individual Defendants for the conduct alleged in the action to be wrongful and for Autobytel to undertake certain responsibilities, including agreeing to assign away, not assert, or release certain potential claims Autobytel may have against its underwriters. It is anticipated that any potential financial obligation of Autobytelto plaintiffs pursuant to the terms of the MOU and related agreements will be covered by existing insurance. Therefore, Autobytel does not expect that the settlement will involve any payment by Autobytel. The MOU and related agreements are subject to a number of contingencies, including the negotiation of a settlement agreement and its approval by the court. Autobytel cannot determine

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whether or when a settlement will occur or be finalized and whether the outcome of the litigation will have a material impact on Autobytel's results of operations or financial condition in any future period.

Between April and June 2001, eight separate purported class actions virtually identical to the one filed against Autobytel were filed against Autoweb, certain of Autoweb's current and former directors and officers (the "Autoweb Individual Defendants") and underwriters involved in Autoweb's initial public offering. The complaints against Autoweb have been consolidated into a single action, and a Consolidated Amended Complaint, which is now the operative complaint, was filed on April 19, 2002. The foregoing action purports to allege violations of the Securities Act of 1933 and the Securities Exchange Act of 1934. Plaintiffs allege that the underwriter defendants agreed to allocate stock in Autoweb's initial public offering to certain investors in exchange for excessive and undisclosed commissions and agreements by those investors to make additional purchases of stock in the aftermarket at pre-determined prices. Plaintiffs allege that the prospectus for Autoweb's initial public offering was false and misleading in violation of the securities laws because it did not disclose these arrangements. The action seeks damages in an unspecified amount. The action is being coordinated with approximately 300 other nearly identical actions filed against other companies. A motion to dismiss addressing issues common to the companies and individuals who have been sued in these actions was filed on July 15, 2002. On October 9, 2002, the Court dismissed the Autoweb Individual Defendants from the case without prejudice based upon Stipulations of Dismissal filed by the plaintiffs and the Autoweb Individual Defendants. On February 19, 2003, the Court dismissed the Section 10(b) claim without prejudice and with leave to replead but denied the motion to dismiss the claim under Section 11 of the Securities Act of 1933 against Autoweb. Autoweb has approved the MOU and related agreements which set forth the terms of a settlement between Autoweb, the plaintiff class and the vast majority of the other approximately 300 issuer defendants. Among other provisions, the settlement contemplated by the MOU provides for a release of Autoweb and the Autoweb Individual Defendants for the conduct alleged in the action to be wrongful and for Autoweb to undertake certain responsibilities, including agreeing to assign away, not assert, or release certain potential claims Autoweb may have against its underwriters. It is anticipated that any potential financial obligation of Autoweb to plaintiffs pursuant to the terms of the MOU and related agreements will be covered by existing insurance. Therefore, Autoweb does not expect that the settlement will involve any payment by Autoweb. The MOU and related agreements are subject to a number of contingencies, including the negotiation of a settlement agreement and its approval by the court. Autobytel cannot determine whether or when a settlement will occur or be finalized and whether the outcome of the litigation will have a material impact on Autobytel's results of operations or financial condition in any future period.

Autobytel has reviewed the above class action matters and does not believe that it is probable that a loss contingency has occurred, therefore, no amounts have been recorded in the accompanying financial statements.

From time to time, Autobytel is involved in other litigation matters relating to claims arising out of the ordinary course of business. Autobytel believes that there are no claims or actions pending or threatened against it, the ultimate disposition of which would have a material adverse effect on Autobytel's business, results of operations and financial condition. However, if a court or jury rules against Autobytel and the ruling is ultimately sustained on appeal and damages are awarded against it, such ruling could have a material and adverse effect on Autobytel's business, results of operations and financial condition.

10. Issuance of Common Stock in Private Placement

On June 24, 2003, Autobytel completed the sale of 5,000,000 shares of common stock to six institutional investor groups in a private placement for gross proceeds of $27,000, or $5.40 per share. Net proceeds after transaction costs were $25,565.

11. Retirement Savings Plan

Autobytel has a retirement savings plan which qualifies as a deferred salary arrangement under Section 401(k) of the Internal Revenue Code (the 401(k) Plan.) The 401(k) Plan covers all employees of Autobytel who are over 21 years of age and have worked for Autobytel for at least three months. Under the 401(k) Plan, participating employees are allowed to defer up to 50% of their pretax salaries up to a maximum of $12 in 2003. Employees over the age of 50 are allowed to contribute an additional $2 in 2003. Autobytel contributions to the 401(k) Plan are discretionary. Autobytel matches employee contributions 50 cents per dollar up to a maximum of $3 per year. During 2003, Autobytel matched employee contributions by contributing cash of $431. In 2002, Autobytel matched employee contributions by contributing $390, or 137,150 shares of common stock at the current fair market value on the date the shares were purchased, and by contributing cash of $44. In 2001, Autobytel matched employee contributions by contributing $327, or 216,492 shares of common stock at the current fair market value on the date the shares were issued.

12. Stockholders' Equity

Preferred Stock

As of December 31, 2003, 11,445,187 shares of preferred stock with a $0.001 par value were authorized and undesignated. There were no shares of preferred stock issued or outstanding as of December 31, 2003.

13. Restricted Stock and Option Plans

1996 Stock Option Plan

Autobytel's 1996 Stock Option Plan (the 1996 Option Plan) was approved by the Board of Directors in May 1996. The 1996 Option Plan was terminated by a resolution of the Board of Directors in October 1996, at which time 870,555 options had been issued. The 1996 Option Plan provided for the granting to employees of incentive stock options within the meaning of Section 422 of the Internal Revenue Code of 1986, as amended (the Code), and for the granting to employees, consultants and directors of nonstatutory stock options. Autobytel reserved 1,194,444 shares of common stock for exercise of stock options under the 1996 Option Plan. The exercise price of incentive stock options granted under the 1996 Option Plan could not be lower than the fair market value of the common stock, and the exercise price of nonstatutory stock options could not be less than 85% of the fair market value of the common stock, as determined by the Board of Directors, on the date of grant. With respect to any participants who, at the time of grant, owned stock that possessed more than 10% of the voting power of all classes of stock of Autobytel, the exercise price of any stock option granted to such person was to be at least 110% of the fair market value on the grant date, and the maximum term of such option was five years. The term of all other options granted under the 1996 Option Plan did not exceed 10 years. Stock options granted under the 1996 Option Plan vest according to vesting schedules determined by the Board of Directors.

1996 Stock Incentive Plan

Autobytel's 1996 Stock Incentive Plan (the Incentive Plan) was approved by the Board of Directors in October 1996. The Incentive Plan provides for the granting to employees of incentive stock options within the meaning of Section 422 of the Code, and for the granting to employees, directors and consultants of nonstatutory stock options and stock purchase rights. Autobytel has reserved a total of 833,333 shares of common stock for issuance under the Incentive Plan. The exercise price of stock options granted under the Incentive Plan cannot be lower than the fair market value of the common stock, as determined by the Board of Directors, on the date of grant. With respect to any participants who, at the time of grant, own stock possessing more than 10% of the voting power of all classes of stock of Autobytel, the exercise price of stock options granted to such person must be at least 110% of the fair market value on the grant date, and the maximum term of such options is five years. The term of all other options granted under the Incentive Plan may be up to 10 years. Stock options granted under the Incentive Plan vest according to vesting schedules determined by the Board of Directors.

1998 Stock Option Plan

Autobytel's 1998 Stock Option Plan (the 1998 Option Plan) was adopted in December 1998. Autobytel has reserved 1,500,000 shares under the 1998 Option Plan. The 1998 Option Plan provides for the granting to employees of incentive stock options within the meaning of the Code and nonstatutory stock options.

The exercise price of non-statutory options granted under the 1998 Option Plan cannot be lower than 85% of the fair market value of the common stock on the date of grant. The exercise price of all incentive stock options granted cannot be lower than the fair market value on the grant date. With respect to any participants who beneficially own more than 10% of the voting power of all classes of stock of Autobytel, the exercise price of any stock option granted to such person must be at least 110% of the fair market value on the grant date, and the maximum term of such option is five years. The term of all other options granted under the 1998 Option Plan may be up to 10 years. Under the 1998 Option Plan, certain stock options (Performance Options) vest over a time period determined by the Board of Directors, however, the vesting could be accelerated based on the performance of Autobytel's common stock.

In December 2001, the Board of Directors granted Performance Options to purchase 200,000 shares of common stock to Jeffrey Schwartz, Autobytel's Chief Executive Officer, at an exercise price of $1.60 per share, which represents the fair market value on the date of grant. These options vest over a five-year period, but the vesting could be accelerated based on the performance of Autobytel's common stock. The accelerated vesting schedule provides that the grants will vest if the average

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trading price of the common stock for any 60 consecutive trading days is equal to or exceeds $5.00. As of December 31, 2003, all of these Performance Options were vested. All other stock options granted under the 1998 Option Plan vest according to vesting schedules determined by the Board of Directors.

The 1998 Option Plan provides that, unless otherwise provided in the stock option agreement, in the event of any merger, consolidation, or sale or transfer of all or any part of Autobytel's business or assets, all rights of the optionee with respect to the unexercised portion of any option will become immediately vested and may be exercised immediately, except to the extent that any agreement or undertaking of any party to any such merger, consolidation, or sale or transfer of assets makes specific provisions for the assumption of the obligations of Autobytel with respect to the 1998 Option Plan.

1999 Stock Option Plan

Autobytel's 1999 Stock Option Plan (the 1999 Option Plan) was adopted in January 1999. Autobytel has reserved 1,800,000 shares under the 1999 Option Plan. The 1999 Option Plan provides for the granting of stock options to employees of Autobytel. Under the 1999 Option Plan, not more than 1,000,000 shares may be issued pursuant to options granted after March 31, 1999.

The 1999 Option Plan provides for an automatic grant of an option to purchase 20,000 shares of common stock to each non-employee director on the date on which the person first becomes a non-employee director. In each successive year the non-employee director will automatically be granted an option to purchase 5,000 shares on November 1 of each subsequent year provided the non-employee director has served on the Board for at least six months. Each option will have a term of 10 years and will be granted at the fair market value of Autobytel's common stock on the date of grant. The options vest in their entirety and become exercisable on the first anniversary of the grant date, provided that the optionee continues to serve as a director on such date.

In August 2001, the Board of Directors granted Performance Options to purchase 250,000 shares of common stock to Mr. Schwartz at an exercise price of $0.90 per share, which represents the fair market value on the date of grant. These options vest over a seven year period, but the vesting could be accelerated based on the performance of Autobytel's common stock. The accelerated vesting schedule provides that the grants will vest in six installments, each of the first and second installments being for 40,000 shares and each of the remaining installments covering 42,500 shares. One installment vests on each six month anniversary period if pre-established average trading prices of the common stock are achieved. These installments will vest if the average trading price exceeds $1.80, $2.70, $3.60, $4.50, $5.40 and $6.30, respectively, in the applicable period after the date of grant. As of December 31, 2003, 165,000 shares were vested. All other stock options granted under the 1999 Option Plan vest according to vesting schedules determined by the Board of Directors.

