AS FILED WITH THE SECURITIES AND EXCHANGE COMMISSION ON APRIL 1, 1997

REGISTRATION NO. 333-20831

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

AMENDMENT NO. 5 TO FORM S-1 REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933

AUTO-BY-TEL CORPORATION
(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

DELAWARE	7375	33-0711569
(STATE OR OTHER JURISDICTION OF INCORPORATION OR ORGANIZATION)	(PRIMARY STANDARD INDUSTRIAL CLASSIFICATION CODE NUMBER)	(I.R.S. EMPLOYER IDENTIFICATION NUMBER)

AUTO-BY-TEL CORPORATION
18872 MACARTHUR BOULEVARD, SUITE 200
IRVINE, CALIFORNIA 92612-1400
(714) 225-4500
(ADDRESS AND TELEPHONE NUMBER OF REGISTRANT'S PRINCIPAL EXECUTIVE OFFICES)

MARK W. LORIMER, ESQ.
VICE PRESIDENT, GENERAL COUNSEL AND SECRETARY
AUTO-BY-TEL CORPORATION
18872 MACARTHUR BOULEVARD, SUITE 200
IRVINE, CALIFORNIA 92612-1400
(714) 225-4500
(NAME, ADDRESS AND TELEPHONE NUMBER OF AGENT FOR SERVICE OF PROCESS)

COPIES TO:

RICHARD J. CHAR, ESQ.
RICHARD J. HART, ESQ.
DAVID M. CAMPBELL, ESQ.
WILSON SONSINI GOODRICH & ROSATI
PROFESSIONAL CORPORATION
650 PAGE MILL ROAD
PALO ALTO, CALIFORNIA 94304
(415) 493-9300

ROD A. GUERRA, JR., ESQ.
SKADDEN, ARPS, SLATE,
MEAGHER & FLOM LLP
300 SOUTH GRAND AVENUE
LOS ANGELES, CALIFORNIA 90071
(213) 687-5000

APPROXIMATE DATE OF COMMENCEMENT OF PROPOSED SALE TO THE PUBLIC:
As soon as practicable after the effective date of this Registration Statement.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box. [_]

If this form is filed to register additional securities for an offering

pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. [_]

If this form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. [_]

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box. [_]

THE REGISTRANT HEREBY AMENDS THIS REGISTRATION STATEMENT ON SUCH DATE OR DATES AS MAY BE NECESSARY TO DELAY ITS EFFECTIVE DATE UNTIL THE REGISTRANT SHALL FILE A FURTHER AMENDMENT WHICH SPECIFICALLY STATES THAT THIS REGISTRATION STATEMENT SHALL THEREAFTER BECOME EFFECTIVE IN ACCORDANCE WITH SECTION 8(A) OF THE SECURITIES ACT OF 1933 OR UNTIL THE REGISTRATION STATEMENT SHALL BECOME EFFECTIVE ON SUCH DATE AS THE COMMISSION, ACTING PURSUANT TO SAID SECTION 8(A), MAY DETERMINE.

THE INFORMATION CONTAINED HEREIN IS SUBJECT TO COMPLETION OR AMENDMENT. A REGISTRATION STATEMENT RELATING TO THE SECURITIES DESCRIBED HEREIN HAS BEEN FILED WITH THE SECURITIES AND EXCHANGE COMMISSION. THESE SECURITIES MAY NOT BE SOLD NOR MAY OFFERS TO BUY BE ACCEPTED PRIOR TO THE TIME THE REGISTRATION STATEMENT BECOMES EFFECTIVE. THIS PROSPECTUS SHALL NOT CONSTITUTE AN OFFER TO SELL OR THE SOLICITATION OF AN OFFER TO BUY, NOR SHALL THERE BE ANY SALE OF THESE SECURITIES IN ANY STATE IN WHICH SUCH OFFER, SOLICITATION OR SALE WOULD BE UNLAWFUL PRIOR TO REGISTRATION OR QUALIFICATION UNDER THE SECURITIES LAWS OF ANY SUCH STATE.

SUBJECT TO COMPLETION, DATED MARCH 7, 1997

4,000,000 SHARES

[LOGO OF AUTO-BY-TEL]

AUTO-BY-TEL CORPORATION
COMMON STOCK

Of the 4,000,000 shares of Common Stock offered hereby (the "Offering"), 3,600,000 are being sold by Auto-By-Tel Corporation ("Auto-By-Tel" or the "Company") and 400,000 are being sold by the Selling Stockholder. The Company will not receive any of the proceeds from the sale of shares by the Selling Stockholder. See "Principal and Selling Stockholders." Prior to the Offering, there has been no public market for the Common Stock. It is currently estimated that the initial public offering price will be between $9.50 and $11.00 per share. See "Underwriting" for a discussion of the factors to be considered in determining the initial public offering price. The Company's Common Stock has been approved for listing on the Nasdaq National Market under the symbol "ABTL."

THE COMMON STOCK OFFERED HEREBY INVOLVES A HIGH DEGREE OF RISK. SEE "RISK FACTORS" COMMENCING ON PAGE 6 FOR A DISCUSSION OF CERTAIN FACTORS THAT SHOULD BE CONSIDERED BY PROSPECTIVE PURCHASERS OF THE SHARES OF COMMON STOCK OFFERED HEREBY.

THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION NOR HAS THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

	Price to Public	Underwriting Discount(1)	Proceeds to Company(2)	Proceeds to Selling Stockholder
Per Share..........................	$	$	$	$
Total(3)...........................	$	$	$	$

(1) See "Underwriting" for information concerning indemnification of the Underwriters and other matters.

(2) Before deducting expenses payable by the Company estimated at $1,300,000.

(3) The Company has granted to the Underwriters a 30-day option to purchase up to 600,000 additional shares of Common Stock solely to cover over-allotments, if any. If the Underwriters exercise this option in full, the Price to Public will total $, the Underwriting Discount will total $ and the Proceeds to Company will total $. See "Underwriting."

The shares of Common Stock are offered by the several Underwriters named herein, subject to receipt and acceptance by them and subject to their right to reject any order in whole or in part. It is expected that delivery of the certificates representing such shares will be made against payment therefor at the office of Montgomery Securities on or about   , 1997.

MONTGOMERY SECURITIES

COWEN & COMPANY

ROBERTSON, STEPHENS & COMPANY

, 1997

The top half of this page contains a picture showing the first page of the Company's Web site.

The Company intends to distribute to its stockholders annual reports containing financial statements audited by its independent accountants and copies of quarterly earnings reports for the first three quarters of each fiscal year containing unaudited financial information.

Auto-By-Tel is a registered service mark of the Company. Auto-By-Tel, ABT Mobilist and the Company's logo are trademarks of the Company. This Prospectus also includes trademarks and tradenames of companies other than the Company.

CERTAIN PERSONS PARTICIPATING IN THIS OFFERING MAY ENGAGE IN TRANSACTIONS THAT STABILIZE, MAINTAIN, OR OTHERWISE AFFECT THE PRICE OF THE COMMON STOCK. SPECIFICALLY, THE UNDERWRITERS MAY OVERALLOT IN CONNECTION WITH THE OFFERING, AND MAY BID FOR, AND PURCHASE, SHARES OF THE COMMON STOCK IN THE OPEN MARKET. FOR A DESCRIPTION OF THESE ACTIVITIES, SEE "UNDERWRITING."

INSIDE FRONT COVER FOLD OUT

This page contains a series of six pictures depicting the steps to buying a vehicle using the Auto-By-Tel program. The page is entitled "How Auto-By-Tel Works." In the center of the six pictures is the caption: "The easiest, most hassle-free way ever invented to buy a car."

Picture #1 depicts a consumer sitting at a terminal. The caption beneath picture #1 reads: "At any time of day or night, Internet users can start their vehicle purchasing process on the AUTO-BY-TEL World Wide Web site. No salespeople, no crowds, no hassles."

Picture #2 depicts the Company's Web site. The caption beneath picture #2 reads: "The AUTO-BY-TEL home page is an easy interface for everyone to use."

Picture #3 depicts another page from the Company's Web site featuring

automobile information providers. The caption beneath picture #3 reads: "AUTO-BY-TEL has arrangements with popular automotive information providers on the World Wide Web. To date, hundreds of thousands of vehicle buyers have taken AUTO-BY-TEL for a test drive." Above picture #3 are the logos of three of the Company's automotive information providers.

Picture #4 depicts the form of purchase request from the Company's Web site. The caption beneath picture #4 reads: "An AUTO-BY-TEL participating dealership calls the customer (usually within 48 hours of a purchase request) with a low, no haggle price. All paperwork is prepared before a customer arrives at the participating dealership to pick up the vehicle."

Picture #5 depicts a map of the United States with Auto-By-Tel dealer locations represented. The caption beneath picture #5 reads: "AUTO-BY-TEL has hundreds of participating dealerships, including members of some of the largest auto dealer groups in the U.S., waiting to serve customers."

Picture #6 depicts a consumer taking delivery of a vehicle. The caption beneath picture #6 reads: "Prospective vehicle buyers indicate their desired vehicle and options by completing an online purchase request. This is delivered electronically to the AUTO-BY-TEL participating dealership closest to the buyer."

PROSPECTUS SUMMARY

The following summary should be read in conjunction with, and is qualified in its entirety by, the more detailed information, including "Risk Factors" and the Consolidated Financial Statements and Notes thereto, appearing elsewhere in this Prospectus. Except as otherwise noted or the context otherwise requires, all information in this Prospectus (i) gives effect to a five-for-three split of the Company's Common Stock approved by the Board of Directors on November 24, 1996, (ii) gives effect to the conversion of all outstanding shares of Preferred Stock into 3,467,913 shares of Common Stock which will occur automatically immediately prior to the closing of this Offering, (iii) assumes no exercise of outstanding options to purchase 2,405,565 shares of the Company's Common Stock under the Company's 1996 Stock Option Plan and 1996 Stock Incentive Plan, and (iv) assumes no exercise of the Underwriters' over-allotment option. See "Management--Stock Plans," "Description of Capital Stock" and "Underwriting."

THE COMPANY

Auto-By-Tel is establishing a nationally branded Internet-based marketing service for new and used vehicle purchasing and related consumer services. The Company's Web site (www.autobytel.com) enables consumers to gather valuable information about automobiles and light duty trucks ("vehicles") and shop for vehicles and related consumer services from the convenience of their home or office. This convenience, coupled with low, haggle-free pricing and quick and courteous service, improves consumers' overall buying experiences. The Company's Internet-based alternative to traditional vehicle retailing dramatically reduces participating dealerships' selling costs per vehicle and increases sales volumes by channeling a large number of ready-to-buy, well-informed consumers to Auto-By-Tel participating dealerships. The Company's Internet-based services are free to consumers and, to date, the Company has derived substantially all of its revenues from fees paid by subscribing dealerships. See "Management's Discussion and Analysis of Financial Condition and Results of Operations--Overview" and "Business--Overview."

Consumers wishing to purchase new vehicles through the Company's service complete a purchase request available on the Company's and its partners' Web sites which specifies the type of vehicle and accessories desired along with the consumer's phone number, e-mail address and zip code. The purchase request is then forwarded to the Auto-By-Tel participating dealership located in the consumer's geographic area. Typically, consumers are contacted by Auto-By-Tel dealers within 48 hours with a firm, competitive quote for the vehicle, eliminating the unwelcome and time consuming task of negotiating with the dealer and thus facilitating completion of the sale. As of December 31, 1996 the Company's dealership base consisted of (i) 1,206 paying franchises of dealerships, (ii) 509 non-paying franchises affiliated with paying dealerships (collectively, "subscribing dealerships") and (iii) approximately 230 "trial dealers." From the commencement of operations in March 1995 to December 31, 1996, the Company received more than 385,000 new vehicle purchase requests. See "Business--Overview," "--Products and Services" and "--Dealer Network and

Training."

The emergence of the Internet as a significant communications medium is driving the development and adoption of Web content and commerce applications that offer convenience and value to consumers, as well as unique marketing opportunities and reduced operating costs to businesses. A growing number of consumers have begun to transact business electronically, including paying bills, booking airline tickets, trading securities and purchasing consumer goods, such as personal computers, consumer electronics, compact disks, books and vehicles. Moreover, online transactions can be faster, less expensive and more convenient than transactions conducted through a human intermediary. In addition, Web commerce applications enable businesses to rapidly target and economically manage a broad customer base and establish and maintain ongoing direct customer relationships. International Data Corporation ("IDC") estimates that the dollar value of goods and services purchased over the Web will increase from approximately $318 million in 1995 to $95 billion in the year 2000. The Auto-By-Tel vehicle marketing service seeks to utilize the unique marketing capabilities of the Web to address the $660 billion annual U.S. new and used vehicle market. See "Business--Industry Background."

To create higher levels of consumer satisfaction, the Company focuses on improving the manner in which dealers interact with consumers. Auto-By-Tel seeks to establish business relationships with dealerships which share the Company's commitment to improving customer service in the vehicle retailing industry. To meet this

goal, the Company requests that participating dealerships have their representatives trained in the Auto-By-Tel marketing program, dedicate electronic and human resources to the Auto-By-Tel system and comply with the Auto-By-Tel guidelines of rapid consumer response, full disclosure, and competitive and up-front pricing communicated over telephone. See "Business--Dealership Network and Training."

An important aspect of the Company's strategy is to strengthen the Auto-By-Tel brand name, as a means of driving consumer traffic to the Company's Web site and thereby increasing the volume of vehicle purchase requests. In addition to marketing its services through relationships with Internet content providers and advertising on Internet search engines and other online services, the Company is expanding its marketing efforts through traditional print media and on network television. The Company intends to capitalize on the increasing visibility of the Auto-By-Tel brand name as a nationally recognized Internet-based marketing service for new vehicles by offering additional services such as online used vehicle purchasing, and vehicle financing, leasing and insurance services. Auto-By-Tel is currently developing a used vehicle purchasing program for its network of new vehicle dealerships. The Company has an agreement whereby certain member companies of American International Group ("AIG"), one of the largest international insurance organizations, will offer to provide personal automobile vehicle insurance through the Company's Web site. The Company also has an agreement with Chase Manhattan Automotive Finance Corporation ("Chase Manhattan") under which Chase Manhattan, together with its affiliates, will receive credit applications for new vehicle financing online via the Company's Web site from Auto-By-Tel's consumers. This arrangement with Chase Manhattan is intended for prime credit consumers and the Company is currently negotiating similar relationships with several leading financial institutions to offer new and used vehicle leasing services and new and used vehicle financing to sub-prime credit consumers. See "Business--The Auto-By-Tel--Strategy" and "--Marketing and Sales."