The 1999 Option Plan is similar in all other material respects to the 1998 Option Plan.

1999 Employee and Acquisition Related Stock Option Plan

Autobytel's 1999 Employee and Acquisition Related Stock Option Plan (the Employee and Acquisition Option Plan) was approved by the Board of Directors in September 1999. Autobytel has reserved a total of 1,500,000 shares of common stock for issuance under the Employee and Acquisition Option Plan. The Employee and Acquisition Option Plan provides for the granting to employees and acquired employees of incentive stock options within the meaning of the Code, and for the granting to employees, acquired employees and service providers of nonstatutory stock options. The exercise price of incentive stock options granted can not be lower than the fair market value on the date of grant and the exercise price of nonstatutory stock options can not be less than 85% of the fair market value of the common stock on the date of grant. The exercise price of stock options granted to individuals beneficially owning more than 10% of the voting power of all classes of Autobytel stock must be at least 110% of the fair market value on the grant date and have a maximum term of five years. The term of all other options granted under the Employee and Acquisition Option Plan may be up to 10 years. Stock options granted under the Employee and Acquisition Option Plan vest according to vesting schedules determined by the Board of Directors.

AUTOBYTEL INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

2000 Stock Option Plan

Autobytel's 2000 Stock Option Plan (the 2000 Option Plan) was approved by the Board of Directors in April 2000. The 2000 Option Plan provides for the granting of both incentive stock options and nonqualified stock options to eligible employees, consultants and outside directors of Autobytel. Autobytel has reserved 3,000,000 shares under the 2000 Option Plan. Stock options granted under the 2000 Option Plan vest according to vesting schedules determined by the Board of Directors.

The 2000 Option Plan is similar in all other material respects to the 1999 Option Plan.

Amended and Restated 2001 Restricted Stock and Option Plan

On February 25, 2003, the Board of Directors approved the Amended and Restated 2001 Restricted Stock and Option Plan, which was approved by stockholders on June 25, 2003 (the Restricted Plan). The Restricted Plan allows for the granting of restricted stock, deferred share awards, stock options and stock appreciation rights to selected directors, officers, employees, consultants or other service providers of Autobytel. Autobytel has reserved 1,500,000 shares under the Restricted Plan. The Restricted Plan prohibits anyone from receiving awards for more than 400,000 shares per year.The Board may grant awards that vest immediately or based on future conditions. The Board has the discretionary authority to impose, in agreements, such restrictions on shares of common stock issued pursuant to restricted stock awards under the Restricted Plan as it may deem appropriate or desirable, including but not limited to the authority to impose a right of first refusal or to establish repurchase rights or both of these restrictions. Any repurchase right of Autobytel lapses on consummation of a change of control. Options may be either incentive stock options or nonqualified stock options. The per share exercise price of an incentive stock option shall not be less than 100% of the fair market value of a share on the date the option is granted (110% in the case of a grant to a ten-percent stockholder). The per share exercise price of a nonqualified stock option shall not be less than 85% of the fair market value of a share on the date the option is granted. No option shall be exercisable after the expiration of ten years from its grant date (five years in the case of an incentive stock option granted to a ten-percent stockholder). Options granted to optionees who are not directors, officers, or consultants must become exercisable at a rate no longer than 20% per year for five years from the grant date. Except as described below and as provided in the Restricted Plan, participants will not have any rights in the event that Autobytel is sold, merged, or otherwise reorganized. Unless the award agreement provides differently or unless any party to the merger, consolidation, or sale or transfer of Autobytel assets assumes Autobytel's obligations with respect to awards under the Restricted Plan, the unvested portion of awards will become immediately vested upon any merger (other than a merger in which Autobytel is the surviving entity and the terms and number of outstanding shares remain unchanged as compared to the terms and number of outstanding shares prior to the merger), consolidation, or sale or transfer of Autobytel assets.

As of December 31, 2003, there were no outstanding shares of common stock under the Restated Plan.

AUTOBYTEL INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Outstanding Stock Options and Stock Option Activity

A summary of Autobytel's outstanding stock options as of December 31, 2001, 2002 and 2003 and activity during the years then ended is presented below:

	Number of Options	Average Exercise Price
Outstanding at December 31, 2000	6,679,780	$ 9.26
Assumption of Autoweb options on date of acquisition	1,296,089	8.07
Granted	1,564,664	1.32
Exercised	(6,667)	0.90
Forfeited	(2,867,826)	8.97
Outstanding at December 31, 2001	6,666,040	7.19
Granted	1,959,020	2.57
Exercised	(98,295)	1.66
Forfeited	(2,938,589)	9.19
Outstanding at December 31, 2002	5,588,176	4.45
Granted	3,304,500	5.82
Exercised	(789,759)	3.56
Forfeited	(438,247)	4.86
Outstanding at December 31, 2003	7,664,670	$ 4.96
Exercisable at December 31, 2001	4,012,937	$ 9.45
Exercisable at December 31, 2002	3,133,686	$ 6.37
Exercisable at December 31, 2003	4,097,985	$ 4.78
Weighted-average fair value of options granted during 2001 (1,564,664 options)		$ 1.02
Weighted-average fair value of options granted during 2002 (1,959,020 options)		$ 1.87
Weighted-average fair value of options granted during 2003 (3,304,500 options)		$ 3.18

The fair value of each option granted through December 31, 2003 is estimated using the Black-Scholes option-pricing model on the date of grant using the following assumptions: (1) no dividend yield, (2) volatility of 78.55%, 92.73% and 92.63% for the years ended December 31, 2003, 2002, and 2001, respectively, (3) weighted-average risk-free interest rate of approximately 2.149%, 3.82%, and 4.78% for the years ended December 31 2003, 2002, and 2001, respectively, and (4) a weighted-average expected life of 3.7 years, 5.0 years and 5.3 years for the years ended December 31, 2003, 2002 and 2001, respectively.

AUTOBYTEL INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The following table summarizes information about stock options outstanding at December 31, 2003:

	Options Outstanding			Options Exercisable	
Range of Exercise Price	Number of Options	Weighted Average Remaining Life (in years)	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
$0.78 – $1.88	1,542,920	7.0	$ 1.29	1,339,713	$ 1.33
$1.96 – $2.88	1,580,339	8.3	2.53	1,034,334	2.50
$3.00 – $4.50	1,301,334	7.4	3.32	429,765	3.87
$5.25 – $5.87	179,000	7.1	5.35	150,000	5.26
$6.02 – $6.35	1,200,000	9.6	6.32	—	—
$6.50 – $7.60	523,293	4.7	6.84	357,159	6.54
$8.23 – $9.37	517,272	9.7	8.58	178,409	9.20
$10.30 – $11.46	242,200	9.3	10.97	30,338	10.42
$13.20	498,891	1.6	13.20	498,891	13.20
$14.38 – $19.35	10,065	6.0	14.90	10,020	14.88
$24.28 – $25.33	67,935	5.8	24.43	67,935	24.43
$44.51	1,421	5.4	44.51	1,421	44.51
$.78 – $44.51	7,664,670	7.5	$ 4.96	4,097,985	$ 4.78

As of December 31, 2003, 1,440,718 stock options were available for grant under Autobytel's stock option plans.

Stock-Based Compensation

From January to March 1999, Autobytel granted stock options to purchase 388,236 shares of common stock under the 1999 Stock Option Plan. These stock options were granted to employees and directors at exercise prices of $13.20 and $16.00 per share which were below the fair market value at the date of grant. In relation to these grants, Autobytel recognized non-cash compensation expense of approximately $1,718 ratably over the vesting term of one to four years. Compensation expense of approximately $20 and $242 was recognized as operating expense in 2002 and 2001, respectively. As of December 31, 2002, compensation expense related to these option grants was fully recognized.

Option Exchange Offer

On December 14, 2001 Autobytel commenced an offer to exchange all options outstanding under its stock option plans, including Autoweb options assumed by Autobytel in connection with the acquisition of Autoweb, that had an exercise price per share of more than $4.00 for new options.

The offer expired on January 15, 2002. Pursuant to the offer, Autobytel accepted for cancellation on January 16, 2002, options to purchase 1,450,534 shares of common stock, representing approximately 29% of the options that were eligible to be tendered for exchange. On July 18, 2002, subject to the terms and conditions of the offer, Autobytel granted new options to purchase 747,355 shares of common stock in exchange for those options Autobytel accepted for cancellation. The new options were granted on July 18, 2002 at a price of $2.35 per share, which was the fair market value on the date of grant. No compensation expense was recorded as a result of the option exchange.

14. Stock Purchase Plan

1996 Employee Stock Purchase Plan

Autobytel's 1996 Employee Stock Purchase Plan was adopted by the Board of Directors in November 1996. On February 25, 2003, the Board of Directors approved an amendment providing for an additional 300,000 shares of common stock issuable over a ten-year period ending on February 24, 2013. The amendment was approved by stockholders on June 25, 2003. The Purchase Plan, which is intended to qualify under Section 423 of the Code, permits eligible employees of Autobytel to purchase shares of common stock through payroll deductions of up to ten percent of their compensation, up to a certain maximum amount for all purchase periods ending within any calendar year. Autobytel has reserved a total of 744,444 shares of common stock for issuance under the Purchase Plan. The price of common stock purchased under the Purchase Plan will be 85% of the lower of the fair market value of the common stock on the first or last day of each six month purchase period. Employees may end their

AUTOBYTEL INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

participation in the Purchase Plan at any time during an offering period, and they will be paid their payroll deductions to date. Participation ends automatically upon termination of employment with Autobytel.

During the years ended December 31, 2003, 2002 and 2001, 90,223, 128,020 and 121,824 shares of common stock were issued under the Purchase Plan, respectively.

15. Accrued Liability for Restructuring and Other Charges

In 2001, Autobytel recorded a total of $4,514 for domestic restructuring and other charges. The charges were related to the reorganization of dealer operations, the elimination of duplicate facilities, the write-down of fixed assets, contract termination costs related to online advertising and the aftermarket program on the Autobytel.com Web site, the write-off of previously capitalized software related to the aftermarket program and the integration of Autoweb into Autobytel following the acquisition of Autoweb. In 2002, Autobytel recorded a total of $769 for charges related to the restructuring of Autobytel's operations to reduce costs and enhance efficiencies. The charges included severance costs affecting approximately 15% of Autobytel's employees in sales, marketing and information technology, and Autobytel's lease obligation on the vacant portion of AIC's office facilities.