Auto-By-Tel LLC was formed in January 1995 and began operations in March 1995. In July 1995, it introduced its Web site. Effective as of May 31, 1996, the interests of the members of Auto-By-Tel LLC and ABT Acceptance Company LLC, an affiliate, were transferred to the Company in a tax free transaction. The address of the Company's principal executive offices is 18872 MacArthur Boulevard, Suite 200, Irvine, California 92612-1400, and the Company's telephone and fax numbers are (714) 225-4500 and (714) 225-4562, respectively. The Company's home page is located on the World Wide Web at http://www.autobytel.com. Information contained on the Company's Web site or online services does not constitute part of this Prospectus.

THE OFFERING

Common Stock offered by the Company..	3,600,000 shares
Common Stock offered by the Selling Stockholder.......................	400,000 shares
Common Stock to be outstanding after the Offering......................	19,495,126 shares(1)
Use of proceeds.....................	For working capital and general corporate purposes
Proposed Nasdaq National Market symbol............................	ABTL

RISK FACTORS

An investment in the Common Stock offered hereby involves a high degree of risk. Prospective investors should consider carefully the certain factors described in "Risk Factors," including those set forth under the headings: "Limited Operating History and Accumulated Deficit;" "Potential Fluctuations in Quarterly Results;" "Potential Seasonality and Changes in General Economic Conditions;" "Fluctuations Resulting From the Introduction of New Services by the Company or Competitors;" "Regulatory Uncertainties and Government Regulation;" "Dependence on Automotive Information Providers;" "Requirement to Strengthen the Auto-By-Tel Brand Name;" "High Cost of Advertising and Marketing;" "Competition;" "Dependence on Dealership Network; Resistance to Written Agreements;" "Failure of Participating Dealerships to Adhere to Auto-By-Tel Sales Practices;" "Rapid Technological Change and System Disruptions;" "Potential Security Breaches;" "Risks Associated with Introduction of New Service Offerings;" "Dependence on Third Parties for New Services;" and "Uncertain Acceptance of Internet-based Marketing Services."

SUMMARY CONSOLIDATED FINANCIAL AND SUPPLEMENTAL OPERATING DATA
(IN THOUSANDS, EXCEPT SHARE, PER SHARE AND SUPPLEMENTAL OPERATING DATA)

	JANUARY 31, 1995 (DATE OF INCEPTION) TO DECEMBER 31, 1995	THREE MONTHS ENDED MARCH 31, 1996	JUNE 30, 1996	SEPTEMBER 30, 1996	DECEMBER 31, 1996	YEAR ENDED DECEMBER 31, 1996
STATEMENT OF OPERATIONS DATA:						
Revenues................	$ 274	$ 436	$ 952	$ 1,434	$ 2,203	$ 5,025
Operating expenses:						
Marketing and advertising...........	476	475	678	1,247	2,039	4,439
Selling, training and support...............	454	362	563	851	1,417	3,193
Technology development.	99	67	78	294	954	1,393
General and administrative........	275	134	258	740	1,027	2,159
Total operating expenses...........	1,304	1,038	1,577	3,132	5,437	11,184
Loss from operations....	(1,030)	(602)	(625)	(1,698)	(3,234)	(6,159)
Other income (expense), net.....................	--	--	(6)	22	108	124
Net loss................	(1,030)	(602)	(631)	(1,676)	(3,126)	(6,035)
Net loss per common and common equivalent share(2)..............	$ (.07)	$ (.04)	$ (.04)	$ (.11)	$ (.19)	$ (.38)
Weighted average common and common equivalent shares outstanding(2)..	15,262,262	15,262,262	15,262,262	15,892,576	16,761,962	15,792,293
SUPPLEMENTAL OPERATING						

DATA:						
Purchase requests received..............	42,600	44,900	73,700	102,700	123,700	345,000
Paying franchises of subscribing dealerships............	253	546	728	978	1,206	1,206

	DECEMBER 31, 1996	
	ACTUAL	PRO FORMA AS ADJUSTED (3)
BALANCE SHEET DATA:		
Cash and cash equivalents.............................	$ 9,062	$51,129
Working capital.......................................	5,960	48,027
Total assets..	12,298	54,365
Total liabilities.....................................	4,302	4,302
Accumulated deficit...................................	(7,065)	(7,065)
Stockholders' equity..................................	7,996	50,063

- --------

(1) Based on 15,895,126 shares of Common Stock outstanding on a pro forma basis as of January 31, 1997. Excludes 2,405,565 shares of Common Stock issuable upon exercise of outstanding options as of January 31, 1997, at a weighted average exercise price of $2.55 per share. Assumes no exercise of the Underwriters' over-allotment option.

(2) See Note 1.o of Notes to Consolidated Financial Statements for an explanation of the determination of shares used in computing net loss per share.

(3) Adjusted to reflect (i) the sale of 967,915 shares of Series B Preferred Stock on January 30, 1997 at a price of $9.35 per share and (ii) the conversion of all outstanding shares of Preferred Stock immediately prior to the closing of the Offering and (iii) the receipt by the Company of the estimated net proceeds of $33.0 million from the sale of 3,600,000 shares of Common Stock offered hereby at an assumed initial public offering price of $10.25 per share. See "Use of Proceeds."

RISK FACTORS

An investment in the Common Stock offered hereby involves a high degree of risk. In addition to the other information in this Prospectus, the following risk factors should be carefully considered in evaluating the Company and its business before purchasing the shares of Common Stock offered hereby. This Prospectus contains certain forward-looking statements based on current expectations which involve risks and uncertainties. Actual results and the timing of certain events may differ materially from those projected in such forward-looking statements due to a number of factors, including those set forth below.

LIMITED OPERATING HISTORY AND ACCUMULATED DEFICIT

The Company was formed in January 1995 and introduced its vehicle marketing program for new vehicle dealerships over Prodigy in March 1995 and over the Internet in July 1995. The Company first recognized revenues from operations in March 1995. Accordingly, the Company has only a limited operating history upon which an evaluation of the Company and its prospects can be based, and this limited operating history makes the prediction of future operating results difficult or impossible. In addition, the Company believes that, in order to achieve its objectives, it will need to significantly increase revenues from existing services and generate revenues from new services, such as its used vehicle buying service and its vehicle financing and insurance policy referral services. There can be no assurance that the Company will successfully introduce or generate sufficient revenues from such services. The Company had an accumulated deficit as of December 31, 1996 of $7.1 million. In addition, the Company expects to incur operating losses in future periods. The

Company's prospects must be considered in light of the risks, uncertainties, expenses and difficulties frequently encountered by companies in the early stages of development, particularly companies in new and rapidly evolving markets, such as the market for Internet commerce. To address these risks, the Company must, among other things, continue to send vehicle purchase requests to dealers that result in sales in sufficient numbers to support the marketing fees charged by the Company to its subscribing dealerships, respond to competitive developments, increase its brand name visibility, successfully introduce new services, continue to attract, retain and motivate qualified personnel, and continue to upgrade and enhance its technologies to accommodate expanded service offerings and increased consumer traffic. There can be no assurance that the Company will be successful in addressing such risks. In addition, although the Company has experienced revenue growth in recent periods, historical growth rates are not sustainable and are not indicative of future operating results, and there can be no assurance that the Company will achieve or maintain profitability. See "Management's Discussion and Analysis of Financial Condition and Results of Operations."

POTENTIAL FLUCTUATIONS IN QUARTERLY RESULTS

As a result of the Company's limited operating history, the Company lacks sufficient historical financial and operating data on which to adequately base future operating results. The Company's costs are based, in part, on fees paid to companies that maintain Web sites which allow consumers to submit purchase requests. Agreements with such companies generally have fixed terms ranging from one to five years, although certain of these agreements are terminable on short notice. Under such agreements, fees may be fixed or may vary depending on the number of purchase requests submitted through other companies' Web sites, or may be a combination thereof. Accordingly, increases in the number of purchase requests received will increase the Company's operating costs, which may not result in increased revenues to the Company. In addition, the Company incurs significant expenses to market its services on other Web sites and online services. Such expenses are generally fixed and are paid pursuant to marketing agreements which have terms of up to one year. The Company's expense levels are based in part on its expectations as to future revenues, which may vary in relation to increases or decreases in the number of dealerships that subscribe to the Company's marketing programs. Currently, less than half of subscribing dealerships are subject to written marketing agreements and these subscribing dealerships may cancel their agreements with 30 days' prior notice. As a result, quarterly revenues and operating results may vary significantly in response to any significant change in the number of subscribing dealerships. The Company's inability to adjust spending in a timely manner to compensate for any unexpected revenue shortfall would have a material adverse effect on the Company's business, results of operations and

financial condition. In addition, the Company anticipates significant increases in expenses as a result of planned increases in its marketing and advertising programs, development of affiliate programs relating to vehicle insurance and financing, and the introduction of a used vehicle marketing service. To the extent that such expenses exceed, precede or are not subsequently followed by increased revenues, the Company's business, results of operations and financial condition will be materially adversely affected. See "Management's Discussion and Analysis of Financial Condition and Results of Operations."

POTENTIAL SEASONALITY AND CHANGES IN GENERAL ECONOMIC CONDITIONS

Significant fluctuations in future quarterly operating results may also be caused by traditional seasonality in the automotive and light duty truck markets and other changes in general economic conditions, which may result in fluctuations in the level of purchase requests completed by consumers or adversely affect demand for the Company's existing and planned services. As a result of the Company's limited operating history and the significant growth in operations since inception, the Company has not to date experienced significant seasonality in its business. However, the automotive and light truck markets historically experience weakest sales in the fourth calendar quarter. In addition, unit sales of motor vehicles, particularly new vehicles, historically have been cyclical, fluctuating with general economic cycles. During economic downturns, the automotive retailing industry tends to experience similar periods of decline and recession as the general economy. The Company believes that the automotive and light truck industry is influenced by general economic conditions and particularly by consumer

confidence, the level of personal discretionary spending, interest rates and credit availability. There can be no assurance that the automotive and light truck industry will not experience sustained periods of decline in vehicle sales in the future. Such a decline could have a material adverse effect on the Company. See "Management's Discussion and Analysis of Financial Condition and Results of Operations."

FLUCTUATIONS RESULTING FROM THE INTRODUCTION OF NEW SERVICES BY THE COMPANY OR COMPETITORS

The introduction by the Company of new services or the introduction of new services by the Company's competitors may also result in significant fluctuations in quarterly operating results. In addition, as a strategic response to changes in the competitive environment, the Company may from time to time make certain pricing or marketing decisions or establish strategic relationships that could have a material adverse effect on the Company's business, results of operations or financial condition. In particular, the Company may need to revise the marketing fees it charges to subscribing dealerships. There can be no assurance that subscribing dealerships will continue to participate in the Company's marketing programs or agree to future fee increases. In addition, there can be no assurance that marketing fees derived from subscribing dealerships will be sufficient to cover the Company's expenses. The foregoing factors make it likely that in some future quarters the Company's operating results will be below the expectations of the Company, securities analysts or investors. In such event, the trading price of the Common Stock would likely be materially and adversely affected. See "Management's Discussion and Analysis of Financial Condition and Results of Operations."

REGULATORY UNCERTAINTIES AND GOVERNMENT REGULATION

The Company believes that its dealer marketing service does not qualify as a brokerage activity and, therefore, that the Company does not need to comply with state broker licensing requirements. In Texas, however, the Company was required to modify its marketing program to include a pricing model under which subscribing dealerships are charged uniform fees based on the population density of their particular geographic area and to make its program open to all dealerships who wish to apply. In the event that individual state regulatory requirements change or additional requirements are imposed on the Company, the Company may be required to modify its marketing programs in such states in a manner which may undermine the program's attractiveness to consumers or dealers. In addition, in the event that a state deems that the Company is acting as a broker, the Company may be required to comply with burdensome licensing requirements of such state or terminate operations in such state. In each case, the Company's business, results of operations or financial condition could be materially and adversely affected.

The Company's marketing service may result in changes in the way new and used vehicles are sold which may be deemed to be threatening by new and used vehicle dealerships which do not subscribe to the Auto-By-Tel program. Such businesses are often represented by influential lobbying organizations, and such organizations may seek to introduce legislation which may impact the evolving marketing and distribution model which the Company's service promotes. Should legislative or legal challenges be brought successfully by such organizations, the Company's business, results of operations or financial condition could be materially and adversely affected.

As the Company introduces new services, the Company may need to comply with additional licensing regulations and regulatory requirements. For example, the Company's wholly-owned subsidiary Auto-By-Tel Insurance Services, Inc. ("ABTIS") recently became licensed in California as a fire and casualty insurance broker-agent. ABTIS is not currently licensed in any other jurisdiction in the United States. In conducting its operations, ABTIS must comply with numerous California insurance and related laws, which regulate, among other things, the maintenance of fiduciary funds and trust accounts, including limitations on the commingling of funds, rebating, discriminatory practices, market conduct, claims practices, license maintenance and renewal requirements, time limitations for the retention of insurance records and advertising and marketing. In addition, in order to maintain its license, ABTIS must employ a "named transactor"--an individual licensed by the insurance regulatory authorities for the type of insurance that ABTIS is licensed to transact. In the event that such individual ceases being employed

by ABTIS, ABTIS must replace that individual with an appropriately licensed person to act as its named transactor.

Although the Company believes that ABTIS is eligible to receive referral fees from AIG, the use of the Internet in connection with insurance products is a relatively new practice. The applicability of laws of other states to ABTIS's activities is not clear. Nonetheless, ABTIS has commenced applying for licenses to act as an insurance agent or broker in all jurisdictions in the United States where it may become so licensed.

In addition, the Company is currently in the process of applying for financial brokers' licenses in those states in which the Company believes such licenses are required. Becoming licensed may be an expensive and time-consuming process which could divert the efforts of management. In the event that the Company does not successfully become licensed under applicable state insurance or lending rules or otherwise comply with regulations necessitated by changes in current regulations or the introduction of new services, the Company's business, results of operations or financial condition could be materially and adversely affected.