As of December 31, 2003, there were no further accrued liabilities related to the 2001 restructuring and other charges as the remaining charges were adjusted due to the final reconciliation of leased facility maintenance costs by the landlord. The accrued liabilities related to the 2001 charges as of December 31, 2003 were paid or adjusted as follows:

	Domestic Restructuring and Other Charges
Total charges	$ 4,514
Non-cash charges	(739)
Cash payments	(3,665)
December 31, 2001, accrued liability balance	110
Cash payments	(76)
December 31, 2002, accrued liability balance	34
Cash payments	(7)
Non-cash adjustment	(27)
December 31, 2003, accrued liability balance	$ —

As of December 31, 2003, the remaining accrued liabilities related to the 2002 restructuring charges were $258. Autobytel expects the remaining charges to be paid by 2004. The remaining accrued liabilities related to the 2002 charges as of December 31, 2003 were as follows:

	Domestic Restructuring Charges		
	Rent	Compensation	Total
Total charges	$ 552	$ 217	$ 769
Cash payments	(108)	(217)	(325)
December 31, 2002, accrued liability balance	444	—	444
Cash payments	(186)	—	(186)
December 31, 2003 accrued liability balance	$ 258	$ —	$ 258

16. Other Income (Expense)

In 2003, Autobytel recorded $763 in other income after the negotiated settlement of an outstanding note receivable and compensation liability with a former Autoweb employee.

17. Income Taxes

No provision for federal income taxes has been recorded as Autobytel generated taxable losses through December 31, 2002 and had nominal taxable income for the year ended December 31, 2003 which will be offset by net operating loss carryforwards. As of December 31, 2003, Autobytel had approximately $63,000 of federal and $34,000 of state net operating loss carryforwards available to offset future taxable income. These net operating loss carryforwards expire in various years through 2022. Autobytel also has federal and state research tax credit carryforwards of approximately $700 and $500, respectively. These research tax credits expire in various years through 2022. Utilization of these carryforwards is subject to an annual limitation due to the ownership change limitations provided by the Internal Revenue Code and similar state provisions. The annual limitation may result in the expiration of the carryforwards before utilization. Additionally, the state of California has suspended the deduction for net operating loss carryovers for the 2003 tax year.

Autobytel accounts for income taxes in accordance with SFAS No. 109, “Accounting for Income Taxes.” Under SFAS No. 109, deferred income tax assets and liabilities are determined based on the differences between the book and tax basis of assets and liabilities and are measured using the currently enacted tax rates and laws. Based upon its substantial net operating loss carryforwards, research tax credit carryforwards and expected future operating results, Autobytel concluded that it is more likely than not that these deferred tax assets as of December 31, 2003 may not be realized. Consequently, Autobytel has established a full valuation allowance for these deferred tax assets. In addition, Autobytel expects to provide a full valuation allowance on future deferred tax assets until it can sustain a level of profitability that demonstrates its ability to utilize the assets. Significant components of Autobytel’s deferred tax assets are approximately as follows:

	As of December 31,	
	2003	2002
Deferred tax assets:		
Net operating losses	$ 23,374	$ 48,050
Accrued expenses, depreciation and amortization	1,842	4,963
Research and development credits and other	1,200	437
Total deferred tax assets	26,416	53,450
Valuation allowance for deferred tax assets	(26,416)	(53,450)
Net deferred tax assets	$ —	$ —

The decrease in deferred tax assets from December 31, 2002 to December 31, 2003 resulted primarily from Autobytel’s determination that the federal and state net operating loss carryforwards subject to annual limitation will expire before utilization. These carryforwards had a full valuation allowance recorded against them and, as such, Autobytel reduced the valuation allowance, accordingly, in 2003. The increase in deferred tax assets from December 31, 2001 to December 31, 2002 primarily resulted from additional taxable net operating loss carryforwards generated by Autobytel in 2002. Autobytel recorded a full valuation allowance against the deferred tax assets arising from the net operating losses generated in 2002.

18. Related Party Transactions

Consulting Agreement

Autobytel and Robert Grimes, a current director and a former Executive Vice President of Autobytel, are parties to a two year consulting services agreement dated April 1, 2000 which was extended through March 31, 2004. During the term of the consulting agreement, Mr. Grimes will receive $50 per year payable on a monthly basis and a $2.5 monthly office expense allowance. Mr. Grimes will make himself available to the executive officers of Autobytel for up to 16 hours a month for consultation and other activities related to formulating and implementing business strategies and relationships. Autobytel may terminate the agreement upon Mr. Grimes’ breach of contract. If Mr. Grimes’ agreement is terminated without breach, Mr. Grimes is entitled to either a pro rated or a lump sum payment equal to the salary that would have been received by Mr. Grimes if he had remained a consultant for the remaining balance of the term. In the event of death or disability, Autobytel will pay to Mr. Grimes or his successors and assigns the amount that Mr. Grimes would have received for the remainder of the term of the agreement. Mr. Grimes has the right to terminate the agreement upon 90 days notice to Autobytel. Through April 30, 2003, Mr. Grimes was entitled to participate in all of Autobytel’s employee welfare benefit plans at Autobytel’s expense.

19. Business Segment

Autobytel conducts its business within one business segment, which is defined as providing automotive marketing services primarily through the Internet.

Autobytel.Europe, formerly a majority-owned subsidiary of Autobytel, operates to support Autobytel’s Internet automotive marketing services with certain licensees in Europe. In June 2001, Autobytel announced the restructuring of Autobytel.Europe which significantly reduced Autobytel.Europe’s business activities. On March 28, 2002, Autobytel.Europe completed a recapitalization which reduced Autobytel’s ownership of Autobytel.Europe from 76.5% to 49%. As a result, Autobytel no longer consolidates Autobytel.Europe in its financial statements but accounts for its remaining investment in Autobytel.Europe under the equity method. Autobytel does not expect to devote substantial resources to Autobytel.Europe. (See Note 3.)

AUTOBYTEL INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Summarized financial data for Autobytel.Europe, including the 2002 short period prior to the reduction in Autobytel's ownership in Autobytel.Europe on March 28, 2002, is as follows:

	Period Ended March 28, 2002	Year Ended December 31, 2001
Revenues	$ 49	$ 2,703
Net loss	(3,684)	(6,677)
Total assets	28,231	28,997
Total liabilities	$ 4,871	$ 1,401

20. Quarterly Financial Data (Unaudited)

Summarized quarterly financial data for Autobytel, including AVV from the date of acquisition on June 4, 2003, is as follows:

	Three Months Ended			
	December 31, 2003	September 30, 2003	June 30, 2003	March 31, 2003
Revenues	$ 23,930	$ 23,039	$ 21,721	$ 20,253
Income from operations	2,786	1,554	1,052	748
Net income	3,764	1,666	1,122	868
Basic net income per share	$ 0.10	$ 0.04	$ 0.04	$ 0.03
Diluted net income per share	$ 0.09	$ 0.04	$ 0.03	$ 0.03

	Three Months Ended			
	December 31, 2002	September 30, 2002	June 30, 2002	March 31, 2002
Revenues	$ 20,010	$ 19,281	$ 20,831	$ 20,733
Income (loss) from operations	357	(2,144)	(474)	(15,352)
Net income (loss)	462	(2,102)	(607)	(18,467)
Basic net income (loss) per share	$ 0.01	$ (0.07)	$ (0.02)	$ (0.59)
Diluted net income (loss) per share	$ 0.01	$ (0.07)	$ (0.02)	$ (0.59)

AUTOBYTEL INC.

SCHEDULE II—VALUATION AND QUALIFYING ACCOUNTS
(Dollar amounts in thousands)

	Years Ended December 31, 2003	Years Ended December 31, 2002
Allowance for bad debts:		
Beginning balance	$ 1,912	$ 3,958
Autoweb goodwill adjustment	—	(277)
Deconsolidation of Autobytel.Europe	—	(1,335)
Additions (reversals)	(568)	1,220
Write-offs	(530)	(1,654)
Ending balance	$ 814	$ 1,912

	Years Ended December 31, 2003	Years Ended December 31, 2002
Allowance for customer credits:		
Beginning balance	$ 2,302	$ 3,151
Additions	938	7,422
Write-offs	(1,988)	(8,271)
Ending balance	$ 1,252	$ 2,302

	Year Ended December 31, 2001
Allowances for bad debts and customer credits:	
Beginning balance	$ 2,185
Acquired on August 14, 2001 as part of the Autoweb acquisition	2,694
Reserves	9,724
Write-offs	(7,494)
Ending balance	$ 7,109

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EXHIBIT INDEX

Number	Description	Sequentially Numbered Page
2.1	Agreement and Plan of Merger dated October 14, 1999, entered into among Autobytel Inc. (formerly autobytel.com inc. (“Autobytel”)), Autobytel Acquisition II Corp., A.I.N. Corporation, and shareholders of A.I.N. Corporation is incorporated herein by reference to Exhibit 2.1 of the Form 8-K filed with the Securities and Exchange Commission (the “SEC”) on February 15, 2000 (the “February 2000 8-K”)	
2.2	Amendment to Agreement and Plan of Merger dated January 25, 2000, entered into among Autobytel, Autobytel Acquisition II Corp., A.I.N. Corporation, and shareholders of A.I.N. Corporation is incorporated herein by reference to Exhibit 2.2 of the February 2000 8-K.	
2.3	Amendment No. 2 to Agreement and Plan of Merger dated February 14, 2000, entered into among Autobytel, Autobytel Acquisition II Corp., A.I.N. Corporation, and shareholders of A.I.N. Corporation is incorporated herein by reference to Exhibit 2.3 of the February 2000 8-K.	
2.4	Composite Conformed Acquisition Agreement, dated as of April 11, 2001 by and among Autobytel, Autobytel Acquisition I Corp. and Autoweb.com, Inc. (“Autoweb”), is incorporated herein by reference from Annex A to the Proxy Statement/Prospectus included as a part of Amendment No. 1 (filed on July 17, 2001) to the Registration Statement on Form S-4. (File No. 333-60798) originally filed with the SEC on May 11, 2001 and declared effective (as amended) on July 18, 2001 (the “S-4 Registration Statement”)	
2.5	Acquisition Agreement, dated June 4, 2003, among Autobytel, Autobytel Acuisition, Inc., and Applied Virtual Vision, Inc. and its shareholders is incorporated herein by reference to Exhibit 2 to Current Report on Form 8-K filed with the SEC on June 5, 2003.	
3.1	Amended and Restated Certificate of Incorporation of Autobytel certified by the Secretary of State of Delaware (filed December 14, 1998 and amended March 1, 1999) is incorporated herein by reference to Exhibit 3.1 of Amendment No. 2 (filed on March 5, 1999) to Autobytel’s Registration Statement on Form S-1 (File No. 333-70621) originally filed with the SEC on January 15, 1999 and declared effective (as amended) on March 25, 1999 (the “S-1 Registration Statement”)	
3.2	Second Certificate of Amendment of the Fifth Amended and Restated Certificate of Incorporation of Autobytel is incorporated herein by reference to Exhibit 3.1 of Form 10-Q for the Quarter Ended June 30, 1999 filed with the SEC on August 12, 1999.	
3.3	Third Certificate of Amendment of the Fifth Amended and Restated Certificate of Incorporation of Autobytel is incorporated herein by reference to Exhibit 3.3 of Form 10-K for the Year Ended December 31, 2001 filed with the SEC on March 22, 2002 (the “2001 10-K”).	
3.4	Amended and Restated Bylaws of Autobytel is incorporated herein by reference to Exhibit 3.1 of Form 10-Q for the Quarter Ended September 30, 2000 filed with the SEC on November 13, 2000	
3.5	Amendment No.1 to Amended and Restated Bylaws of Autobytel is incorporated herein by reference to Exhibit 3.1 of Form 10-Q for the Quarter Ended September 30, 2001 filed with the SEC on November 14, 2001 (the “September 2001 10-Q”)	
3.6	Amendment No. 2 to Amended and Restated Bylaws of Autobytel is incorporated herein by reference to Exhibit 3.1 of Form 10-Q for the Quarter Ended March 31, 2002 filed with the SEC on May 14, 2002 (the “March 2002 10-Q”)	