Additionally, there are currently few laws or regulations directly applicable to access to or commerce on the Internet. However, due to the increasing popularity and use of the Internet, it is likely that a number of laws and regulations may be adopted at the local, state, national or international levels with respect to commerce over the Internet, potentially covering issues such as pricing of services and products, advertising, user privacy and expression, intellectual property, information security, anti-competitive practices or the convergence of traditional distribution channels with Internet commerce. In addition, 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 the Company to additional state sales and income taxes. The adoption of any such laws or regulations may decrease the growth of Internet usage or the acceptance of Internet commerce which could, in turn, decrease the demand for the Company's services and increase the Company's costs or otherwise have a material adverse effect on the Company's business, results of operations or financial condition. See "Business--Government Regulation."

DEPENDENCE ON AUTOMOTIVE INFORMATION PROVIDERS

The Company receives a significant number of purchase requests from certain automotive information providers, including Edmund's, Microsoft CarPoint and AutoSite. The Company's agreements with automotive information providers typically have terms ranging from one to three years, but some are cancellable with 30 days notice. Under the agreements, Auto-By-Tel typically pays the automotive information provider a monthly fee based on the number of users who submit Auto-By-Tel purchase requests. In 1996, the Company incurred

expenses to automotive information providers of approximately $630,000. The termination of any of these relationships, or any significant reduction in traffic to the Web sites on which the Company's services are advertised or offered, could have a material adverse effect on the Company's business, results of operations or financial condition.

The Company has established a relationship with Edmund's, a leading source of online automobile and light truck price and model information. Consumers are sometimes referred to Auto-By-Tel from Edmund's. At other times, consumers will begin at the Auto-By-Tel Web site and will be hyperlinked to the Edmund's Web site to obtain price and model information, before returning to Auto-By-Tel to submit a purchase request. The Company pays Edmund's a fee based on the aggregate number of referred and returning consumers submitting a purchase request. In 1996, approximately 170,000 consumers who eventually submitted purchase requests with Auto-By-Tel either were referred to the Company's Web site from Edmund's, or went to the Edmund's site and then returned to Auto-By-Tel. While the Company expects the number of referrals and returning consumers from the Edmund's Web site to remain significant, the percentage of consumers entering from or visiting Edmund's during an Auto-By-Tel session has decreased in the past several months due to (i) the availability of other automobile information Web sites, (ii) Auto-By-Tel's new practice of referring consumers to an alternate automobile information provider, and (iii) the Company's marketing efforts to encourage consumers to begin their automobile purchasing sessions at the Company's Web site. Nevertheless, given the current level of

consumers accessing the Company from Edmund's, a change or termination in the Edmund's arrangement could have a material adverse effect on the Company's business, results of operations and financial condition. See "Management's Discussion and Analysis of Financial Condition and Results of Operations," "Business--Strategy" and "--Marketing and Sales."

REQUIREMENT TO STRENGTHEN THE AUTO-BY-TEL BRAND NAME

The Company believes that enhancing its national brand name recognition is critical to its efforts to maintain and increase the number of purchase requests and subscribing dealerships. The growing number of Web sites which offer competing services and the relatively low barriers to entry in providing Internet services increase the importance of establishing and maintaining brand name recognition. In order to achieve this objective, the Company will need to continue to maintain high quality services and incur considerable costs to enhance and expand brand name recognition and improve its competitive position. Much of the Company's advertising is placed on Web sites maintained by (i) online service providers (like America Online's Digital Cities, CompuServe and Prodigy which offer proprietary online content to their subscribers, as well as Internet access) and (ii) search engine companies (like Excite, Magellan and Webcrawler which allow Internet users to navigate the Internet by searching for key words or topics of interest). Advertising agreements with these online service providers and search engine companies are generally short-term contracts or are otherwise cancelable on short notice. Payments under none of these agreements have been material to date. While no single online or search engine company has individually accounted for material leads to the Company, these companies as a group are a material source of Internet referrals to the Auto-By-Tel Web site and the Company believes an inability to continue advertising on online service provider or search engine web sites would adversely affect the Company. There can be no assurance that such online service providers or search engine companies will not cancel such contracts, or that competitors will not be able to displace Auto-By-Tel from its preferred advertising arrangements with such companies. See "Business--Strategy" and "--Marketing and Sales." In addition, the Company receives a significant number of Internet referrals from automotive information providers, such as Edmund's and Microsoft CarPoint. See "Dependence on Automotive Information Providers."

HIGH COST OF ADVERTISING AND MARKETING

The intense competition in the sale of Internet advertising with online service providers and search engine companies, including competition from other vehicle marketing services, has resulted in a wide range of rates quoted by different vendors for a variety of advertising services. This makes it very difficult to project future levels of Internet advertising costs and availability of prime advertising space. The Company has also entered

into agreements with automotive information services, such as Edmund's and Microsoft CarPoint, to display the Company's services on their Web sites. These agreements require the Company to pay such entities a fee for each user who completes an Auto-By-Tel purchase request. Accordingly, any increase in the volume of purchase requests received from these sites will result in increased advertising costs with no assurance of a corresponding increase in revenues to the Company. The Company is also incurring significant expenses to increase awareness of its nationally branded Internet-based marketing services in print and television media. The Company expects these expenses to increase significantly, particularly in the first half of 1997. There can be no assurance that the Company's efforts to brand the Auto-By-Tel name will be successful or that advertising on the Internet, on television or in other media will attract consumers to the Company's Web site, or that existing marketing or advertising sources will continue to be available on commercially reasonable terms, or at all. See "Dependence on Automotive Information Providers" and "Requirement to Strengthen the Auto-By-Tel Brand Name," "Business--Strategy" and "--Sales and Marketing."

COMPETITION

The Company's vehicle buying services compete against a variety of Internet and traditional vehicle buying services and automobile brokers. In the Internet-based market, the Company competes for attention with other entities which maintain similar commercial Web sites. The Company also competes indirectly against automobile brokerage firms and affinity programs offered by

several companies, including Price Costco and Wal-Mart. Like the Company's services, the services offered by competing Web sites, vehicle brokerage firms and affinity programs seek to increase consumer satisfaction and reduce vehicle purchasing costs.

Although the Company does not currently compete directly with vehicle dealers and manufacturers, such competition would arise in the future if dealers and manufacturers introduced competing Web sites or developed cooperative relationships among themselves or with online vehicle information providers. Moreover, the Company's ability to achieve its objectives would be adversely affected if dealers and manufacturers adopted a low cost, firm price sales model similar to that facilitated by the Auto-By-Tel program.

The market for Internet-based commercial services is new and competition among commercial Web sites is expected to increase significantly in the future. The Internet is characterized by minimal barriers to entry, and current and new competitors can launch new Web sites at relatively low cost. Potential competitors could include, but are not limited to, automotive information service providers, manufacturers and new and used vehicle dealers. In order to compete successfully as an Internet commercial entity, the Company must significantly increase awareness of the Company and its brand name, effectively market its services and successfully differentiate its Web site. Many of the Company's current and potential competitors have longer operating histories, greater name recognition and significantly greater financial and marketing resources than the Company. Such competitors could undertake more aggressive and costly marketing campaigns than the Company which may adversely affect the Company's marketing strategies which could have a material adverse effect on the Company's business, results of operations or financial condition.

In addition, as the Company introduces new services, it will compete directly with a greater number of companies, including vehicle insurers and lenders as well as used vehicle superstores, such as CarMax and Auto Nation. Such companies may already maintain or may introduce Web sites which compete with that of the Company. There can be no assurance that the Company can continue to compete successfully against current or future competitors nor can there be any assurance that competitive pressures faced by the Company will not result in increased marketing costs, decreased Internet traffic or loss of market share or otherwise will not materially adversely affect its business, results of operations and financial condition. See "Business--Strategy" and "--Competition."

DEPENDENCE ON DEALERSHIP NETWORK; RESISTANCE TO WRITTEN AGREEMENTS

To date, substantially all of the Company's revenues have been derived from fees paid by subscribing dealerships. Currently, less than half of subscribing dealerships have entered into written marketing agreements

with the Company, and such agreements are cancelable at the option of either party with 30 days' notice. Accordingly, subscribing dealers may terminate their affiliation with the Company for any reason, including an unwillingness to accept the Company's subscription terms or to join other marketing programs. Some of the Company's dealers have resisted signing written agreements. Among the reasons cited by dealerships in resisting entering into written agreements are: (i) the exclusivity provision of the revised form of marketing agreement which requires that dealerships not participate in any other Internet-based or online program with attributes similar to those of the Auto-By-Tel program, (ii) the indemnification provisions which require dealerships to indemnify Auto-By-Tel under certain circumstances, (iii) concerns by dealerships that by signing a written agreement they will surrender control of the rates they will be charged by Auto-By-Tel, and (iv) concerns over the California choice of law and venue provisions in the agreement.

There can be no assurance that the Company will be able to convince all of its subscribing dealerships to enter into written agreements with the Company or revise existing agreements or that the Company's efforts to cause subscribing dealerships to revise their agreements will not result in subscribing dealerships terminating their relationship with Auto-By-Tel. In addition, should the volume of purchase requests increase, the Company anticipates that it will need to reduce the size of the exclusive territories

currently allocated to dealerships in order to serve consumers more effectively. Dealerships may be unwilling to accept reductions in the size of their territories and may, therefore, terminate their Auto-By-Tel relationship, refuse to execute formal agreements with the Company or decide not to join the Company's marketing programs. A material decrease in the number of subscribing dealerships, or slower than expected growth in the number of subscribing dealerships, could have a material adverse effect on the Company's business, results of operations or financial condition. The Company may also become unable to refer an adequate number of consumers to participating dealerships. There can be no assurance that the Company will be able to continue to attract additional dealerships and retain existing dealerships. See "Business--Strategy" and "--Dealership Network and Training."

FAILURE OF PARTICIPATING DEALERSHIPS TO ADHERE TO AUTO-BY-TEL SALES PRACTICES

The success of the Company's business strategy depends on its participating dealerships' adherence to the Company's consumer oriented sales practices. The Company devotes significant efforts to train participating dealerships in such practices which are intended to increase consumer satisfaction. The Company's inability to train dealerships effectively, or the failure by participating dealerships to adopt such practices, respond rapidly and professionally to vehicle purchase requests, or sell vehicles in accordance with the Company's marketing strategies, could result in low consumer satisfaction, damage the Company's brand name and materially adversely affect the Company's business, results of operations or financial condition. See "Management's Discussion and Analysis of Financial Condition and Results of Operation" and "Business--Strategy" and "--Dealership Network and Training."

RAPID TECHNOLOGICAL CHANGE AND SYSTEM DISRUPTIONS

The Internet is characterized by rapidly changing technology. The Company believes that its future success is significantly dependent on its ability to continuously improve the speed and reliability of its Web site, enhance communications functionality with its consumers and dealers and maintain the highest-level of information privacy and ensure transactional security. The Company recently migrated its Web site platform to a more robust enterprise network (a large communications and data exchange system created by physically connecting telephone lines or other communication media to link computers separated by thousands of miles), internalized all Web server hosting functions and, to accelerate connectivity, has installed higher bandwidth telecommunications lines, consisting of two 1.54 Mbps (millions of bits per second) T-1 lines for outbound traffic and a 6 Mbps fractional DS/3 line (a very high bandwidth telephone trunk line capable of transferring 44.21 Mbps) for inbound traffic. The Company has also recently upgraded its routers (for faster data transmission routing through its computer network) and has installed firewall technology (security software and hardware placed between the Company's private network and the Internet to prevent corruption of the private network). System enhancements entail the implementation of sophisticated new technology and system processes and there

can be no assurance that such continuous enhancements may not result in unanticipated system disruptions. For example, since April 1, 1996, the Company has experienced three periods of system downtime (with an average downtime of approximately three hours) due to power loss and telecommunications failures, and there can be no assurance that future interruptions will not recur. Although the Company maintains redundant local offsite backup servers, all of the Company's primary servers are located at its corporate headquarters and are vulnerable to interruption by damage from fire, earthquake, power loss, telecommunications failure and other events beyond the Company's control. The Company is in the process of developing comprehensive out-of-state disaster recovery plans to safeguard dealer and consumer information. The Company's business interruption insurance may not be sufficient to compensate the Company for all losses that may occur. In the event that the Company experiences significant system disruptions, the Company's business, results of operations or financial condition could be materially and adversely affected. See "Business--Operations and Technology; Facilities."

In addition, the Company is currently in the process of completing a conversion to a redundant client/server (a network of multiple computers consisting of end user or "client" computers connected to controlling or "server" computers) SQL database (an organized collection of data) platform

which involves the integration of several different internal databases used to handle the Company's consumer and dealer information and transmission requirements, as well as the Company's financial, accounting and record-keeping requirements. No assurance can be given that the implementation of this new platform will not result in disruptions to the Company's business, such as the loss of data, errors in purchase request transmissions, delays in the Company's ability to effect periodic closings of its accounting records and other similar problems. Any such disruptions or any failure to successfully implement this new information system in a timely manner could have a material adverse effect on the Company's business, results of operations or financial condition. See "Business--Operations and Technology; Facilities."

POTENTIAL SECURITY BREACHES

The Company's services may be vulnerable to break-ins and similar disruptive problems caused by Internet users. Further, weaknesses in the Internet may compromise the security of confidential electronic information exchanged across the Internet. This includes, but is not limited to, the security of the physical network and the security of the physical machines used for the information transfer. Any such flaws in the Internet, the end-user environment, or weaknesses or vulnerabilities in the Company's services or the licensed technology incorporated in such services could jeopardize the confidential nature of information transmitted over the Internet and could require the Company to expend significant financial and human resources to protect against future breaches, if any, and alleviate or mitigate problems caused by such security breaches. Concerns over the security of Internet transactions and the privacy of users may also inhibit the growth of the Internet generally, particularly as a means of conducting commercial transactions. To the extent that activities of the Company, or third party contractors, involve the storage and transmission of proprietary information (such as personal financial information or credit card numbers), security breaches could expose the Company to a risk of financial loss, litigation and other liabilities. The Company does not currently maintain insurance to protect against such losses. Any such occurrence could reduce consumer satisfaction in the Company's services and could have a material adverse effect on the Company's business, results of operations or financial condition. See "Business--Operations and Technology; Facilities."

RISKS ASSOCIATED WITH INTRODUCTION OF NEW SERVICE OFFERINGS

In order to generate additional revenues, to attract more consumers to its Web site and dealerships to its programs and remain competitive, the Company must successfully develop, market and introduce new services. The Company believes that to achieve its objectives it will need to generate a substantial portion of its future revenues from new services. The Company recently introduced an Internet-based insurance service with certain member companies of American International Group ("AIG"), one of the largest international insurance organizations. Consumers can currently link to the specific Web site for such AIG member companies to submit requests for quotes and, when the service is fully implemented, will be able to receive real-time, online quotes.

The Company also recently entered into an agreement with Chase Manhattan Automotive Finance Corporation ("Chase Manhattan") under which Chase Manhattan, together with its affiliates, will receive credit applications for new vehicle financing who access Auto-By-Tel's Web Site. The agreement with Chase Manhattan has a term of three years but may be terminated sooner by Chase Manhattan with six months' notice or in the event Auto-By-Tel fails to refer to Chase Manhattan a prescribed percentage of loan application requests submitted through the Auto-By-Tel Web site, or the referred loan applications do not result in a prescribed percentage of loans generated by Chase Manhattan, or Auto-By-Tel otherwise breaches the agreement.

In addition, the Company is developing client/server database applications and user interfaces which will enable the Company to provide consumers access to vehicles currently listed by dealerships who participate in the Company's used vehicle program. None of these new services has been fully developed and, in some cases, their introduction has recently been delayed due to difficulties encountered by the Company's partners in developing their software systems. There can be no assurance that the Company will successfully develop or introduce these new services, that such services will achieve

market acceptance or that subscribing dealerships will not view such new services as competitive to services already offered by such dealerships. For example, consumers may be reticent to purchase vehicle insurance or procure vehicle financing online. Also, it may be more difficult to educate consumers as to the value of locating used vehicles for purchase through the Internet since used vehicle purchases are generally thought to require a greater level of hands-on involvement. The Company expects to incur additional expenses to develop and successfully market such services. To the extent that revenues generated by such additional services are insufficient to cover increased expenses, the Company's operating results would be adversely affected. Should the Company fail to develop and successfully market these services, or should competitors successfully introduce competing services, the Company's business, results of operations and financial condition may be materially and adversely affected. See "Management's Discussion and Analysis of Financial Condition and Results of Operation" and "Business--Products and Services."

DEPENDENCE ON THIRD PARTIES FOR NEW SERVICES

As a part of its overall strategy, the Company plans to develop new services by entering into alliances with other companies engaged in complementary businesses, such as vehicle financing and leasing, and insurance providers. For example, the Company recently entered into agreements with Chase Manhattan to provide vehicle financing and AIG to provide vehicle insurance services to its consumers. Strategic relationships involve numerous risks, including difficulties in the introduction and marketing of new services, diversion of management's attention from other business requirements, and the risks of entering markets in which the Company has no or limited direct prior experience and where competitors in such markets have stronger market positions. There can be no assurance that the Company would be successful in overcoming these risks or any other problems encountered in connection with such strategic alliances or that such transactions will not adversely affect the Company's business, results of operations and financial condition. See "Management's Discussion and Analysis of Financial Condition and Results of Operation" and "Business--Strategy" and "--Products and Services."

UNCERTAIN ACCEPTANCE OF INTERNET-BASED MARKETING SERVICES

The market for the Company's Internet-based marketing service has only recently begun to develop and is rapidly evolving. 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 exist few proven services and products. Moreover, since the market for the Company's services is new and evolving, it is difficult to predict the future growth rate, if any, and size of this market.

The success of the Company's service will depend upon the adoption of the Internet by consumers and dealers as a mainstream medium for commerce. There can be no assurance that widespread acceptance of Internet commerce in general, or of the Company's services in particular, will occur. Consumers and dealers who have historically relied upon traditional means of commerce to purchase vehicles and vehicle insurance, or to procure vehicle financing, must accept novel ways of conducting business and exchanging information. In addition,

dealers must be persuaded to adopt new selling models and be trained to use and invest in developing systems and technologies. Moreover, critical issues concerning the commercial use of the Internet (including ease of access, security, reliability, cost, and quality of service) remain unresolved and may impact the growth of Internet use or the attractiveness of conducting commerce online. There can be no assurance that consumers will use the Internet for commerce or that the market for the Company's services will develop successfully or achieve widespread market acceptance. If the market for Internet-based vehicle marketing services fails to develop, develops more slowly than expected or becomes saturated with competitors, or if the Company's services do not achieve market acceptance, the Company's business, results of operations and financial condition will be materially and adversely affected. See "Management's Discussion and Analysis of Financial Condition and Results of Operation" and "Business--Strategy."

INABILITY TO MANAGE GROWTH

The rapid execution necessary for the Company to establish itself as a

leader in the evolving market for Internet-based vehicle marketing services requires an effective planning and management process. The Company's rapid growth has placed, and is expected to continue to place, a significant strain on the Company's managerial, technical, sales and marketing and administrative personnel and financial resources. As of December 31, 1996, the Company had 73 employees (including two employees located in Canada), compared to 17 employees as of December 31, 1995. The Company is also in the process of testing, introducing or developing new services. The Company anticipates that to effectively develop, introduce and maintain such new services, it will need to hire a significant number of qualified managerial, technical and sales and marketing personnel in the future. Competition for such qualified individuals is intense and there can be no assurance that the Company will be able to recruit and retain such employees.

To manage its growth, the Company must continue to implement and improve its operational and financial systems, and expand, train and manage its employee base and subscribing dealerships. There can be no assurance that the Company will be able to successfully implement these changes on a timely basis. Further, the Company is required and will continue to be required to manage multiple relationships with consumers, dealers, strategic partners and other third parties. There can be no assurance that the Company's systems, procedures or controls will be adequate to support the Company's current or future operations or that Company management will be able to achieve the rapid execution necessary to establish itself as a leader in the evolving market for Internet-based vehicle marketing services. For example, to date the Company has been able to enter into written marketing agreements with less than half of its subscribing dealership base. The Company's future operating results will also depend on its ability to expand its sales and marketing organizations, implement and manage new services to penetrate broader markets and further develop and expand its organization and technology infrastructure, to support an increased number of services. If the Company is unable to manage growth effectively, the Company's business, results of operations and financial condition will be materially adversely affected. See "Business--Employees."

The Company's growth strategy is predicated in part on its ability to successfully identify, acquire and integrate companies that complement or expand the Company's service offerings. While the Company is not currently negotiating any acquisitions and does not have any commitments or agreements with respect to any acquisitions, the Company anticipates that potential acquisition opportunities may arise. The Company intends to actively pursue any attractive acquisition opportunities. In the event that the Company were to issue Common Stock to consummate such potential acquisitions, such additional issuance could dilute the holdings of investors purchasing the Common Stock offered hereby. Additionally, the Company may utilize cash to consummate such acquisitions. There can be no assurance that the Company will have adequate resources to consummate any acquisition, that any acquisition will or will not occur, that any target company can be successfully integrated into the Company, and that, if any acquisition does occur, it will not be dilutive to the Company's earnings per share or otherwise have a material adverse affect on the Company's business, results of operations and financial condition.

DEPENDENCE ON KEY PERSONNEL

The Company's performance is substantially dependent on the performance of its executive officers and key employees, all of whom are employed on an at-will basis and many of whom have worked together for only a short period of time. Given the Company's early stage of development, the Company is dependent on its ability to retain and motivate highly qualified personnel, especially its management, technical and business development teams. The Company maintains "key person" life insurance in the amount of $7.5 million on the life of Peter R. Ellis, the Company's President and Chief Executive Officer. However, the loss of the services of Mr. Ellis, or one or more of the Company's other executive officers or key employees would likely have a material adverse effect on the business, results of operations or financial condition of the Company. Certain Company officers have been involved in legal matters prior to the formation of Auto-By-Tel. While management believes that these matters have been resolved, future proceedings, if any, could interfere to some extent with the officers' services for the Company. See "Management."

The Company's future success also depends on its ability to identify, hire,

train and retain other highly qualified sales and marketing, managerial and technical personnel. In addition, the Company anticipates the need to hire a significant number of personnel as it introduces new services. Competition for such personnel is intense, and there can be no assurance that the Company will be able to attract, assimilate or retain such personnel in the future. The inability to attract and retain the necessary managerial, technical and sales and marketing personnel could have a material adverse effect upon the Company's business, results of operations or financial condition. See "Business--Employees."

RISKS ASSOCIATED WITH INTERNATIONAL EXPANSION

The Company intends to expand its new vehicle marketing service to foreign jurisdictions by establishing relationships with vehicle dealers and strategic partners located in foreign jurisdictions in which similar challenges and inefficiencies in the market for new vehicles exist. In addition, there are certain risks inherent in doing business in international markets, such as changes in regulatory requirements, tariffs and other trade barriers, fluctuations in currency exchange rates, potentially adverse tax consequences, difficulties in managing or overseeing foreign operations, and educating consumers and dealers who may be unfamiliar with the benefits of online marketing and commerce. There can be no assurance that one or more of such factors will not have a material adverse effect on the Company's current or future international operations and, consequently, on the Company's business, results of operations and financial condition. See "Management's Discussion and Analysis of Financial Condition and Results of Operations--Results of Operations--Revenues."

DEPENDENCE ON THE INTERNET; CAPACITY CONSTRAINTS

The Company's ability to efficiently process purchase requests for vehicles received through the Company's Internet-based marketing service will depend, in large part, upon a robust communications industry and infrastructure for providing Internet access and carrying Internet traffic. The Internet may not prove to be a viable commercial marketplace because of inadequate development of the necessary infrastructure (e.g., reliable network backbone), timely development of complementary products (e.g., high speed modems (devices that enable computers to send and receive information via telephone lines)), delays in the development or adoption of new standards and protocols required to handle increased levels of Internet activity or increased government regulation. In addition, to the extent that the Internet continues to experience significant growth in the number of users and the level of use, there can be no assurance that the Internet infrastructure will continue to be able to support the demands placed on it by such potential growth. Because global commerce and exchange of information on the Internet is new and evolving, it is difficult to predict with any assurance whether the Internet will prove to be a viable commercial marketplace. If the necessary infrastructure or complementary products are not developed, or if the Internet does not become a viable commercial marketplace, the Company's business, results of operations and financial condition will be materially adversely affected. See "Business--Operations and Technology; Facilities."

DEPENDENCE ON PROPRIETARY SYSTEMS AND TECHNOLOGY

The Company's success and ability to compete is dependent in part upon its proprietary systems and technology. While the Company relies on trademark, trade secret and copyright law to protect its proprietary rights, the Company believes that the technical and creative skills of its personnel, continued development of its proprietary systems and technology, brand name recognition and reliable Web site maintenance are more essential in establishing and maintaining a leadership position and strengthening its brand. Despite the Company's efforts to protect its proprietary rights, unauthorized parties may attempt to copy aspects of the Company's services or to obtain and use information that the Company regards as proprietary. Policing unauthorized use of the Company's proprietary rights is difficult. In addition, litigation may be necessary in the future to enforce or protect the Company's intellectual property rights or to defend against claims of infringement or invalidity. Misappropriation of the Company's intellectual property or potential litigation could have a material adverse effect on the Company's business, results of operations or financial condition. See "Business--Operations and Technology; Facilities."

SUBSTANTIAL CONTROL BY OFFICERS AND DIRECTORS AND THEIR AFFILIATES

Following the Offering, the Company's officers and directors and their affiliates will beneficially own or control approximately 72.6% of the outstanding shares of Common Stock (after giving effect to the conversion of all outstanding Preferred Stock and the exercise of all outstanding options and assuming no exercise of the Underwriter's over-allotment option). The Company's officers, directors and their affiliates will have the ability to control the election of the Company's Board of Directors and the outcome of corporate actions requiring stockholder approval. See "Principal and Selling Stockholders."

ANTI-TAKEOVER PROVISIONS

Certain provisions of the Company's Amended and Restated Articles of Incorporation and Bylaws could make it difficult for a third party to acquire, and could discourage a third party from attempting to acquire, control of the Company. Certain of these provisions allow the Company to issue Preferred Stock with rights senior to those of the Common Stock without any further vote or action by the stockholders and impose various procedural and other requirements which could make it more difficult for stockholders to effect certain corporate actions. Such charter provisions could limit the price that certain investors might be willing to pay in the future for shares of the Company's Common Stock or Preferred Stock and may have the effect of delaying or preventing a change in control of the Company. 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. See "Description of Capital Stock--Common Stock" and "--Preferred Stock."

NO PRIOR PUBLIC MARKET; POSSIBLE VOLATILITY OF STOCK PRICE

There has been no public market for the Company's Common Stock prior to this offering. Although application will be made to the Nasdaq National Market for listing of the Common Stock, there can be no assurance that an active trading market will develop or be sustained or that the market price of the Common Stock will not decline below the initial public offering price. The initial public offering price will be determined through negotiations between the Company and the Underwriters and may not be indicative of the market price for the Common Stock following the Offering. See "Underwriting" for a discussion of the factors to be considered in determining the initial public offering price. Even if an active trading market does develop, the market price of the Common Stock following this offering may be highly volatile. Factors such as variations in the Company's revenue, earnings and cash flow, announcements of new service offerings, technological innovations or price reductions by the Company, its competitors or providers of alternative services, changes in financial estimates by securities analysts or other events or factors could cause the market price of the Common Stock to fluctuate substantially. In addition, the stock markets recently have experienced significant price and volume fluctuations that have particularly affected companies in the technology sector and that have been

unrelated to the operating performance of those companies. Such broad market fluctuations or any failure of the Company's operating results in a particular quarter to meet market expectations may adversely affect the market price of the Common Stock following this offering.

DILUTION

Investors participating in the Offering will incur immediate, substantial dilution. To the extent that outstanding options to purchase the Company's Common Stock are exercised, there will be further dilution. See "Dilution."

ABSENCE OF DIVIDENDS

The Company intends to retain all future earnings for use in the development of its business and does not currently anticipate paying any cash dividends in the foreseeable future. See "Dividend Policy."