Number	Description	Sequentially Numbered Page
4.1	Form of Common Stock Certificate of Autobytel is incorporated herein by reference to Exhibit 4.1 of the September 2001 10-Q.	
4.2	Amended and Restated Investors' Rights Agreement dated October 21, 1997 as amended from time to time, between Autobytel and the Investors named in Exhibit A thereto is incorporated herein by reference to Exhibit 4.2 of the S-1 Registration Statement.	
10.1	Form of Indemnification Agreement between Autobytel and its directors and officers is incorporated herein by reference to Exhibit 10.1 of the S-1 Registration Statement.	
10.2	Letter agreement dated July 28, 2000 between Autobytel and Andrew F. Donchak is incorporated herein by reference to Exhibit 10.4 of the Annual Report on Form 10-K for the Year Ended December 31, 2000 filed with the SEC on March 29, 2001 (the "2000 10-K")	
10.3	Employment Agreement, dated as of April 1, 2002 between Ariel Amir and Autobytel is incorporated herein by reference to Exhibit 10.6 of the March 2002 10-Q.	
10.4	1996 Employee Stock Purchase Plan is incorporated herein by reference to Exhibit 10.7 of Amendment No. 1 to the S-1 Registration Statement filed with the SEC on February 9, 1999 (the "S-1 Amendment")	
10.5	autobytel.com inc. 1998 Stock Option Plan is incorporated herein by reference to Exhibit 10.8 of the S-1 Amendment.	
10.6	autobytel.com inc. 1999 Stock Option Plan is incorporated herein by reference to Exhibit 10.30 of the S-1 Amendment.	
10.7	autobytel.com inc. 1999 Employee and Acquisition Related Stock Option Plan is incorporated herein by reference to Exhibit 10.1 of the Registration Statement filed on Form S-8 (File No. 333-90045) filed with the SEC on November 1, 1999.	
10.8	Amendment No. 1 to the autobytel.com inc. 1998 Stock Option Plan dated September 22, 1999 is incorporated herein by reference to Exhibit 10.2 of Form 10-Q for the Quarter Ended September 30, 1999 filed with the SEC on November 12, 1999.	
10.9	Amendment No. 1 to the autobytel.com inc. 1999 Stock Option Plan, dated September 22, 1999 is incorporated herein by reference to Exhibit 10.1 of Form 10-Q for the Quarter Ended September 30, 1999 filed with the SEC on November 12, 1999.	
10.10	Form of Autobytel Dealer Agreement, including Pre-Owned Cyberstore program is incorporated herein by reference to Exhibit 10.15 of the 2001 10-K .	
10.11	Separation Agreement dated as of December 14, 2001 between Autobytel and Mark Lorimer is incorporated herein by reference to Exhibit 10.18 of the 2001 10-K.	
10.12	Separation Agreement dated as of January 17, 2002 between Autobytel and Dennis Benner is incorporated herein by reference to Exhibit 10.19 of the 2001 10-K.	
10.13	Form of Autoweb General Dealer Agreement is incorporated herein by reference to Exhibit 10.20 of the 2001 10-K.	

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Number	Description	Sequentially Numbered Page
10.14	1996 Stock Option Plan and related agreements are incorporated herein by reference to Exhibit 10.5 of the S-1 Amendment.	
10.15	1996 Stock Incentive Plan and related agreements are incorporated herein by reference to Exhibit 10.6 of the S-1 Amendment.	
10.16	Form of Autobytel Gold Term Services Agreement is incorporated herein by reference to Exhibit 10.35 of the form 10-K for the Year Ended December 31, 1999 filed with the SEC on March 23, 2000.	
10.17	Form of CarSmart Internet Marketing Agreement is incorporated herein by reference to Exhibit 10.26 of the 2001 10-K.	
10.18	autobytel.com inc. Retirement Savings Plan is incorporated herein by reference to Exhibit 99.1 of the Registration Statement filed on Form S-8 (File No. 333-33038) with the SEC on June 15, 2000.	
10.19	autobytel.com inc. 2000 Stock Option Plan is incorporated herein by reference to Exhibit 99.1 of the Registration Statement filed on Form S-8 (File No. 333-39396) with the SEC on June 15, 2000.	
10.20	Employment Agreement dated as of April 18, 2001 between Autobytel and Hoshi Printer incorporated herein by reference to Exhibit 10.9 of Amendment No. 1 to the S-4 Registration Statement filed with the SEC on July 17, 2001	
10.21	autobytel.com inc. 2001 Restricted Stock Plan is incorporated herein by reference to Exhibit 4.3 to the Registration Statement filed on Form S-8 (File No. 333-67692) with the SEC on August 16, 2001 (the “August 2001 S-8”)	
10.22	Autoweb 1997 Stock Option Plan is incorporated herein by reference to Exhibit 4.4 of the August 2001 S-8.	
10.23	Autoweb 1999 Equity Incentive Plan, as amended, is incorporated herein by reference to Exhibit 4.5 of the August 2001 S-8.	
10.24	Autoweb 1999 Directors Stock Option Plan is incorporated herein by reference to Exhibit 4.6 of the August 2001 S-8.	
10.25	Amendment No. 1 to the Auto-by-Tel Corporation 1996 Stock Incentive Plan is incorporated herein by reference to Exhibit (d)(2) of Schedule TO filed with the SEC on December 14, 2001 (the “Schedule TO”)	
10.26	Amendment No. 2 to the autobytel.com inc. 1998 Stock Option Plan is incorporated herein by reference to Exhibit (d)(5) of the Schedule TO.	
10.27	Amendment No. 2 to the autobytel.com inc. 1999 Stock Option Plan is incorporated herein by reference to Exhibit (d)(8) of the Schedule TO.	
10.28	Amendment No. 1 to the autobytel.com inc. 1999 Employee and Acquisition Related Stock Option Plan is incorporated herein by reference to Exhibit (d)(10) of the Schedule TO.	

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Number	Description	Sequentially Numbered Page
10.29	Amendment No. 1 to the autobytel.com inc. 2000 Stock Option Plan is incorporated herein by reference to Exhibit (d)(12) of the Schedule TO.	
10.30	Amendment No. 2 to the autobytel.com inc. 2000 Stock Option Plan is incorporated herein by reference to Exhibit 10.46 of the 2001 10-K.	
10.31	Form of Stock Option Agreement pursuant to Auto-by-Tel Corporation 1996 Stock Incentive Plan is incorporated herein by reference to Exhibit (d)(13) of the Schedule TO.	
10.32	Form of Stock Option Agreement pursuant to autobytel.com inc. 1998 Stock Option Plan is incorporated herein by reference to Exhibit (d)(14) of the Schedule TO.	
10.33	Form of Stock Option Agreement pursuant to autobytel.com inc. 1999 Stock Option Plan is incorporated herein by reference to Exhibit (d)(15) of the Schedule TO.	
10.34	Form of Stock Option Agreement pursuant to autobytel.com inc. 1999 Employee and Acquisition Related Stock Option Plan is incorporated herein by reference to Exhibit (d)(16) of the Schedule TO.	
10.35	Form of Stock Option Agreement pursuant to autobytel.com inc. 2000 Stock Option Plan is incorporated herein by reference to Exhibit (d)(17) of the Schedule TO.	
10.36	Form of Performance Stock Option Agreement pursuant to autobytel.com inc. 1999 Stock Option Plan is incorporated herein by reference to Exhibit (d)(18) of the Schedule TO.	
10.37	Form of Non-employee Directors Stock Option Agreement pursuant to Auto-by-Tel Corporation 1996 Stock Incentive Plan is incorporated herein by reference to Exhibit (d)(19) of the Schedule TO.	
10.38	Second Amended and Restated Operating Agreement, dated as of March 28, 2002, among Autobytel.Europe LLC, Autobytel and Pon Holdings B.V. is incorporated herein by reference to Exhibit 10.1 of the March 2002 10-Q	
10.39	Amendment to Second Amended and Restated Operating Agreement, dated as of April 24, 2002, among Autobytel.Europe LLC, Autobytel and Pon Holdings B.V. is incorporated herein by reference to Exhibit 10.2 of the March 2002 10-Q	
10.40	Amended and Restated License Agreement, dated as of March 28, 2002, among Autobytel.Europe LLC, Autobytel.Europe Holdings B.V. and Autobytel is incorporated herein by reference to Exhibit 10.3 of the March 2002 10-Q	
10.41	Consulting Services Agreement, dated March 1, 2002, between Autobytel and Jeffrey Coats is incorporated herein by reference to Exhibit 10.4 of the March 2002 10-Q	
10.42	Letter Agreement, dated March 19, 2002, between Autobytel and Robert Grimes is incorporated herein by reference to Exhibit 10.5 of the March 2002 10-Q	

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Number	Description	Sequentially Numbered Page
10.43	Letter Agreement, dated October 1, 2002, between Andrew Donchak and Autobytel is incorporated herein by reference to Exhibit 10.52 of the Form 10-K for the Year Ended December 31, 2002 filed with the SEC on March 27, 2003 (the "2002 10-K").	
10.44	First Amendment, dated as of October 1, 2002, between Hoshi Printer and Autobytel is incorporated herein by reference to Exhibit 10.53 of the 2002 10-K	
10.45	Letter Agreement, dated January 21, 2003, between Richard Walker and Autobytel is incorporated herein by reference to Exhibit 10.55 of the 2002 10-K	
10.46	Form of Dealer Agreement is incorporated herein by reference to Exhibit 10.57 of the 2002 10-K	
10.47	Letter agreement, dated March 10, 2003, between Autobytel and Robert Grimes is incorporated herein by reference to Exhibit 10.58 of the 2002 10-K	
10.48	Letter agreement, dated July 1, 2003 between Autobytel and Richard Walker is incorporated herein by reference to Exhibit 10.1 of Form 10-Q for the Quarter Ended September 30, 2003 filed with the SEC on November 13, 2003	
10.49	2003 Amendment to Auto-By-Tel Corporation 1996 Employee Stock Purchase Plan is incorporated herein by reference to Exhibit 4.8 of the Registration Statement filed on Form S-8 (File No. 333-107525) with the SEC on July 31, 2003.	
10.50	Autobytel Inc. Amended and Restated 2001 Restricted Stock and Option Plan is incorporated herein by reference to Exhibit 4.7 of Post-Effective Amendment to Registration Statement filed on Form S-8 (File No. 333-67692) with the SEC on July 31, 2003.	
10.51	Form of Subscription Agreement, dated June 20, 2003, between Autobytel and private investors is incorporated herein by reference to Exhibit 10.1 of the Registration Statement on Form S-3 (File No. 333-107152) filed with the SEC on July 18, 2003.	
10.52*	First Amendment, dated December 19, 2003 between Ariel Amir and Autobytel.	
10.53*	Employment Agreement, dated December 4, 2003 between Jeffrey Schwartz and Autobytel.	