SHARES ELIGIBLE FOR FUTURE SALE; REGISTRATION RIGHTS

Sale of substantial numbers of shares of Common Stock in the public market could adversely affect the market price of the Common Stock and make it more difficult for the Company to raise funds through equity offerings in the future. A substantial number of outstanding shares of Common Stock and other shares of Common Stock issuable upon exercise of outstanding stock options will become available for resale in the public market at prescribed times. Of the 19,495,126 shares to be outstanding after the Offering, the 4,000,000 shares offered hereby will be eligible for immediate sale in the public market without restriction. All other outstanding shares of Common Stock are subject to 180-day lock-up agreements with the Underwriters. Upon the expiration of the 180-day lock-up agreements, such shares of Common Stock will become eligible for sale in the public market, subject to the provisions of Rules 144(k), 144 and 701 under the Act and any contractual restrictions on their transfer. Montgomery Securities may, in its sole discretion and at any time without notice, release all or any portion of the securities subject to lock-up agreements. Upon completion of the Offering, the holders of approximately 15,288,912 shares of Common Stock will be entitled to certain registration rights with respect to such shares. In addition, the Company intends to register the shares of Common Stock reserved for issuance under the Company's 1996 Stock Option Plan, 1996 Stock Incentive Plan and 1996 Employee Stock Purchase Plan following the date of this Prospectus. See "Shares Eligible for Future Sale" and "Description of Capital Stock--Registration Rights."

USE OF PROCEEDS

The net proceeds to the Company from the sale of the shares of Common Stock offered hereby at an assumed initial public offering price of $10.25 per share, after deducting estimated underwriting discounts and estimated offering expenses, are estimated to be approximately $33.0 million (approximately $38.7 million if the Underwriters' over-allotment is exercised in full). The Company will not receive any proceeds from the sale of shares of Common Stock by the Selling Stockholder. See "Principal and Selling Stockholders."

The principal purposes of the Offering are to increase the Company's equity capital, create a public market for the Common Stock and to facilitate future access to public equity markets. The Company intends to use approximately $12 million of the net proceeds from the Offering to fund online and traditional advertising programs designed to strengthen the Auto-By-Tel brand name and $6 million to fund information technology investments required to support the transition to a real-time online communications platform and to develop new products and services. The Company intends to use the remainder of the net proceeds from the Offering for other working capital and general corporate purposes. In addition, a portion of the proceeds from the Offering also may be used for possible acquisitions of or investments in businesses, products or technologies that expand, complement or are otherwise related to the Company's current or planned services, although no specific acquisitions are currently in negotiation. Pending such uses, the proceeds will be invested in short-term, investment grade, interest-bearing securities. The Company may require additional financing in the future to finance continuing growth. No assurance can be given that such financing will be available on favorable terms or at all.

DIVIDEND POLICY

The Company has never declared or paid cash dividends on its capital stock. The Company currently intends to retain all of its future earnings, if any, for use in its business and does not anticipate paying any cash dividends in the foreseeable future.

CAPITALIZATION

The following table sets forth (i) the actual capitalization of the Company derived from its financial statements as of December 31, 1996, (ii) pro forma capitalization of the Company, giving effect to (a) the authorization of 967,915 shares of Series B Preferred Stock and the sale and issuance on January 30, 1997 of 967,915 shares of Series B Preferred Stock at a price of $9.35 per share and (b) the restatement of the Company's Amended and Restated Certificate of Incorporation to provide for authorized capital stock of

50,000,000 shares of Common Stock and 5,000,000 shares of undesignated Preferred Stock, and (c) the conversion of all outstanding shares of Preferred Stock into 3,467,913 shares of Common Stock immediately prior to the closing of the Offering, and (iii) the pro forma as adjusted capitalization of the Company to reflect the sale by the Company of 3,600,000 shares of Common Stock pursuant to the Offering at an assumed public offering price of $10.25 and the receipt by the Company of the estimated net proceeds therefrom, after deducting estimated underwriting discounts and estimated offering expenses. The capitalization information set forth in the table below is qualified by the more detailed Consolidated Financial Statements and Notes thereto included elsewhere in this Prospectus and should be read in conjunction with such Consolidated Financial Statements and Notes.

	DECEMBER 31, 1996		
	ACTUAL	PRO FORMA	PRO FORMA AS ADJUSTED
	(IN THOUSANDS)		
Cash and cash equivalents	$ 9,062	$18,112	$51,129
Stockholders' equity (1):			
Convertible preferred stock, $0.001 par value; 1,500,000 shares authorized, 1,500,000 shares issued and outstanding, actual; 5,000,000 shares authorized, no shares issued and outstanding, pro forma and pro forma as adjusted	2	--	--
Common stock, $0.001 par value; 16,666,666 shares authorized, 12,427,213 shares issued and outstanding, actual; 50,000,000 shares authorized, 15,895,126 shares outstanding, pro forma; 50,000,000 shares authorized, 19,495,126 shares issued and outstanding, pro forma as adjusted	12	16	19
Additional paid-in capital	15,073	24,121	57,135
Deferred compensation	(26)	(26)	(26)
Accumulated deficit	(7,065)	(7,065)	(7,065)
Total stockholders' equity	7,996	17,046	50,063
Total capitalization	$ 7,996	$17,046	$50,063

- --------

(1) Gives effect to a five-for-three stock split approved by the Board of Directors on November 24, 1996 and effected January 30, 1997. Excludes as of December 31, 1996: (i) 2,280,815 shares of Common Stock reserved for issuance pursuant to options outstanding under the Company's 1996 Stock Option Plan and 1996 Stock Incentive Plan at a weighted exercise price of $2.21 per share. On October 23, 1996, the Company terminated the 1996 Stock Option Plan and adopted the 1996 Stock Incentive Plan and, on November 24, 1996, amended the 1996 Stock Incentive Plan and adopted the 1996 Employee Stock Purchase Plan and reserved 1,250,000 and 666,666 shares of Common Stock, respectively, for issuance thereunder. Subsequent to December 31, 1996, the Board of Directors granted options to purchase an additional 124,750 shares of Common Stock with an exercise price of $8.80 per share under the Company's 1996 Stock Incentive Plan. See "Capitalization," "Management--Stock Plans" and Notes 1, 7 and 8 of Notes to Consolidated Financial Statements.

DILUTION

The pro forma net tangible book value of the Company as of December 31, 1996 was $16.6 million or $1.04 per share of Common Stock. Pro forma net tangible book value per share is equal to the Company's total tangible assets less its total liabilities, divided by the number of shares of Common Stock outstanding on a pro forma basis after giving effect to (i) the sale and issuance on

January 30, 1997 of 967,915 shares of Series B Preferred Stock at a price of $9.35 per share and (ii) the conversion of all outstanding shares of Preferred Stock into 3,467,913 shares of Common Stock immediately prior to the closing of the Offering. After giving effect to the sale of 3,600,000 shares of Common Stock offered hereby at an assumed initial public offering price of $10.25 and the receipt by the Company of the estimated net proceeds therefrom, after deducting estimated underwriting discounts and estimated offering expenses, the pro forma net tangible book value of the Company at December 31, 1996 would have been $49.6 million, or $2.54 per share. This represents an immediate increase in pro forma net tangible book value of $1.50 per share to existing stockholders and an immediate dilution of $7.71 per share to new investors. The following table illustrates this per share dilution:

Assumed initial public offering price per share....................		$10.25
Pro forma net tangible book value per share before the Offering....	$1.04	
Increase per share attributable to new investors..................	1.50	
Pro forma net tangible book value per share after the Offering......		2.54
Dilution per share to new investors...............................		$ 7.71

The following table summarizes, on a pro forma basis as of December 31, 1996, the number of shares of Common Stock purchased from the Company, the total consideration paid to the Company and the average price per share paid by existing stockholders and by the investors purchasing shares of Common Stock in this offering (before deducting estimated underwriting discounts and estimated offering expenses):

	SHARES PURCHASED		TOTAL CONSIDERATION		AVERAGE PRICE PER
	NUMBER	PERCENT	AMOUNT	PERCENT	SHARE
Existing stockholders(1).........	15,895,126	81.5%	$24,137,000	39.5%	$ 1.52
New investors(1).................	3,600,000	18.5%	36,900,000	60.5%	10.25
Total.........................	19,495,126	100.0%	$61,037,000	100.0%	

- --------

(1) The sale of shares by the Selling Stockholder in the Offering will cause the number of shares held by the existing stockholders to be reduced to 15,495,126, or approximately 79.5% of the total number of shares, and will increase the number of shares to be purchased by new stockholders to 4,000,000, or 20.5% of the total number of shares. Assuming full exercise of the Underwriters' over-allotment option, the number of shares held by new stockholders would be increased to 4,600,000 shares or 22.9% of the total number of shares outstanding.

The foregoing tables exclude 2,405,565 shares that are issuable upon exercise of options outstanding as of January 31, 1997 with a weighted average exercise price of $2.55 per share. See "Management--Stock Plans." To the extent that outstanding options are exercised in the future, there will be further dilution to new investors.

SELECTED CONSOLIDATED FINANCIAL DATA

The following selected consolidated financial data should be read in conjunction with the Consolidated Financial Statements and related notes thereto and "Management's Discussion and Analysis of Financial Condition and Results of Operations" appearing elsewhere in this Prospectus. The statement of operations data for the period from January 31, 1995 (date of inception) to

December 31, 1995, and the year ended December 31, 1996 and the balance sheet data as of December 31, 1995 and December 31, 1996 are derived from the Consolidated Financial Statements of the Company which have been audited by Arthur Andersen LLP, independent auditors, and are included elsewhere in this Prospectus. See "Management's Discussion and Analysis of Financial Condition and Results of Operations."

	JANUARY 31, 1995 (DATE OF INCEPTION) TO DECEMBER 31, 1995	THREE MONTHS ENDED MARCH 31, 1996	JUNE 30, 1996	SEPTEMBER 30, 1996	DECEMBER 31, 1996	YEAR ENDED DECEMBER 31, 1996
	(IN THOUSANDS, EXCEPT SHARE, PER SHARE AND SUPPLEMENTAL OPERATING DATA)					
STATEMENT OF OPERATIONS DATA:						
Revenues	$ 274	$ 436	$ 952	$ 1,434	$ 2,203	$ 5,025
Operating expenses:						
Marketing and advertising	476	475	678	1,247	2,039	4,439
Selling, training and support	454	362	563	851	1,417	3,193
Technology development	99	67	78	294	954	1,393
General and administrative	275	134	258	740	1,027	2,159
Total operating expenses	1,304	1,038	1,577	3,132	5,437	11,184
Loss from operations	(1,030)	(602)	(625)	(1,698)	(3,234)	(6,159)
Other income (expense), net	--	--	(6)	22	108	124
Net loss	$ (1,030)	$ (602)	$ (631)	$ (1,676)	$ (3,126)	$ (6,035)
Net loss per common and common equivalent shares (1)	$ (.07)	$ (.04)	$ (.04)	$ (.11)	$ (.19)	$ (.38)
Weighted average common and common equivalent shares outstanding (1)	15,262,262	15,262,262	15,262,262	15,892,576	16,761,962	15,792,293
SUPPLEMENTAL OPERATING DATA:						
Purchase requests received	42,600	44,900	73,700	102,700	123,700	345,000
Paying franchises of subscribing dealerships	253	546	728	978	1,206	1,206

	DECEMBER 31, 1995	DECEMBER 31, 1996
	(IN THOUSANDS)	
BALANCE SHEET DATA:		
Cash and cash equivalents	$ 48	$ 9,062
Working capital (deficit)	(1,099)	5,960
Total assets	285	12,298
Total liabilities	1,275	4,302
Accumulated deficit	(1,030)	(7,065)
Stockholders' equity (deficit)	(990)	7,996

- -------

(1) See Note 1.o of Notes to Consolidated Financial Statements for an explanation of the determination of shares used in computing net loss per share.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion of the results of operations and financial condition of the Company should be read in conjunction with the Company's Consolidated Financial Statements and Notes thereto included elsewhere in this Prospectus. This discussion contains forward-looking statements based on current expectations which 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 set forth in the section entitled "Risk Factors" and elsewhere in this Prospectus.

OVERVIEW

Auto-By-Tel is establishing a nationally branded Internet-based marketing service for new and used vehicle purchasing and related consumer services. The Company's Web site (www.autobytel.com) enables consumers to gather valuable automotive information and shop for vehicles and related consumer services from the convenience of their home or office. Monthly vehicle purchase requests increased from 10,700 in January 1996 to 40,000 in December 1996. During the same period, the number of paying franchises of subscribing dealerships increased from 253 franchises as of December 31, 1995 to 1,206 franchises as of December 31, 1996. The Company believes that the growth rates experienced by the Company since inception are not indicative of future growth rates and that growth will be slower in the future. Auto-By-Tel LLC was formed in January 1995 and began operations in March 1995. In July 1995, it introduced its Web site. Effective as of May 31, 1996, the interests of the members of Auto-By-Tel LLC and ABT Acceptance Company LLC, an affiliate, were transferred to the Company in a tax-free transaction.

The Company first recognized revenues from operations in March 1995. Accordingly, the Company has only a limited operating history upon which an evaluation of the Company and its prospects can be based. In addition, the Company believes that, in order to achieve its objectives, it will need to significantly increase revenues from existing services and generate revenues from new services, such as the planned used vehicle buying service and the planned vehicle financing, leasing and insurance policy referral services. As a result of the Company's limited operating history, the Company lacks sufficient historical financial and operating data on which to base operating results. The Company's expense levels are based in part on its expectations as to future revenues, which may vary in relation to increases or decreases in the number of dealerships which subscribe to the Company's marketing program. The Company's inability to adjust spending in a timely manner to compensate for any unexpected revenue shortfall would have a material adverse effect on the Company's business, results of operations and financial condition. In addition, the Company anticipates significant increases in costs and expenses as a result of planned increases in its marketing and advertising efforts, dealership training and support, development of affiliate programs relating to vehicle insurance and financing, and the introduction of a used vehicle buying program. The Company also anticipates significant additions to its managerial, technical, sales and marketing, and administrative personnel in order to support the Company's growth and business objectives. To the extent that such expenses exceed, precede or are not subsequently followed by increased revenues, the Company's business, results of operations and financial condition will be materially adversely affected. Significant fluctuations in future quarterly operating results may also be caused by general economic conditions or traditional seasonality in the automobile and light duty truck markets, which may result in fluctuations in the level of purchase requests completed by consumers or adversely affect demand for the Company's existing and planned services. The foregoing factors make it likely that, in some future quarters, the Company's operating results will be below the expectations of the Company, securities analysts or investors. In such event, the trading price of the Common Stock would likely be materially and adversely affected. See "Risk Factors--Limited Operating History and Accumulated Deficit," "--Risks Associated with Introduction of New Service Offerings." and "Risk Factors--Potential Fluctuations in Quarterly Results."

RESULTS OF OPERATIONS

The following tables set forth certain unaudited quarterly financial information for the eight quarters ended December 31, 1996. In the opinion of management, this information has been prepared substantially on the same basis as the financial statements appearing elsewhere in this Prospectus, and all necessary adjustments (consisting only of normal recurring adjustments and certain non-recurring adjustments) have been included in the amounts stated below to present fairly the unaudited quarterly results when read in conjunction with the audited consolidated financial statements of the Company and related notes thereto appearing elsewhere in this Prospectus. The operating results for any quarter are not necessarily indicative of the operating results for any future period.

	QUARTER ENDED							
	MAR. 31, 1995(1)	JUNE 30, 1995	SEPT. 30, 1995	DEC. 31, 1995	MAR. 31, 1996	JUNE 30, 1996	SEPT. 30, 1996	DEC. 31, 1996
	(IN THOUSANDS)							
Revenues	$ 3	$ 18	$ 77	$ 176	$ 436	$ 952	$ 1,434	$ 2,203
Operating expenses:								
Marketing and advertising	6	38	130	302	475	678	1,247	2,039
Selling, training and support	13	98	136	207	362	563	851	1,417
Technology development	6	28	44	21	67	78	294	954
General and administrative	14	73	83	105	134	258	740	1,027
Total operating expenses	39	237	393	635	1,038	1,577	3,132	5,437
Loss from operations	(36)	(219)	(316)	(459)	(602)	(625)	(1,698)	(3,234)
Other income (expense), net	--	--	--	--	--	(6)	22	108
Net loss	$(36)	$(219)	$(316)	$(459)	$ (602)	$ (631)	$(1,676)	$(3,126)

- --------

(1) Period from the Company's inception on January 31, 1995.

REVENUES

Revenues were $274,000 in 1995 and $5.0 million in 1996. Revenues increased each successive quarter, from $3,000 in the first quarter of 1995 to $176,000 in the fourth quarter of 1995 to $436,000 in the first quarter of 1996 to $2.2 million in the fourth quarter of 1996. The growth in revenues was primarily due to an increase in the number of paying subscribing dealerships in the Company's new vehicle marketing programs from 253 as of December 31, 1995 to 1,206 as of December 31, 1996, and, to a lesser extent, increases in average dealership fees.

Since its inception in January 1995, the Company has derived substantially all of its revenues from fees paid by its paying subscribing new vehicle dealerships. Currently, these fees typically consist of (i) initial subscription fees ranging from $2,500 to $4,500, (ii) annual fees of $2,500 and (iii) monthly fees ranging from $250 to $1,500. These dealership fees are fixed. However, under the Company's marketing agreements, which less than half of subscribing dealerships have signed, the Company may typically increase or decrease dealership fees with 30 or 60 days' prior notice. For example, the average initial and monthly fee paid by the Company's subscribing dealerships increased from approximately $2,300 and $250, respectively, in December 1995 to approximately $3,300 and $400 in December 1996. Average annual fees increased from $2,300 in May 1996 to $2,400 in December 1996. The Company intends to continuously review its pricing structure and adjust dealership fees in a manner commensurate with its ability to reduce a dealership's selling costs but there can be no assurance that dealership fees will continue to increase in the future.

As of December 31, 1996 the Company's participating dealership base consisted of (i) 1,206 paying franchises of dealerships, (ii) 509 non-paying franchises affiliated with paying dealerships (collectively, "subscribing

dealerships") and (iii) approximately 230 "trial dealers." A subscribing dealership is comprised

of one or more franchises with typically high volume vehicle sales (such as Ford or Toyota). A subscribing dealership may sell vehicles from multiple manufacturers and therefore have multiple subscribing dealer franchises. Dealerships pay initial, annual and monthly fees per franchise to subscribe to the Company's nationally branded Internet-based marketing program. Non-paying franchises are associated with lower volume vehicle manufacturers (such as Audi, Saab or Suzuki) and receive purchase request referrals without paying fees to Auto-By-Tel. The Company's 230 trial dealerships have not entered into agreements with the Company. Such dealerships maintain an informal relationship with the Company, whereby the Company directs at its discretion, purchase requests to such potential dealership participants on a trial basis in order to assist the Company and the dealership in evaluating the effectiveness of the Auto-By-Tel program at such dealership. The Company does not collect fees from trial dealerships. Neither the Company nor any trial dealership is obligated to continue this relationships nor is any trial dealership obligated to respond to purchase requests which it receives.

In April 1996, the Company introduced its new vehicle marketing service in Canada and, as of December 31, 1996, the Company had 72 paying franchises of subscribing dealerships located in Canada. In 1996, the Company derived approximately 98% of its revenues from dealership fees paid by subscribing dealerships located in the United States and 2% of its revenues from dealership fees paid by subscribing dealerships in Canada. Fees from Canadian dealerships are denominated in U.S. dollars. To date, the Company has had limited experience in providing its Internet-based marketing service abroad and there can be no assurance that the Company will be successful in introducing or marketing its service abroad or will not encounter foreign regulation of its operations.

New vehicle marketing revenues derived under subscription agreements are recognized as follows: initial fees are recognized ratably over the first twelve months following receipt, annual fees are recognized ratably over the twelve months commencing when due, and monthly fees are recognized when due. In certain instances, the Company will waive a newly subscribing dealership's monthly fees for several months. Initial fees are typically paid prior to the commencement of services. The Company typically bills its subscribing dealerships prior to the due date of any monthly fees and annual fees. On average, the Company collects outstanding receivables for monthly and annual fees within two to three weeks of the due date. The Company's new vehicle dealer fees are not calculated on a per vehicle basis. See "--Revenues," "Business--Dealership Network and Training," and Note 1.e of Notes to Consolidated Financial Statements.

In order to generate additional revenues, attract more consumers to its Web site and dealerships to its program and remain competitive, the Company must successfully develop, market and introduce new services. The Company believes that to achieve its objectives it will need to generate a majority of its future revenues from new services. These new services will leverage the Company's existing network of dealerships. The Company's used vehicle marketing program is expected to commence in the first quarter of 1997. The Company will charge each new vehicle dealership which participates in the Company's used vehicle program separate signup and annual fees. See "Business--Products and Services--Used Vehicle Marketing Service." In addition, the Company intends to charge daily listing fees for each used vehicle marketed through the used vehicle program. In October 1996, the Company entered into an agreement with Chase Manhattan pursuant to which Chase Manhattan will offer vehicle loans to consumers referred by the Company and pay the Company and the related subscribing dealership an origination fee on each loan. The Company's financing program with Chase Manhattan is expected to become available to purchasers of new vehicles in the first quarter of 1997 and is intended for consumers with prime (higher quality) credit ratings. Additionally, the Company expects to begin offering financing to purchasers with sub-prime (lower quality) credit ratings in the second quarter of 1997. Finance program revenues will be recognized in the month the loan is originated. The Company also plans to offer leasing through a major financial institution in the second quarter of 1997. In August 1996, the Company began offering an insurance service to its consumers through certain member companies of AIG, one of the largest international insurance organizations,

and, as part of such service, recently began offering a direct hyperlink (text on a Web site that, when selected, links a user to another Web site) to the specific Web site of such AIG member companies. In October 1996, the Company received a fire and casualty insurance broker-agent license from the State of California. Fees due the Company under the insurance program are calculated as a

percentage of the net premiums collected by AIG member companies and revenues are recognized by the Company as premiums on the underlying policies are earned by AIG member companies.

The introduction of new services by the Company's competitors, market acceptance of Internet-related services in general and, in particular, demand for the Company's services, and the introduction by the Company of new services and market acceptance of such services may also result in significant fluctuations in quarterly operating results. In addition, as a strategic response to changes in the competitive environment, the Company may from time to time make certain pricing or marketing decisions or establish strategic relationships that could have a material adverse effect on the Company's business, results of operations or financial condition. In particular, the Company may need to revise the marketing fees it charges to subscribing dealers. There can be no assurance that subscribing dealerships will continue to participate in the Company's marketing program or agree to future fee increases. Currently, less than half of subscribing dealerships have entered into written marketing agreements with the Company and these subscribing dealerships may cancel subscriptions on 30 days' prior notice. As a result, quarterly sales and operating results may vary significantly in response to any significant change in the number of subscribing dealerships. In December 1996, the Company commenced an effort to have all subscribing dealerships execute revised marketing agreements with the Company, which have been revised to provide, among other things, that such dealerships will not participate in any other Internet-based or online program with attributes similar to those of the Auto-By-Tel program. At the same time, the Company commenced a program to have all subscribing dealerships enter into written agreements relating to the Auto-By-Tel financing program. As of March 11, 1997, approximately 48% and 26% of all subscribing dealerships had signed the revised marketing agreement and the financing agreement, respectively. Some of the Company's dealers have resisted signing written agreements and there can be no assurance that the Company will be able to convince its subscribing dealers to enter into written agreements with the Company or revise existing agreements or that the Company's efforts to cause subscribing dealers to sign these agreements will not result in the subscribing dealers terminating their relationship with Auto-By-Tel. See "Business--Dealership Network and Training."

MARKETING AND ADVERTISING

Marketing and advertising expenses have historically consisted primarily of referral fees paid to online automotive information providers, online service providers and online search engine companies which recommend and refer consumers to the Auto-By-Tel Web site or allow consumers to complete Auto-By-Tel vehicle purchase requests on their Web sites. Other marketing and advertising expenses include print advertising, public relations expenses, salaries and associated expenses related to the Company's marketing personnel. Marketing and advertising expenses were $476,000 in 1995 and $4.4 million in 1996. Marketing and advertising expenses increased each successive quarter, from $6,000 in the first quarter of 1995 to $302,000 in the fourth quarter of 1995 to $475,000 in the first quarter of 1996 to $2.0 million in the fourth quarter of 1996. Marketing and advertising expenses increased due to increased referral fees paid as a result of increased vehicle purchase requests, increased print advertising, and the addition of marketing and advertising employees as well as national print and television branding efforts. The marketing and advertising staff grew from two employees as of December 31, 1995 to five employees as of December 31, 1996. The Company anticipates that the overall level of marketing and advertising expenditures will increase significantly in the future, particularly in the first half of 1997 in connection with the Company's efforts to further increase awareness of the Auto-By-Tel brand name. The Company commenced cable television advertising in the fourth quarter of 1996 and launched network television advertising in the first quarter of 1997. Due to seasonal variations in the timing of marketing and advertising expenditures, the Company anticipates that marketing and advertising expenses will vary significantly from quarter to quarter.

Much of the Company's advertising is placed on Web sites maintained by online service providers and online search engine companies. The Company's advertising agreements with online service providers and search engine companies are generally short-term contracts or are otherwise cancelable on short notice. There can be no assurance that these advertisers will not cancel such contracts, or that competitors will not be able to displace

Auto-By-Tel from its preferred advertising arrangements with such companies. The intense competition in the sale of Internet advertising, including competition from other vehicle marketing services, has resulted in a wide range of rates quoted by different vendors for a variety of advertising services. This makes it very difficult to project future levels of Internet advertising costs and availability of prime advertising space. The Company has also entered into agreements with automotive information services, such as Edmunds and Microsoft CarPoint, to display the Company's services on their Web sites. These agreements require the Company to pay such entities a fee for each user who submits a vehicle purchase request to Auto-By-Tel from their sites. Accordingly, any increase in the volume of purchase requests will result in increased advertising costs, but revenue from dealers will not necessarily increase thereafter. The Company is also incurring significant expenses to increase awareness of its Internet-based marketing service in print and television media. The Company expects these expenses to increase significantly, particularly in the first half of 1997. In the fourth quarter of 1996, the Company began to advertise on cable television. In the first quarter of 1997, the Company commenced advertising on network television, including a 30 second commercial which aired during the Super Bowl. See "Business--Marketing and Sales."

SELLING, TRAINING AND SUPPORT

Selling, training and support expenses consist primarily of dealer training and support, salaries and related costs for customer service personnel and travel and entertainment. Selling, training and support expenses were $454,000 in 1995 and $3.2 million in 1996. Selling, training and support expenses increased each successive quarter, from $13,000 in the first quarter of 1995 to $207,000 in the fourth quarter of 1995 to $362,000 in the first quarter of 1996 to $1.4 million in the fourth quarter of 1996. Selling, training and support expenses increased primarily as the result of the addition of selling, training, and support staff and the associated overhead and employment costs. Selling, training and support staff grew from 11 employees as of December 31, 1995 to 39 employees (including two in Canada) as of December 31, 1996.

TECHNOLOGY DEVELOPMENT

Technology development expenditures are charged to expense as incurred and consist primarily of personnel and related compensation costs and contract labor to support software development and configuration and implementation of the Company's Internet, telecommunications and support system infrastructure. Technology development expenses have increased significantly since the Company's inception, from $6,000 in the first quarter of 1995 to $67,000 in the first quarter of 1996 to $954,000 in the fourth quarter of 1996. Technology development expenses increased primarily as a result of increased third party software development costs and increased costs associated with the increase in technical headcount from one employee as of April 25, 1996 to 12 employees as of December 31, 1996 and, to a lesser extent, additional indirect costs associated with the Company's expanded technology development efforts. These increased expenditures were necessary to support the Company's development of its Dealer Realtime System, the used vehicle program software and systems, and the rollout of the financing and lease programs.