Number	Description	Sequentially Numbered Page
16	Letter of Arthur Andersen LLP, dated May 22, 2002, is incorporated herein by reference to Exhibit 16 of Form 8-K filed with the SEC on May 22, 2002	
21.1*	Subsidiaries of Autobytel.	
23.1*	Consent of PricewaterhouseCoopers LLP.	
23.2*	Consent of Manheim Auctions.	
24.1*	Power of Attorney (reference is made to the signature page)	
31.1*	Chief Executive Officer Section 302 Certification of Periodic Report, dated March 12, 2004.	
31.2*	Chief Financial Officer Section 302 Certification of Periodic Report, dated March 12, 2004	
32.1*	Chief Executive Officer and Chief Financial Officer Section 906 Certification of Periodic Report, dated March 12, 2004.	

* Filed herewith.

Exhibit 10.52

FIRST AMENDMENT

This First Amendment ("Amendment"), dated as of December 19, 2003 to that certain Employment Agreement ("Agreement") dated as of April 1, 2002, by and between Autobytel Inc., a corporation duly organized under the laws of the State of Delaware (the "Company"), with offices at 18872 MacArthur Boulevard, Irvine, California 92612-1400, and Ariel Amir (hereinafter referred to as the "Executive"), who resides at 619 Orchid Avenue, Corona del Mar, CA 92625.

WHEREAS, The parties desire to amend the Agreement.

NOW, THEREFORE, in consideration of the mutual covenants and agreements contained herein, the parties hereby agree as follows:

1. The last sentence of Section 6.5 of the Agreement is hereby amended by deleting the words "prior to the Termination Date" at the end thereof.
2. The other terms and conditions of the Agreement shall remain in effect and not be affected by this Amendment.
3. This Amendment shall be construed and enforced in accordance with the laws of the State of California, without giving effect to the principles of conflict of laws thereof.
4. This Amendment may be executed in any number of counterparts, each of which shall be deemed an original, but all of which shall constitute one instrument.

IN WITNESS WHEREOF, the parties have executed this Amendment as of the date first above written.

Autobytel Inc.

By: /s/ Jeffrey A. Schwartz

Jeffrey A. Schwartz
President and Chief Executive Officer

/s/ Ariel Amir

Ariel Amir

EXHIBIT 10.53
EXECUTION COPY

EMPLOYMENT AGREEMENT

This Employment Agreement ("Agreement") is made and entered into, at Irvine, California, as of the 4th day of December, 2003, by and between Autobytel Inc., a corporation duly organized under the laws of the State of Delaware (the "Company"), with offices at 18872 MacArthur Boulevard, Second Floor, Irvine, California 92612-1400, and Jeffrey A. Schwartz (hereinafter referred to as the "Executive"), who resides at 24950 Norman's Way, Calabasas, California 91302.

RECITALS

WHEREAS: The Company currently employs and desires to continue to employ the Executive as President and Chief Executive Officer of the Company.

WHEREAS: The Executive is currently employed and desires to continue to be so employed by the Company.

NOW, THEREFORE, in consideration of the mutual agreements contained herein, and with reference to the above recitals, the parties hereby agree as follows:

ARTICLE 1

TERM OF EMPLOYMENT

The Company hereby employs the Executive as President and Chief Executive Officer and the Executive hereby accepts such employment by the Company for a period (the "Term") commencing on December 4, 2003 (the "Commencement Date") and expiring on December 31, 2006 (the "Termination Date"). Notwithstanding the above, in the event of a Change of Control of the Company prior to the Termination Date while the Executive remains employed by the Company, the Term shall automatically extend for a period of two years commencing from the date of the Change of Control. For purposes of this Agreement "Change of Control" means the occurrence of any of the following: (i) the sale, lease, transfer, conveyance or other disposition (other than by way of merger or consolidation but not including any underwritten public offering registered under the Securities Act of 1933 ("Public Offering")) in one or a series of related transactions of all or substantially all of the assets of the Company taken as a whole to any individual, corporation, limited liability company, partnership or other entity (each a "Person") or group of Persons acting together (each a "Group") (other than any of the Company's wholly-owned subsidiaries or any Company employee pension or benefits plan), (ii) the adoption of a plan relating to the liquidation or dissolution of the Company, (iii) the consummation of any transactions (including any stock or other purchase, sale, acquisition, disposition, merger, consolidation or reorganization, but not including any Public Offering) the result of which is that any Person or Group (other than any of the Company's wholly-owned Subsidiaries, any underwriter temporarily holding securities pursuant to a Public Offering or any Company employee pension or benefits plan), becomes the beneficial owners of more than 40 percent (40%) of the aggregate voting power of all classes of stock of the Company having the right to elect directors under ordinary circumstances; or (iv) the first day on which a majority of the members of the board of directors of the Company (the "Board") are not individuals who were nominated for election or elected to the Board with the approval of two-thirds of the members of the Board just prior to the time of such nomination or election. During the Term and any extension thereof Company shall cause Executive to be elected to the Board of Directors of Company provided, however, upon the termination of employment, as provided for in Article 6 hereof, Executive shall immediately resign from the Board of Directors.

ARTICLE 2

DUTIES AND OBLIGATIONS

2.1 DUTIES. During the Term of this Agreement, the Executive shall: (i) devote his full business time, attention and energies to the business of the Company; (ii) shall use his best efforts to promote the interests of the Company; (iii) shall perform such functions and services as President and Chief Executive Officer as shall be directed by the Board; (iv) shall act in accordance with the policies and directives of the Company; and (v) shall report directly to the Board.

2.2 RESTRICTIONS. Except as provided in Section 9.2(i), the Executive covenants and agrees that, while actually employed by the Company, he shall not engage in any other business duties or pursuits whatsoever, or directly or indirectly render any services of a business or commercial nature to any other Person including, but not limited to, providing services to any business that is in competition with or similar in nature to the Company, whether for compensation or otherwise, without the prior written consent of the Board. However, the expenditure of reasonable amounts of time for educational, charitable, or professional activities shall not be deemed a breach of this Agreement, if those activities do not materially interfere with the services required under this Agreement, and such activities shall not require the prior written consent of the Board. Notwithstanding anything herein contained to the contrary, this Agreement shall not be construed to prohibit the Executive from making passive personal investments or conducting personal business, financial or legal affairs or other personal matters if those activities do not materially interfere with the services required hereunder. In addition to the foregoing, notwithstanding anything contained herein to the contrary, this Agreement shall not be construed to prohibit the Executive from serving as a director or board member of any other corporation, company, or other business entity, subject to the approval of the Board.

2.3 LOCATION. The principal location in which the Executive's services are to be performed will be the Irvine, California area. The Executive shall not be required to change such principal location in excess of fifty miles beyond the geographic limits of Irvine, California, without his consent.

ARTICLE 3

COMPENSATION

3.1 BASE SALARY. As compensation for the services to be rendered by the Executive pursuant to this Agreement, the Company hereby agrees to pay the Executive an annual salary (“Base Salary”) equal to at least Four Hundred Thousand Dollars ($400,000.00) during the Term, which rate shall be reviewed by the Board at least annually and may be increased (but not reduced) by the Board in such amounts as it deems appropriate. The Base Salary shall be paid in substantially equal bimonthly installments, in accordance with the normal payroll practices of the Company.

3.2 BONUSES. The Board may, in its sole discretion, provide the Executive with the opportunity to earn an annual bonus for each fiscal year of the Company, occurring in whole or in part during the Term. The annual bonus, if any, payable to the Executive shall be based on such criteria as may be established by the Board, in its sole discretion, from time to time, and shall reflect prevailing competitive practices for executives in similar positions; provided, however, that the Executive’s minimum annual bonus for a fiscal year shall be fifty percent (50%) of Executive’s Base Salary for such fiscal year, but only if the Company’s net income for such fiscal year is greater than the Company’s net income for the immediately preceding fiscal year. The Executive shall participate in all other short term and long term bonus or incentive plans or arrangements in which other similarly situated senior executives of the Company are eligible to participate from time to time. Any bonus shall be paid as promptly as practicable following the end of the preceding fiscal year. The provisions of this Section 3.2 shall be subject to the provisions of Section 3.4.

3.3 WITHHOLDING. The Company shall have the right to deduct or withhold from the compensation due to the Executive hereunder any and all sums required for federal income and employee social security taxes and all state or local income taxes now applicable or that may be enacted and become applicable during the Term.

3.4 RIGHT TO SEEK APPROVAL. The Company may provide for shareholder approval of any performance based compensation provided herein and may provide for the compensation committee to establish any applicable performance goals and determine whether such performance goals have been met.

ARTICLE 4

EMPLOYEE BENEFITS

4.1 BENEFITS. The Company agrees that the Executive shall be entitled to all ordinary and customary perquisites afforded generally to executive employees of the Company (except to the extent employee contribution may be required under the Company’s benefit plans as they may now or hereafter exist), which shall in no event be less than the benefits afforded to the Executive on the date hereof and generally to the other executive employees of the Company as of the date hereof or from time to time, but in any event shall include any qualified or non-qualified pension, profit sharing and savings plans, any death benefit and disability benefit plans, life insurance coverages, any medical, dental, health and welfare plans or insurance coverages and any stock purchase programs that are approved in writing by the Board, in its sole discretion, on terms and conditions at least as favorable as provided to the Executive on the date hereof and other senior executives of the Company as of the date hereof or from time to time.

4.2 LIFE INSURANCE. In addition to the above, the Company shall provide for the benefit of the Executive life insurance coverage in the amount of three times the Executive's Base Salary. Such coverage shall become effective as soon as practicable, but in any event within sixty (60) days, after such adjustment has been approved.

4.3 VACATION. The Executive shall be entitled to four (4) weeks of paid vacation for each full calendar year of his employment hereunder. To the extent accrued vacation time is unused in any given year, it may be carried over in accordance with the policies of the Company then in effect. Notwithstanding anything to the contrary, however, the Executive shall not be entitled to carry over any unused vacation for a period exceeding two (2) years provided, however, that any such unused vacation time which is not allowed to be carried over shall be cashed out by the Company according to its value at the time of such payment.

4.4 AUTOMOBILE. The Executive shall be entitled to a car, insurance and repair allowance of Two Thousand Dollars ($2,000.00) per month during the Term.

4.5 ESTATE PLAN ALLOWANCE. The Company shall provide Executive with an annual allowance of Five Thousand dollars ($5,000.00) to apply toward Executive's trust and estate planning needs. Executive may elect to request that the annual allowance be increased by an amount not exceeding Five Thousand Dollars ($5,000.00) to meet Executive's needs; provided, that the aggregate amount of such increases shall not exceed Five Thousand Dollars and such aggregate amount shall be deducted from the allowance for the last year of the Term.