GENERAL AND ADMINISTRATIVE

General and administrative expenses consist primarily of salaries of financial and administrative personnel, a portion of salaries of other managerial personnel and related travel expenses, as well as legal and accounting expenses. General and administrative expenses increased each successive quarter, from $14,000 in the first quarter of 1995 to $105,000 in the fourth quarter of 1995 to $134,000 in the first quarter of 1996 to $1.0 million in the fourth quarter of 1996. General and administrative expenses increased primarily as a result of increased accounting and legal expenses, and the addition of administrative and financial staff. The general and

administrative staff grew from three employees as of December 31, 1995 to 17 employees as of December 31, 1996. The Company intends to increase the absolute dollar level of general and administrative expenses in future periods. The Company anticipates significant additions to its managerial, technical, sales and marketing and administrative personnel in order to support the Company's growth and business objectives. To the extent that such expenses exceed, precede or are not subsequently followed by increased revenues, the Company's business, results of operations and financial condition will be materially adversely affected.

OTHER INCOME (EXPENSE), NET

Other expense in the second and third quarters of 1996 consisted of interest expense on amounts borrowed from the Company's Chairman, John Bedrosian, and Michael Fuchs, who subsequently became a director of the Company. These amounts were loaned to the Company to allow the Company to meet its liquidity requirements. Following the Company's $15.0 million financing in August 1996, the Company repaid the amounts borrowed from Mr. Bedrosian, together with $20,000 of accrued interest expense, and converted the amounts borrowed from Mr. Fuchs, together with accrued interest, into Series A Preferred Stock. The Company realized $40,000 and $108,000 of interest income in the third and fourth quarters, respectively, as a result of increased cash balances derived from the issuance of Series A Preferred Stock. See Notes 3 and 5.a of Notes to Consolidated Financial Statements.

INCOME TAXES

No provision for federal and state income taxes has been recorded as the Company incurred operating losses through December 31, 1996. As of December 31, 1996, the Company had approximately $4.7 million of net operating loss carryforwards which are available to offset future federal and state taxable income; such carryforwards expire in various years through 2011. Under the Tax Reform Act of 1986, the amounts of and the benefits from net operating loss carryforwards may be impaired in certain circumstances. Events which may cause such limitations in the amount of available net operating losses which the Company may utilize in any one year include, but are not limited to, a cumulative ownership change of more than 50% over a three year period. As of December 31, 1996, the effect of such limitation, if imposed, has not been determined. The Company has provided a full valuation allowance on the deferred tax asset because of the uncertainty regarding its realization. See Note 4 of Notes to Consolidated Financial Statements.

LIQUIDITY AND CAPITAL RESOURCES

As of December 31, 1996, the Company had approximately $9.1 million in cash and short-term investments. Since its inception, the Company has financed its operations primarily through loans from John Bedrosian, the Company's Chairman and co-founder, loans from Mr. Michael Fuchs, who subsequently became a director of the Company, and the issuance of Preferred Stock in August 1996 and January 1997. See "Certain Transactions." For fiscal 1995 and 1996, cash used in operating activities was primarily attributable to the net losses from operations and increases in accounts receivable, prepaid expenses and other assets, offset to some extent by increases in deferred income and other current liabilities. For the year ended December 31, 1996, cash used in investing activities was attributable to purchases of property and equipment consisting primarily of computer hardware, telecommunications equipment, furniture and leasehold improvements.

The Company has no material commitments other than those under the operating lease for its principal executive offices and certain marketing and advertising agreements and arrangements (considered in the aggregate) for the next twelve months. However, the Company anticipates a substantial increase in its capital expenditures and operating lease expenses in 1997. The Company believes that the net proceeds from this offering, along with current cash and cash equivalents, will be sufficient to fund its working capital and capital expenditure requirements for at least the next twelve months. Thereafter, if cash generated from operations is insufficient to satisfy the Company's liquidity requirements, the Company may seek to issue additional equity or debt securities or establish a credit facility. The issuance of additional equity or convertible debt securities could result in additional dilution to the Company's shareholders. There can be no assurance that financing will be available to the Company in amounts or on terms acceptable to the Company. See

"Use of Proceeds" and Notes 2, 3, 5, 6, 7 and 8 of Notes to Consolidated Financial Statements.

BUSINESS

OVERVIEW

Auto-By-Tel is establishing a nationally branded Internet-based marketing service for new and used vehicle purchasing and related consumer services. The Company's Web site (www.autobytel.com) enables consumers to gather valuable information about automobiles and light duty trucks ("vehicles") and shop for vehicles and related consumer services from the convenience of their home or office. This convenience, coupled with low, haggle-free pricing and quick and courteous service, improves consumers' overall buying experiences. The Company's Internet-based alternative to traditional vehicle retailing dramatically reduces participating dealerships' selling costs per vehicle and increases sales volumes by channeling a large number of ready-to-buy, well-informed consumers to Auto-By-Tel dealerships. The Company's Internet-based services are free to consumers and, to date, the Company has derived substantially all of its revenues from fees paid by subscribing dealerships. See "Management's Discussion and Analysis of Financial Condition and Results of Operations--Revenues."

Consumers wishing to purchase new vehicles through the Company's services complete a request available on the Company's and its partners' Web sites which specifies the type of vehicle and accessories desired, along with the consumer's phone number, e-mail address and zip code. The purchase request is then forwarded to the Auto-By-Tel participating dealership located in the consumer's geographic area. Typically, consumers are contacted by dealers within 48 hours with a firm, competitive quote for the vehicle, eliminating the unwelcome and time-consuming task of negotiating with the dealer and thus facilitating completion of the sale. As of December 31, 1996 the Company's Internet-based dealership base consisted of (i) 1,206 paying franchises of dealerships, (ii) 509 non-paying franchises affiliated with paying dealerships (collectively, "subscribing dealerships"), and (iii) approximately 230 "trial dealers." Non-paying franchises are typically franchises of lower-volume manufacturers affiliated with paying franchises participating in the Auto-By-Tel program. The Company enters into agreements with non-paying franchises to ensure that it is able to serve the broadest base of customers and increase its geographic coverage for the make of vehicle represented by the non-paying franchise. Accommodating non-paying franchises allows Auto-By-Tel to offer additional benefit to its dealership network and represents a potential source of additional financing and insurance revenue. In addition, the Company may begin charging marketing fees to a non-paying franchise which begins to receive a sufficient number purchase requests. From the commencement of operations in March 1995 to December 31, 1996, the Company received more than 385,000 new vehicle purchase requests. See "Dealership Network and Training."

INDUSTRY BACKGROUND

Information and Commerce on the Internet

The Internet is a network of computers which enables users to access and share information and conduct business transactions. Much of the recent growth in the use of the Internet by businesses and individuals has been driven by the emergence of the World Wide Web (the "Web") which enables non-technical users to exploit the resources of the Internet. International Data Corporation ("IDC") estimates that the number of Web users increased from 16.1 million at the end of 1995 to 34.6 million at the end of 1996 and that this number will increase to 163 million by the end of the year 2000.

The emergence of the Internet as a significant communications medium is driving the development and adoption of Web content and commerce applications that offer convenience and value to consumers, as well as unique marketing opportunities and reduced operating costs to businesses. By hosting information about products and services on the Web, a company can enable potential customers in any geographical area to gather relevant, in-depth information about products and services at their convenience and according to their preferences. A growing number of consumers have begun to transact business electronically, such as paying bills, booking airline tickets, trading securities and purchasing consumer goods, including personal computers, consumer electronics, compact disks, books and vehicles. Moreover,

online transactions can be faster, less expensive and more convenient than transactions conducted through a human intermediary. In addition, Web commerce

applications enable businesses to rapidly target and economically manage a broad customer base and establish and maintain ongoing direct customer relationships. IDC estimates that the dollar value of goods and services purchased over the Web will increase from approximately $318 million in 1995 to $95 billion in the year 2000.

The increasing use of the Internet has encouraged information providers to post their automotive information on the Internet. For example, Kelley Blue Book (www.kbb.com), Edmund Publications (www.edmund.com), AutoSite (www.autosite.com), IntelliChoice (www.intellichoice.com) and Microsoft's CarPoint (carpoint.msn.com) all maintain Web sites that allow consumers to conduct comprehensive automotive research online. The marketing capabilities of the Web, combined with the easy availability of automotive information, have enabled the establishment of Web-based vehicle marketing services. Many of these services may be characterized as either online services sponsored by technology providers with little understanding of the automobile and light duty truck markets, or Web sites published by traditional vehicle dealers or manufacturers which do not effectively utilize the capabilities of the Internet to provide an effective buying solution.

New Vehicle Retailing

Buying a new vehicle is the second largest purchase an average consumer makes. According to The Chicago Corporation $293 billion was spent by consumers in the United States in 1995 on new vehicles, representing 14.8 million new units. Although it attracts significant consumer dollars, the vehicle sales process has not changed significantly in the last 25 years. In the United States, new vehicles are sold almost exclusively by approximately 22,000 dealerships franchised by manufacturers.

The excitement of purchasing a new vehicle is often muted by the fear of being misled, intimidated or pressured into making a purchase decision. Dealerships typically retain multiple levels of sales personnel trained in sales, deal closing, finance and insurance. As a result, a consumer is often faced with the prospect of negotiating with numerous individuals, all of whom receive compensation based on a percentage of the profits on each sale. This makes it difficult for a consumer to receive clear information or a fair price without protracted and unpleasant negotiation. These dynamics often result in low consumer satisfaction as consumers view sales tactics utilized by some dealers as self serving, unfair, intimidating or overbearing.

Notwithstanding the magnitude of the new vehicle market, the automotive dealer infrastructure is under pressure and consolidating. The new vehicle retailing business is fiercely competitive due to an overabundance of dealers. A significant number of dealers not only compete against dealers franchised by other manufacturers, but against dealers located in the same geographical area who are affiliated with the same manufacturer. In addition, the typical business model of a new vehicle dealership is capital intensive, requiring significant investments in inventory, and is characterized by an expensive sales cost structure and significant pressure to increase per unit gross profit. These factors have fostered industry consolidation resulting in a 25% decrease in the number of dealerships in the last 25 years. According to J.D. Power and Associates, a recognized automobile industry market research firm, this consolidation trend is likely to continue in the future.

The historic abundance of dealerships and the resulting intense competition have led to the development of high-pressure sales methods designed not only to complete the sale of new vehicles, but also to increase per unit gross profit from additional product sales to the same consumer, such as vehicle accessories, financing, insurance and extended service contracts. These high-pressure sales methods have resulted in low consumer satisfaction and low sales productivity. The Company believes that the productivity of a typical retail salesperson has essentially remained unchanged over the past 10 years. In order to overcome this low productivity, a dealership must generate more sales leads by spending significant amounts to market its franchise, maintain a large selection of vehicles and improve the physical premises to attract consumers. These efforts are often accompanied by high priced print and television advertising. These factors, combined with the high cost of attracting and retaining the numerous sales personnel required to effect

vehicle sales utilizing current sales methods, have significantly increased the average cost per new vehicle sold. According to the National Automobile Dealers Association ("NADA"), the industry's largest dealer organization, average labor and overhead costs (exclusive of floor plan

and prorated rent expenses) incurred per vehicle sold in 1995 totaled approximately $1,120 and average marketing and advertising cost per vehicle sold in 1995 totaled $219. According to The Chicago Corporation, increased costs contributed to an average loss to dealers of $22 per new vehicle sold in 1995.

Low consumer satisfaction and the inefficient nature of traditional vehicle retailing have left both consumers and retailers seeking an alternative means of buying and selling automobiles and light duty trucks.

THE AUTO-BY-TEL SOLUTION

Auto-By-Tel is establishing a nationally branded Internet-based marketing service for new and used vehicle purchasing and related consumer services. Using the Internet, consumers in the United States and Canada submit purchase requests on the Company's and its partners' Web site. Each purchase request is then forwarded to the Auto-By-Tel dealership located in the consumer's geographic area. The dealership then telephones the consumer with a firm, competitive price. By providing an Internet-based alternative to traditional vehicle retailing, Auto-By-Tel provides the following benefits:

Benefits to Consumers. Using Auto-By-Tel's Internet-based marketing program, consumers benefit from the convenience and privacy of shopping from their home or office; online access to a wide range of up-to-date information about vehicle models, options and dealer costs; receipt of a competitive price without the need to haggle; and quick and courteous delivery of the vehicle.

Benefits to Dealers. One of the goals of the Auto-By-Tel program is to significantly reduce dealers' labor and marketing costs attributable to a vehicle sale. The Company provides participating dealers a high-volume of quality purchase requests at a low cost. These requests are submitted by consumers who have indicated their level of purchase commitment and who, in most cases, have already conducted research on their desired vehicle. As a result, dealers can complete the sales process more quickly and efficiently under the Auto-By-Tel program than via traditional sales methods, thereby reducing a dealer's labor costs. In addition, participating dealers can reduce their average per vehicle marketing costs by gaining access to a large number of serious purchasers without incurring the expense of incremental advertising.

STRATEGY

The Company is committed to being the premier nationally branded, Internet-based marketing service for new and used vehicles and related consumer services. Key elements of the Company's strategy include:

Enhancing the Strength of Auto-By-Tel Brand Name. The Company believes that enhancing the strength of the Auto-By-Tel brand name and positioning itself as the industry standard for Internet-based, consumer friendly, low cost vehicle purchasing and related consumer services is critical in its efforts to attract vehicle buyers and to increase the size of its subscribing dealership base. The Company further believes that the early stage of Internet commerce and the Company's leadership in the development of the Internet-based vehicle purchasing market provide it with an opportunity to establish a level of branding not typically available to newer companies. A key element of the Company's strategy is to devote significant management and financial resources to brand name-building activities, including advertising in online and traditional print and television media, public relations initiatives and participation in industry conferences and trade shows. The Company aggressively promotes awareness of its brand name primarily through (i) strategic marketing relationships with Internet-based automotive information providers including AutoSite, Edmund's and Microsoft CarPoint, (ii) Internet advertising (sometimes on an exclusive or preferred basis) on online search engines, such as Excite, Magellan, and WebCrawler, (iii) online service providers, such as America Online's Digital Cities, CompuServe and Prodigy and (iv) in popular automotive and Internet related magazines. Recently, the

Company began to place advertisements in a number of additional leading magazines and on television in order to reach a wider audience, strengthen the awareness of the Auto-By-Tel brand name and drive consumer traffic to the Company's Web site.