ARTICLE 5

BUSINESS EXPENSES

5.1 EXPENSES. The Company shall pay or reimburse the Executive for all reasonable and authorized business expenses incurred by the Executive during the Term; such payment or reimbursement shall not be unreasonably withheld so long as said business expenses have been incurred for and promote the business of the Company and are normally and customarily incurred by employees in comparable positions at other comparable businesses in the same or similar market. Notwithstanding the above, the Company shall not pay or reimburse the Executive for the costs of any membership fees or dues for private clubs, civic organizations, and similar organizations or entities, unless such organizations and the fees and costs associated therewith have first been approved in writing by the Board, in its sole discretion.

5.2 TRAVEL COSTS. Subject to the provisions of this Section 5.2, the Company shall reimburse the Executive for expenses incurred with business-related travel. Executive agrees that when traveling by airline on Company business, he shall travel in the same manner (i.e., Business Class) as other Company executives who are accompanying him. In the event no other Company executives are accompanying the Executive, the Company shall pay or reimburse the Executive for the costs of First-Class business-related airline travel.

5.3 RECORDS. As a condition to reimbursement under this Article 5, the Executive shall furnish to the Company adequate records and other documentary evidence required by federal and state statutes and regulations for the substantiation of each expenditure. The Executive acknowledges and agrees that failure to furnish the required documentation may result in the Company denying all or part of the expense for which reimbursement is sought.

ARTICLE 6

TERMINATION OF EMPLOYMENT

6.1 TERMINATION FOR CAUSE. The Company may, during the Term, without notice to the Executive, terminate this Agreement and discharge the Executive for Cause, whereupon the respective rights and obligations of the parties hereunder shall terminate; provided, however, that the Company shall immediately pay the Executive any amount due and owing pursuant to Articles 3, 4, and 5, prorated to the date of termination. As used herein, the term “for Cause” shall refer to the termination of the Executive’s employment as a result of any one of the following: (i) any conviction of, or pleading of nolo contendere or guilty by, the Executive for any misdemeanor involving moral turpitude which if committed at the work place or in connection with employment would have constituted a material violation of Company policy or a felony; (ii) any willful misconduct of the Executive which has a materially injurious effect on the business or reputation of the Company; (iii) the gross dishonesty of the Executive which has a materially injurious effect on the business or reputation of the Company; or (iv) a material failure to consistently discharge his duties under this Agreement which failure continues for thirty (30) days following written notice from the Company detailing the area or areas of such failure other than such failure resulting from his Disability as defined below. For purposes of this Section 6.1, no act or failure to act, on the part of the Executive, shall be considered “willful” if it is done, or omitted to be done, by the Executive in good faith or with reasonable belief that his action or omission was in the best interest of the Company. The Executive shall have the opportunity to cure any such acts or omissions (other than item (i) above) within thirty (30) days of the Executive’s receipt of a notice from the Company finding that, in the good faith opinion of the Company, the Executive is guilty of acts or omissions constituting “Cause”.

6.2 TERMINATION WITHOUT CAUSE. Anything in this Agreement to the contrary notwithstanding, the Company shall have the right, at any time during the Term in its sole discretion, to terminate this Agreement and discharge the Executive without

Cause upon not less than thirty (30) days prior written notice to the Executive. The term "Termination Without Cause" shall mean the termination of the Executive's employment during the Term by the Company for any reason other than those expressly set forth in Section 6.1, or no reason at all, and shall also mean the Executive's decision to terminate this Agreement and his employment by reason of any act, occurrence, decision or omission by the Company or the Board that: (A) materially modifies, reduces, changes, or restricts the Executive's salary, bonus opportunities, options or other compensation benefits or perquisites, or the Executive's authority, functions, or duties as President and Chief Executive Officer and/or his position as a member of the Board; (B) deprives the Executive of his title(s) and/or position(s) of President or Chief Executive Officer or member of the Board; (C) relocates the Executive without his consent from the Company's offices at 18872 MacArthur Boulevard, Irvine, California 92612-1400 to any other location in excess of fifty (50) miles beyond the geographic limits of Irvine, California, or (D) involves or results in any failure by the Company to comply with any provision of this Agreement, other than an isolated, insubstantial and inadvertent failure not occurring in bad faith and which is remedied by the Company promptly after receipt of notice thereof given by the Executive (each a "Good Reason"). In the event the Company or the Executive shall exercise the termination right granted pursuant to this Section 6.2, then within thirty (30) days of notice of termination to or from the Executive (as the case may be): (i) in the event such termination right is not exercised on or following a Change of Control (as defined in Article 1 above), the Company shall pay to the Executive, in each of thirty-six (36) months following the exercise of such termination right, an amount equal to the sum of (1) the highest rate of monthly Base Salary in effect during the Term plus (2) one-twelfth of the average annual bonus earned by the Executive for the two (2) fiscal years immediately preceding the fiscal year in which notice of termination is given, provided, however, that if a Change of Control occurs within such thirty-six (36) month period, all remaining payments then due under this clause (i) shall be paid in a lump sum within ten days following occurrence of such Change of Control; or (ii) in the event such termination right is exercised on or following a Change of Control, the Company shall pay to the Executive a single lump sum payment equal to three times the sum of (1) the highest rate of annual Base Salary in effect during the Term plus (2) the average annual bonus earned by the Executive for the two (2) fiscal years immediately preceding the fiscal year in which notice of termination is given (the sum of (1) and (2) being referred to hereafter as the Executive's "Severance Compensation"). The Company also shall (i) for a thirty-six (36) month period immediately following the termination of employment, continue to provide to the Executive and his beneficiaries, at its sole cost, the insurance coverages referred to in Section 4, (ii) at the same time annual bonuses for the year of termination are paid to other senior executives, pay to the Executive an annual bonus for such year, which bonus shall be pro rated to reflect the Executive's period of employment during such year through the date of termination and (iii) within thirty (30) days of notice of termination to or from the Executive, pay to the Executive in a single lump-sum payment the aggregate cost of the benefits (other than insurance coverages) under Section 4, in each case to the extent he would have received such coverages and benefits had he remained employed by the Company for thirty-six (36) months following such termination. The payments, coverages and benefits referred to in this Section shall be provided only if the Executive has executed (and not revoked) a Release in favor of the Company (which Release shall be in a form provided by the Company).

6.3 TERMINATION FOR DEATH OR DISABILITY. The Executive's employment shall terminate automatically upon the Executive's death during the Term. If the Company determines in good faith that the Disability (as defined below) of the Executive has occurred during the Term, it shall give written notice to the Executive of its intention to terminate his employment. In such event, the Executive's employment with the Company shall terminate effective on the 30th day after receipt of such notice by the Executive, provided that, within the thirty (30) days after such receipt, the Executive shall not have returned to full-time performance of his duties.

For purposes of this Agreement, "Disability" shall mean the inability of the Executive to perform his duties to the Company on account of physical or mental illness or incapacity for a period of one hundred and eighty (180) consecutive calendar days, or for a period of two hundred ten (210) calendar days, whether or not consecutive, during any three hundred sixty-five (365) day period. The Company hereby agrees that at all times prior to the Termination Date or any extension thereof, the Company shall provide Executive with disability insurance coverage which is substantially comparable to the coverage the Company provides to Executive on the date hereof.

6.4 TERMINATION WITHOUT GOOD REASON. Anything in this Agreement to the contrary notwithstanding, the Executive shall have the right, at any time during the Term in his sole discretion, to terminate this Agreement and his employment without Good Reason upon not less than thirty (30) days prior written notice to the Company. Except as provided in Section 6.5 hereof, in the event the Executive voluntarily terminates his employment hereunder other than for Good Reason, the respective rights and obligations of the parties hereunder shall terminate; provided, however, that the Company shall immediately pay the Executive any amount due and owing pursuant to Articles 3, 4 and 5, prorated to the date of termination.

6.5 ELECTION NOT TO EXTEND OR RENEW. If, prior to the end of the Term, the Company and the Executive have failed to execute a new agreement concerning Executive's continued employment (which may include a renewal or extension of this Agreement), then, subject to Executive's execution of (and failure to revoke) a Release in favor of the Company (which Release shall be in a form provided by the Company), the Executive may voluntarily terminate his employment as of the Termination Date, in which case the Company shall pay to Executive an aggregate amount equal to the 100 percent of Executive's Severance Compensation, such payments to be made in twelve (12) equal monthly installments commencing with the month following the Termination Date.

6.6 OPTIONS. Upon the Executive's termination under this Article 6, the Company's obligations with respect to any stock option to purchase shares of the Company's common stock granted to the Executive shall be determined by the terms and conditions of such option as set forth in the Executive's written option agreement regarding such option, subject, however, to the provisions of this Section 6.6. The parties hereto expressly acknowledge that, except as provided in this Section 6.6, any and all options previously granted to Executive by the Company shall remain in full force and effect in accordance with their respective terms. Without limitation, such options include those Options referenced in Article 10.1 of the Employment Agreement between Executive and Company dated August 14, 2001 ("Initial Agreement"), the options referenced in Exhibit A to the Initial Agreement and all stock options which have been granted to Executive under either the 1999 or the 2000 Stock Option Plans and all Employee Stock Option Agreements dated August 14, 2001, December 17, 2001, and July 22, 2003, or as otherwise may be applicable. Notwithstanding anything to the contrary contained in any stock option agreement, upon any termination of Executive's employment (i) pursuant to Section 6.5 hereof or (ii) following the later of the expiration of the Term of this Agreement (including any extensions thereof) or the term of any successor agreement hereto, all then unvested stock options held by Executive shall be immediately cancelled and forfeited; provided, however, that if such termination would have constituted a Termination Without Cause (had such termination occurred during the Term), then such unvested stock options shall remain outstanding for a period of six months following such termination solely for purposes of becoming fully vested and exercisable should a Change of Control occur during such six-month period (i.e., should a Change of Control not occur during such six-month period, such unvested stock options shall be cancelled and forfeited effective as of the date of Executive's termination of employment) and in the event a Change of Control occurs during such six-month period, such options shall remain exercisable until the second anniversary of the date of such termination (but in no event beyond the tenth anniversary of the date of grant of such options). The provisions of this Section 6.6 shall survive the termination of this Agreement.

ARTICLE 7

PARACHUTE TAX INDEMNITY

7.1 GROSS-UP PAYMENT.

(a) If it shall be determined that any amount paid, distributed or treated as paid or distributed by the Company to or for the benefit of the Executive (whether paid or payable or distributed or distributable pursuant to the terms of this Agreement, any stock option agreement between Executive and the Company or otherwise, but determined without regard to any additional payments required under this Article 7) (a "Payment") would be subject to the excise tax imposed by Section 4999 of the Internal Revenue Code of 1986, as amended (the "Code") or any interest or penalties are incurred by the Executive with respect to such excise tax (such excise tax, together with any such interest and penalties, being hereinafter collectively referred to as the "Excise Tax"), then the Executive shall be entitled to receive an additional payment (a "Gross-Up Payment") in an amount such that after payment by the Executive of all federal, state and local taxes (including any interest or penalties imposed with respect to such taxes), including without limitation, any income taxes (including any interest or penalties imposed with respect thereto) and Excise Tax imposed on the Gross-up

Payment, the Executive retains an amount of the Gross-Up Payment equal to the Excise Tax imposed upon the Payments.

(b) The determinations of whether and when a Gross-Up Payment is required under this Article 7 shall be made by independent tax counsel (the "Tax Counsel") based on its good faith interpretation of applicable law. The amount of such Gross-Up Payment and the valuation assumptions to be utilized in arriving at such determination shall be made by an independent nationally recognized accounting firm (the "Accounting Firm") which shall provide detailed supporting calculations both to the Company and the Executive within 15 business days of the receipt of notice from the Executive that there has been a Payment, or such earlier time as is requested by the Company. The Tax Counsel and Accounting Firm shall be appointed by the Company after consultation in good faith with the Executive and subject to the approval of the Executive (which approval shall not be unreasonably withheld). All fees and expenses of any Tax Counsels and Accounting Firms referred to above shall be borne by the Company. Any Gross-Up Payment, as determined pursuant to this Article 7, shall be paid by the Company to the Executive within ten (10) days of the receipt of the Accounting Firm's determination. Any determinations by the Tax Counsel and Accounting Firm shall be binding upon the Company and the Executive, provided, however, if it is later determined that there has been an underpayment of Excise Tax and that Executive is required to make an additional Excise Tax payment(s) on any Payment or Gross-Up Payment, the Company shall provide a similar full gross-up on such additional liability.

(c) For purposes of any determinations made by any Tax Counsel and Accounting Firm acting under Section 7.1(b):

(i) All Payments and Gross-Up Payments with respect to Executive shall be deemed to be "parachute Payments" under Section 280G(b) (2) of the Code and to be "excess parachute payments" under Section 280G(b) (1) of the Code that are fully subject to the Excise Tax under Section 4999 of the Code, except to the extent (if any) that such Tax Counsel determines in writing in good faith that a Payment in whole or in part does not constitute a "parachute payment" or otherwise is not subject to Excise Tax;

(ii) The value of any non-cash benefits or deferred or delayed payments or benefits shall be determined in a manner consistent with the principles of Section 280G of the Code; and

(iii) Executive shall be deemed to pay federal, state and local income taxes at the actual maximum marginal rate applicable to individuals in the calendar year in which the Gross-Up Payment is made, net of any applicable reduction in federal income taxes for any state and local taxes paid on the amounts in question.

7.2 CLAIMS AND PROCEEDINGS. The Executive shall notify the Company in writing of any Excise Tax claim by the Internal Revenue Service (or any other state or local taxing authority) that, if successful, would require the payment by the Company of a Gross-Up Payment. Such notification shall be given as soon as practicable but no later than twenty (20) business days after the Executive is informed in writing of such claim and shall apprise the Company of the nature of such claim and the date on which such claim is to be paid. The Executive shall not pay such claim prior to the expiration of the 30-day period following the date on which it gives such notice to the Company (or such shorter period ending on the date that any payment of taxes with respect to such claim is due). If the Company notifies the Executive in writing prior to the expiration of such period that it desires to contest such Excise Tax claim, the Executive shall: (i) give the Company any information reasonably requested by the Company relating to such claim; (ii) take such action in connection with contesting such claim as the Company shall reasonably request in writing from time to time, including, without limitation, accepting legal representation with respect to such claim by an attorney reasonably selected by the Company after consultation in good faith with Executive and subject to approval by Executive (which approval shall not be unreasonably withheld) under the circumstances set forth in Section 7.1; (iii) cooperate with the Company in good faith in order to effectively contest such claim; and (iv) permit the Company to participate in any proceeding relating to such claim; provided, however, that the Company shall bear and pay directly all costs and expenses (including additional interest and penalties) incurred in connection with such contest and shall indemnify and hold the Executive harmless, on an after-tax basis, from any Excise Tax or income tax (including interest and penalties with respect thereto) imposed as a result of such representation and payment of costs and expense. Without limitation of the foregoing provisions of this Article 7, the Company shall control the Excise Tax portion of any proceedings taken in connection with such contest and, at its sole option, may pursue or forego any and all administrative appeals, proceedings, hearings and conferences with the taxing authority in respect of such Excise Tax claim and may, at its sole option, either direct the Executive to pay the tax claimed and sue for a refund or contest the Excise Tax claim in any permissible manner, and the Executive agrees to prosecute such contest to a determination before any administrative tribunal, in a court of initial jurisdiction and in one or more appellate courts, as the Company shall determine. If the Company directs the Executive to pay such Excise Tax claim and sue for a refund, the Company shall advance the amount of such payment to the Executive, on an interest-free basis, and shall indemnify and hold the Executive harmless, on an after-tax basis, from any Excise Tax or income tax (including interest and penalties) imposed with respect to such advance or with respect to any imputed income with respect to such advance; and provided, however, that any Company-directed extension of the statute of limitations relating to payment of taxes for the Executive's taxable year with respect to which such contested Excise Tax amount is claimed to be due shall be effective only if it can be and is limited to the contested Excise Tax liability.

7.3 REFUNDS. If, after the Executive's receipt of an amount advanced by the Company pursuant to this Article 7 for payment of Excise Taxes, the Executive files an Excise Tax refund claim and receives any refund with respect to such claim, the Executive shall (subject to the Company's complying with the requirements of this Article 7) except as provided below, promptly pay to the Company the amount of any such refund of Excise Tax (together with any interest paid or credited thereon, but after any and all taxes applicable thereto), plus the amount (after any and all taxes applicable-thereto) of the refund (if any is applied for and received) of any income tax paid by Executive with respect to and as a result of his prior receipt of any previously paid Gross-Up Payment indemnifying Executive with respect to any such Excise Tax later so refunded. In the event Executive files for a refund of the Excise Tax and such request would, if successful, require Executive to refund any amount to the Company pursuant to this provision, then Executive shall be required to seek a refund of the Income Tax portion of any corresponding Gross-Up Payment so long as such refund request would not have a material adverse effect on Executive (which determination shall be made by independent tax counsel selected by Executive after good faith consultation with the Company and subject to approval of the Company, which approval shall not be unreasonably withheld). If, after the Executive's receipt of an amount advanced by the Company pursuant to this Article 7, a determination is made that the Executive shall not be entitled to any refund with respect to such claim and the Company does not notify the Executive in writing of its intent to contest such denial of refund prior to the expiration of thirty (30) days after such determination, then such advance shall be forgiven and shall not be required to be repaid and the amount of such advance shall offset, to the extent thereof, the amount of the Gross-Up Payment required to be paid.

ARTICLE 8

NO MITIGATION OR OFFSET; INSURANCE

8.1 NO MITIGATION OR OFFSET. The Executive shall not be required to seek other employment or to reduce any severance benefit payable to him under Article 6, and no severance benefit shall be reduced on account of any compensation received by the Executive from any other employment or source except that the Company's obligation to provide insurance shall be reduced to the extent that reasonably comparable insurance is provided by an employer to Executive and his dependents, without further cost to Executive than the cost Executive bears for such Company-provided insurance on the date of termination as a result of any subsequent employment of Executive. The Company's obligation to pay severance benefits under this Agreement shall not be reduced by any amount owed by the Executive to the Company.

8.2 INDEMNIFICATION, INSURANCE.

(a) If the Executive is a party or is threatened to be made a party to any threatened, pending, or completed claim, action, suit or proceeding, or appeal therefrom, whether civil, criminal, administrative, investigative or otherwise, because he is or was an officer, director or employee of the Company, or at the express request of the

Company is or was serving, for purposes reasonably understood by him to be for the Company, as a director, officer, partner, employee, agent or trustee (or in any other capacity of an association, corporation, general or limited partnership, joint venture, trust or other entity), the Company shall indemnify the Executive against any reasonable expenses (including attorneys' fees and disbursements), and any judgments, fines and amounts paid in settlement incurred by him in connection with such claim, action, suit, proceeding or appeal therefrom to the extent such expenses, judgments, fines and amounts paid in settlement were not advanced by the Company on his behalf pursuant to subsection (b), to the fullest extent permitted under Delaware law. The Company shall provide Executive (with respect to both his status as an employee and director of the Company) with D&O insurance coverage at least as favorable to Executive as what the Company maintains as of the date hereof or such greater coverage as the Company may maintain from time to time thereafter; provided, however, that in no event shall the Company be required to spend a greater amount on such coverage than it does as of the Commencement Date. In addition to his rights hereunder, if Executive becomes a Director of the Company he shall receive the benefit of any and all rights of indemnity provided to any Company Director pursuant to Company practice, policy, agreement, Bylaws, Certificate of Incorporation or otherwise.

(b) Provided that the Executive shall first have agreed to in writing to repay such amounts advanced if it is determined by an arbitrator or court of competent jurisdiction that the Executive was not entitled to indemnification, upon the written request of the Executive specifying the amount of a requested advance and the intended use thereof, the Company shall indemnify Executive for his expenses (including attorneys' fees and disbursements), judgments, fines and amounts paid in settlement incurred by him in connection with such claim, action, suit, proceeding or appeal whether civil, criminal, administrative, investigative or otherwise, in advance of the final disposition of any such claim, action, suit, proceeding or appeal therefrom to the fullest extent permitted under Delaware law.

ARTICLE 9

RESTRICTIVE COVENANTS

9.1 COVENANT NOT TO DISCLOSE CONFIDENTIAL INFORMATION. During the Term and following termination of this Agreement, the Executive agrees that, without the Company's prior written consent, he will not use or disclose to any person, firm, association, partnership, entity or corporation, any confidential information concerning: (i) the business, operations or internal structure of the Company or any division or part thereof; (ii) the customers of the Company or any division or part thereof; (iii) the financial condition of the Company or any division or part thereof; and (iv) other confidential information pertaining to the Company or any division or part thereof, including without limitation, trade secrets, technical data, marketing analyses and studies, operating procedures, customer and/or inventory lists, or the existence or nature of any of the Company's agreements or agreements of any division thereof (other than this Agreement and any other option or compensation related agreements involving, the

Executive); provided, however, that the Executive shall be entitled to disclose such information: (i) to the extent the same shall have otherwise become publicly available (unless made publicly available by the Executive); (ii) during, the course of or in connection with any actual or potential litigation, arbitration, or other proceeding based upon or in connection with the subject matter of this Agreement; (iii) as may be necessary or appropriate to conduct his duties hereunder, provided the Executive is acting, in good faith and in the best interest of the Company; (iv) as may be required by law or judicial process or (v) if the information is generally known to personnel in Executive's trade or business.

9.2 COVENANT NOT TO COMPETE. The Executive acknowledges that he has established and will continue to establish favorable relations with the customers, clients and accounts of the Company and will have access to trade secrets of the Company. Therefore, in consideration of such relations and to further protect trade secrets, directly or indirectly, of the Company, the Executive agrees that at all times during his employment with the Company through the date of termination of Executive's employment and, with respect to clause (iii) below, for a period of one (1) year from the date of termination of the Executive, the Executive will not, directly or indirectly, without the express written consent of the Board:

(i) own or have any interest in or act as an officer, director, partner, principal, employee, agent, representative, consultant or independent contractor of, or in any way assist in, any business which is engaged, directly or indirectly, in any business competitive with the Company in those automotive markets and/or automotive products lines in which the Company competes within the United States at any time during the Term, or become associated with or render services to any person, firm, corporation or other entity so engaged ("Competitive Businesses"); provided, however, that the Executive may own without the express written consent of the Company not more than two percent (2%) of the issued and outstanding securities of any company or enterprise whose securities are listed on a national securities exchange or actively traded in the over the counter market;

(ii) solicit clients, customers or accounts of the Company for, on behalf of or otherwise related to any such Competitive Businesses or any products related thereto; or

(iii) solicit any person who is or shall be in the employ or service of the Company to leave such employ or service for employment with the Executive or an affiliate of the Executive.

Notwithstanding the foregoing, if any court determines that the covenant not to compete, or any part thereof, is unenforceable because of the duration of such provision or the geographic area or scope covered thereby, such court shall have the power to reduce the duration, area or scope of such provision to the extent necessary to make the provision enforceable and, in its reduced form, such provision shall then be enforceable and shall be enforced. The Company shall pay and be solely responsible for any attorney's fees, expenses, costs and court or arbitration costs incurred by Executive in any matter or dispute between Executive and the Company which pertains to this Article 9 if the Executive prevails in the contest in whole or in part.

9.3 SPECIFIC PERFORMANCE. Recognizing that irreparable damage will result to the Company in the event of the breach or threatened breach of any of the foregoing, covenants and assurances by the Executive contained in Sections 9.1 and 9.2, and that the Company's remedies at law for any such breach or threatened breach may be inadequate, the Company and its successors and assigns, in addition to such other remedies which may be available to them, shall, upon making a sufficient showing under applicable law, be entitled to an injunction to be issued by any court of competent jurisdiction ordering compliance with this Agreement or enjoining and restraining the Executive, and each and every person, firm or company acting in concert or participation with him, from the continuation of such breach. The obligations of the Executive and rights of the Company pursuant to this Article 9 shall survive the termination of this Agreement. The covenants and obligations of the Executive set forth in this Article 9 are in addition to and not in lieu of or exclusive of any other obligations and duties the Executive owes to the Company, whether expressed or implied in fact or law.

ARTICLE 10

GENERAL PROVISIONS

10.1 FINAL AGREEMENT. This Agreement is intended to be the Final, complete and exclusive agreement between the parties relating to the employment of the Executive by the Company and all prior or contemporaneous understandings, representations and statements, oral or written, are merged herein. Except with regard to (a) the written agreements governing the terms of stock options to purchase shares of the Company's common stock granted to the Executive and (b) any Autoweb.com, Inc. options to purchase common stock held by Executive, which will be allowed to vest according to their terms, including the terms of the Autoweb.com, Inc. Change of Control Benefit Plan and the certain letter to Executive dated January 16, 2001, pertaining thereto, this Agreement supersedes all of Executive's compensation agreements with Autoweb.com, Inc. and Executive expressly acknowledges that he is not and will not be entitled to any severance payments under any Autoweb.com, Inc. agreement or change of control plan. 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.

10.2 NO WAIVER. No waiver, by conduct or otherwise, by any party of any term, provision, or condition of this Agreement, shall be deemed or construed as a further or continuing waiver of any such term, provision, or condition nor as a waiver of a similar or dissimilar condition or provision at the same time or at any prior or subsequent time.

2.3 RIGHTS CUMULATIVE. The rights under this Agreement, or by law or equity, shall be cumulative and may be exercised at any time and from time to time. No failure by any party to exercise, and no delay in exercising, any rights shall be construed or deemed to be a waiver thereof, nor shall any single or partial exercise by any party preclude any other or future exercise thereof or the exercise of any other right.

2.4 NOTICE. Except as otherwise provided in this Agreement, any notice, approval, consent, waiver or other communication required or permitted to be given or to be served upon any person in connection with this Agreement shall be in writing. Such notice shall be personally served, sent by telegram, tested telex, fax or cable, or sent prepaid by either registered or certified mail with return receipt requested or Federal Express and shall be deemed given (i) if personally served or by Federal Express, when delivered to the person to whom such notice is addressed, (ii) if given by telegram, telex, fax or cable, when sent, or (iii) if given by mail, two (2) business days following deposit in the United States mail. Any notice given by telegram, telex, fax or cable shall be confirmed in writing), by overnight mail or Federal Express within forty-eight (48) hours after being sent. Such notices shall be addressed to the party to whom such notice is to be given at the party's address set forth below or as such party shall otherwise direct.

If to the Company:	Autobytel Inc. 18872 MacArthur Boulevard Irvine, California 92612-1400 Facsimile: (949) 862-1323 Attn: General Counsel
If to the Executive:	Jeffery Schwartz 24950 Normans Way Calabasas, California 91302
With a copy to:	Larry C. Drapkin Mitchell, Silberberg & Knupp 113770 Olympic Boulevard Los Angeles, California 90064

2.5 SUCCESSORS. The terms and conditions of this Agreement shall inure to the benefit of and be binding upon the successors and assigns of the parties hereto.

2.6 GOVERNING LAW. This Agreement shall be construed and enforced in accordance with the laws of the State of California, without giving effect to the principles of conflict of laws thereof, except that the indemnification provisions of Section 8.2 shall be governed by Delaware law without regard to conflict of law principles.

10.7 COUNTERPARTS. This Agreement may be executed in any number of counterparts, each of which shall be deemed an original, but all of which shall constitute one instrument.

10.8 SEVERABILITY. The provisions of this Agreement are agreed to be severable, and if any provision, or application thereof, is held invalid or unenforceable, then such holding shall not affect any other provision or application.

10.9 CONSTRUCTION. As used herein, and as the circumstances require, the plural term shall include the singular, the singular shall include the plural, the neuter term shall include the masculine and feminine genders, and the feminine term shall include the neuter and the masculine genders.

10.10 ARBITRATION. Except as otherwise provided in Section 9.3 hereof, any controversy or claim arising out of, or related to, this Agreement, or the breach thereof, shall be settled by binding arbitration in the City of Irvine, California, in accordance with the employment arbitration rules then in effect of the American Arbitration Association, and the arbitrator's decision shall be binding and final, and judgment upon the award rendered may be entered in any court having jurisdiction thereof. Each party hereto shall pay its or their own expenses incident to the negotiation, preparation and resolution of any controversy or claim arising out of, or related to, this Agreement, or the breach thereof; provided, however, the Company shall pay and be solely responsible for any attorneys' fees and expenses and court or arbitration costs incurred by the Executive as a result of a claim brought by either the Executive or the Company alleging that the other party breached or otherwise failed to perform this Agreement or any provision hereof to be performed by the other party if the Executive prevails in the contest in whole or in part.

IN WITNESS WHEREOF, the parties have executed this Agreement as of the date first above written.

Autobytel Inc.

By: /s/ Michael Fuchs

Name: Michael Fuchs
Title: Chairman

/s/ Jeffrey A. Schwartz

Jeffrey A. Schwartz

Exhibit 21.1

Subsidiaries of Autobytel Inc.

Autobytel Services Corporation, a Delaware corporation.

Auto-By-Tel Acceptance Corporation, a Delaware corporation.

Auto-By-Tel Insurance Services, Inc., a Delaware corporation.

Autobytel Lonestar Corp., a Delaware corporation.

Autobytel Acquisition Corp., a California corporation

e-autosdirect.com inc., a Delaware corporation, doing business as "autobyteldirect.com."

Autobytel Bedrock Corp., a Delaware corporation.

A.I.N. Corporation, a California corporation, doing business as "CarSmart.com."

Autobytel Information Services Inc., a Delaware corporation.

Autoweb.com, Inc., a Delaware corporation.

AVV, Inc., a Delaware corporation.

Exhibit 23.1

CONSENT OF INDEPENDENT ACCOUNTANTS

We hereby consent to the incorporation by reference in the Registration Statements on Form S-3 (No. 333-107152) and on Forms S-8 (No. 333-107525, No. 333-90045, No. 333-77943, No. 333-33038, No. 333-39396, No. 333-67692 and No. 333-70334) of Autobytel Inc. of our report dated March 10, 2004 relating to the consolidated financial statements and financial statement schedule as of December 31, 2003 and 2002 and for each of the two years in the period ended December 31, 2003, which appears in this Form 10-K.

PricewaterhouseCoopers LLP

Orange County, California
March 10, 2004

Exhibit 23.2

MANHEIM
AUCTIONS

February 19, 2004

Ariel Amir
Executive Vice President and General Counsel
Autobytel Inc.
18872 MacArthur Boulevard
Irvine, CA 92612-1400

Dear Mr. Amir:

This letter will serve as permission to use our statistics, with proper identification, in your Annual Report on Form 10-K for the fiscal year ended December 31, 2003.

As reflected in the attached, the size of the U.S. automotive market (new and used) in 2002 and 2003 was $721 billion and $750 billion, respectively.

The "attached" is Manheim's 2004 Used Car Market Report.

Sincerely,

/s/ George Largay

George Largay
Director of Communications
678-645-2127
678-645-3001 Fax

6205 PEACHTREE DUNWOODY RD.
ATLANTA, GEORGIA 30328
800-777-2053
http://www.manheim.com

Exhibit 31.1

CERTIFICATION

I, Jeffrey A. Schwartz, President and Chief Executive Officer of Autobytel Inc., certify that:

1. I have reviewed this annual report on Form 10-K of Autobytel 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)) 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) 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

   c) 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.

/s/ JEFFREY A. SCHWARTZ

Jeffrey A. Schwartz,
President and Chief Executive Officer

Date: March 12, 2004

Exhibit 31.2

CERTIFICATION

I, Hoshi Printer, Executive Vice President and Chief Financial Officer of Autobytel Inc., certify that:

1. I have reviewed this annual report on Form 10-K of Autobytel 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)) 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) 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

   c) 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.

/s/ HOSHI PRINTER

Hoshi Printer,
Executive Vice President and Chief Financial Officer

Date: March 12, 2004

Exhibit 32.1

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 Annual Report of Autobytel Inc. (the "*Company*") on Form 10-K for the period ended December 31, 2003 (the "*Report*"), we, Jeffrey A. Schwartz, Chief Executive Officer of the Company, and Hoshi Printer, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. ss. 1350, as adopted pursuant to ss. 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 A. SCHWARTZ

Jeffrey A. Schwartz
Chief Executive Officer
March 12, 2004

/s/ HOSHI PRINTER

Hoshi Printer
Chief Financial Officer
March 12, 2004

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.