Maintaining, Strengthening and Expanding Online and Internet Relationships. Contractual agreements with online services, Internet search engine companies, and other service providers which recommend and refer

consumers to the Company or allow consumers to complete purchase requests on their Web sites are critical to increasing the Company's visibility on the Internet, enhancing the strength of its brand name and generating a high volume of purchase requests. For example, the Company has exclusive or preferred position on Web sites maintained by AutoSite, Edmund's and Microsoft CarPoint. The Company intends to strengthen its relationships with existing Internet referral sources and continue to seek exclusive or preferred arrangement with such sources. In addition, the Company continues to seek opportunities to promote its services on other Web sites or to enter into strategic alliances with or acquisitions of complementary service providers. See "Marketing and Sales."

Continuing to Expand and Upgrade Technology Infrastructure. The Company believes that its future success is significantly dependent on its ability to continuously improve the speed and reliability of its Web site, accommodate increasing traffic and enhance communication functionality with its consumers and dealers. The Company has recently added the capability to communicate with dealers online and upload information, including photographs, on a weekly basis, about their used vehicle inventory to the Company's used vehicle database. The Company plans to continue to expand its technological infrastructure, enhance the security and reliability of the Company's Web site and develop additional sophisticated software applications and user interfaces to accommodate planned services.

Expanding Dealership Base and Improving Dealer Service. The Company believes that the size and quality of its participating dealership base is critical to the success of its business. The Company intends to capitalize on its marketing and advertising programs to further the expansion of its dealership base. This expansion would provide the Company with the ability to increase its geographic penetration and improve its ability to service the purchase requests of a greater number of consumers. In addition, the Company believes that increased consumer satisfaction with the vehicle purchasing experience is essential to the success and differentiation of its services. Accordingly, the Company maintains an extensive training program for its participating dealerships which includes the initial and ongoing training of dealership representatives and emphasizes rapid response times, a firm competitive price quote and fair and honest treatment of its consumers. The Company regularly solicits consumer feedback and monitors dealership compliance with the Auto-By-Tel program.

Leveraging Existing Auto-By-Tel Brand Name and Marketing Model with Additional Services. The Company continually evaluates opportunities to leverage the Auto-By-Tel brand name and its Internet-based vehicle purchasing model by introducing new and complementary services. For example, the Company has an alliance with AIG to offer the Company's consumers high-quality and price competitive vehicle insurance and an agreement with Chase Manhattan to provide competitive new and used vehicle financing to consumers with prime credit ratings. The Company is negotiating similar relationships with several leading financial institutions to provide new and used vehicle leasing services and vehicle loans to sub-prime credit consumers. The Company also plans to introduce used vehicle marketing services and an affinity program to further penetrate its potential consumer base. The Company currently expects these new service offerings to be launched in the first half of 1997.

Pursuing International Growth Opportunities. The Internet and online service providers enable the Company to market its services internationally. The Company believes that its vehicle purchasing model can be adapted for use in countries in which the vehicle retailing industry faces structural inefficiencies and consumer dissatisfaction similar to that experienced in the United States. The Company recently introduced its service in Canada and as of December 31, 1996, had a subscribing dealership base of 72 Canadian franchises and, in the fourth quarter of 1996, processed over 3,000 purchase requests from Canadian consumers.

Leveraging Proprietary Consumer Information. The Company's growing database may, in the future, have the potential to provide dealers and manufacturers with improved information regarding consumer preferences which they may utilize to streamline purchasing and production decisions.

PRODUCTS AND SERVICES

The Company's existing and currently planned Internet-based services include:

EXISTING SERVICES	LAUNCH DATE	DESCRIPTION
New vehicle marketing service	March 1995	This service offers a cost-effective new vehicle purchasing method which allows consumers to submit purchase requests to local dealers who promptly contact the consumer with a firm, competitive price over the telephone.
Insurance marketing service	August 1996	The Company entered into a marketing agreement with AIG in August 1996, to provide a vehicle insurance service through the Company's Web site. This service allows users to submit insurance requests for quotes online in order to more rapidly arrange for their personal automobile insurance at competitive rates.

PLANNED SERVICES	ANTICIPATED LAUNCH DATE	DESCRIPTION
Used vehicle marketing service	Q2 1997	This service will allow consumers to purchase high-quality used vehicles available at local area dealerships by searching an extensive database of used vehicles which have been certified to meet certain Auto-By-Tel standards.
Financing and leasing services		In October 1996, the Company entered into an agreement with Chase Manhattan, pursuant to which Chase Manhattan will receive online credit applications from consumers referred by the Company. In addition, the Company is negotiating with several leading financial institutions to offer financing to new and used vehicle consumers with sub-prime credit ratings, as well as new and used vehicle leasing services.
New vehicles		
. Prime credit	Q1-Q2 1997	
. Sub-prime credit	Q2 1997	
. Leasing	Q2 1997	
Used vehicles		
. Prime credit	Q2 1997	
. Sub-prime credit	Q2 1997	
. Leasing	Q2 1997	
Credit union program	Q2 1997	The Company intends to launch a customized marketing service to credit unions to assist their members in purchasing new and used vehicles through Auto-By-Tel participating dealerships.
Affinity program (ABT Mobilist)	Q3 1997	Consumers may join the Company's affinity program, which will provide discounted services, including roadside assistance programs, discounted travel products and special credit card programs.

New vehicle marketing service. Consumers who purchase new vehicles through the Company's Web site complete a purchase request over the Internet which specifies the type of vehicle and accessories the consumer desires, along with the consumer's phone number, e-mail address and zip code. The purchase request is then forwarded to the Auto-By-Tel participating dealership located in the consumer's geographic area and the Company promptly returns an e-mail message to the consumer informing the consumer of the dealership's name and phone number and the name of the Auto-By-Tel manager at the dealership. Typically, the consumer is contacted by the dealership by telephone within 48 hours with a firm, competitive quote for the vehicle, eliminating the unwelcome and time consuming task of negotiating with the dealer and thus facilitating completion of the sale. Consumers usually complete their purchase and take delivery of their vehicles at the dealership showroom. Generally, within 10 days of the submission of the consumer's purchase request, the Company contacts the consumer by e-mail requesting completion of a quality assurance survey on the Company's Web site that is used by the Company and its dealers to improve the quality of dealer service and allows the Company to evaluate the sales process

at participating dealerships.

The Auto-By-Tel network of subscribing dealerships has grown from 367 franchises as of December 31, 1995 to 1,715 franchises as of December 31, 1996. 230 dealers were participating in the Auto-By-Tel program on a non-paying trial basis as of December 31, 1996. Subscribing dealerships are charged initial fees, annual fees and monthly fees to participate in the Auto-By-Tel marketing program. See "Management's Discussion and Analysis of Financial Condition and Results of Operations--Revenues."

Insurance marketing services. According to Best Executive Data Service, the United States' market for total written personal auto insurance premiums totalled $104 billion in 1995. In August 1996, the Company began offering vehicle insurance to its consumers through an online program with certain member companies of AIG. Pursuant to its agreement with certain member companies of AIG, the Company may make automobile insurance available online in all states other than New Jersey, Massachusetts, North Carolina, South Carolina, New Hampshire and the District of Columbia. Additionally, the Company has agreed not to market, or offer Web site access to, any other insurance underwriter for an initial term of 18 months. This initial term may be automatically renewed for additional 12 month periods. The Company's Web site currently offers a direct hyperlink to the specific Web site for such AIG member companies which enables consumers to submit requests for quotes and, when the service is fully implemented, be approved for insurance online. The Company's agreement with AIG provides for fees to the Company to be calculated as a percentage of the net premiums earned and collected by AIG on policies issued to Auto-By-Tel consumers.

Used vehicle marketing service. The market for used vehicles in the United States has been estimated to be $370 billion in 1995, of which $182 billion represented sales of used vehicles by new vehicle franchised dealers. This market has been growing rapidly, due primarily to increasing prices for new vehicles and the large supply of high-quality, late model used vehicles created by the recent trend toward short-term leasing. Used vehicle departments at many dealers are more profitable than new vehicle departments.

The Company intends to leverage its brand name and new vehicle dealership network by launching similar marketing services for used vehicles during the first half of 1997. Unlike existing Internet services which act as unwieldy electronic classified ads, the Auto-By-Tel used vehicle program will display to consumers a wide selection of vehicles available in the consumer's specific locale, tailored to their individualized search parameters. This display will eventually provide warranty and price information on the used vehicle, including updated retail and wholesale prices and the Auto-By-Tel dealership price, and, when available, a digital photograph of the used vehicle. Consumers could then place a purchase request for the used vehicle and would be contacted by the dealer to conclude the sale.

To ensure that the used vehicles being sold through the service are of the highest quality, used vehicles must meet Auto-By-Tel certification standards and dealers must provide a nationwide, limited 90 day warranty. The Company has contracted with Integrated Warranty Services, Inc. ("IWS") to certify that each used vehicle meets Auto-By-Tel's minimum certification standards. Such standards require that a used vehicle's odometer not exceed 75,000 miles, that there be no visually obvious body damage and that no modifications to the used vehicle's body or suspension have been made. During the term of its agreement, IWS has agreed not to provide similar services to most other entities engaged in marketing or facilitating the sale of used vehicles on the Internet. Consumers also receive a 72-hour, money-back guarantee on their purchases which any dealership in the Auto-By-Tel used vehicle program will be required to honor. Only dealers participating in the new vehicle program will be eligible to participate in the used vehicle program.

The Company will charge each new vehicle subscribing dealership that wishes to participate in the Company's used vehicle program a separate and additional signup and annual fee per franchise. The Company anticipates that these fees would initially be lower than those charged in the new vehicle program and is currently considering charging additional sign-up fees ranging from $1,500 to $2,500, annual fees ranging from $1,500 to $2,500. In addition, the Company intends to charge daily listing fees (typically ranging from $1.25 to $2.00) for each used vehicle marketed on the service which will be priced according to the number of used vehicles a dealer lists with the Auto-By-Tel program.

Finance and leasing services. The Company intends to make financing available to consumers purchasing new and used vehicles through the Auto-By-Tel programs. The Auto-By-Tel financing program will be economical, convenient and private. Vehicle buyers will be able to apply for a loan online at the time they submit

their purchase request for either a new or used vehicle. The Company believes that the loans and leases offered through its service will be competitive with those currently available through major financial institutions.

The Auto-By-Tel financing program will benefit lenders, lessors, consumers, and dealers. Finance companies and dealers will benefit from reduced paperwork and processing costs. Consumers will be able to arrive at the dealership with their loan pre-approved, their credit verification documents in hand, and the loan paperwork waiting for them. This will enable immediate delivery and allow the dealer to be more rapidly paid by the lender, thereby accelerating the dealer's cash flow. The Company believes that the convenience of attractive financing, combined with a firm, competitive price, will increase the closing rates on sales attributable to Auto-By-Tel purchase request referrals.

In October 1996, the Company entered into an agreement with Chase Manhattan to receive credit application for new vehicle financing from consumers who submit purchase requests. This arrangement is intended for consumers with prime credit ratings. The agreement has a term of three years but may be terminated sooner by Chase Manhattan with six months' notice or in the event that Auto-By-Tel fails to refer to Chase Manhattan a prescribed percentage of loan application requests received by Auto-By-Tel, or the referred loan applications do not result in a prescribed percentage of loans generated by Chase Manhattan, or Auto-By-Tel otherwise breaches the agreement. The Company anticipates that, when the service is implemented, consumers will be able to access Chase Manhattan's credit applications through the Company's Web site, submit their loan applications online and, depending on the creditworthiness of the consumer, have their loan requests approved electronically while they wait. All responses will be routed simultaneously to the subscribing dealership. The Auto-By-Tel financing program will enable consumers to receive up front, competitive loans from the privacy of their home or office, eliminating the need to negotiate a loan with the traditional car dealership's F&I (finance and insurance) department or visit their local bank or credit union. Chase Manhattan will pay the Company an origination fee for most loans and the dealership will be compensated for each loan made to an Auto-By-Tel consumer. The Company anticipates that this service will be implemented during the first half of 1997.

The Company is negotiating with several financial institutions to offer new and used vehicle leasing programs and financing programs for new and used vehicle purchasers with sub-prime credit ratings. The Company believes that origination fees will vary depending on the credit qualifications of applicants. The Company currently expects to launch a financing program for consumers with sub-prime credit ratings in the second quarter of 1997. The Company expects to begin offering leasing for new and used vehicles by the end of the second quarter of 1997.

Credit Union Program. Auto-By-Tel believes that credit unions, which assist their members in acquiring and financing new and used vehicles, represent an attractive market for its marketing services. There are presently about 11,800 credit unions in the U.S. with about 70 million members according to Callahan and Associates, a recognized authority on the credit union industry. Credit unions account for $80 billion in vehicle loans outstanding as of June 30, 1996. The Company intends to launch a customized program for credit unions to assist their members in purchasing new and used vehicles through Auto-By-Tel participating dealers.

The Company's program is designed to ensure that credit union members receive the same competitive price and courteous service as the Company's direct Internet customers, through access to Auto-By-Tel's participating dealers, while allowing credit unions to provide for the financing needs of their members. The Company's program will offer several Internet-based solutions targeted toward credit union members.

Affinity program (ABT Mobilist). In order to offer Auto-By-Tel consumers additional services and encourage them to regularly revisit the Auto-By-Tel

Web site after purchasing their vehicles, the Company intends to begin offering an Internet-based affinity program during the third quarter of 1997. This program, which has been developed in conjunction with an affinity consulting organization, may include various services, including an affinity credit card, discount travel products, concierge services, discount cellular phone service, entertainment services and special promotional offerings on items such as auto parts. Members will accumulate credits to be applied towards the purchase of automobiles or trucks through an Auto-By-Tel subscribing dealer. The Company currently expects that consumers will pay an annual fee for such programs as well as a small commission each time certain services are utilized. The Company currently anticipates that the annual fee to subscribers will range from approximately $39 to $59 depending upon the level of membership.

In order to generate additional revenues, attract more consumers to its Web site and dealerships to its program and remain competitive, the Company must successfully develop, market and introduce new services. The Company believes that to achieve its objectives it will need to generate a substantial portion of its future revenues from new services. None of these new services has been fully developed and, in some cases, their introduction has been delayed due to difficulties in software development encountered by the Company's Internet partners. For example, the development of an Internet-based system to receive and respond to loan applications was delayed due to difficulties in installing desired encryption (a method by which information is coded and decoded during transmission to prevent misappropriation) hardware and difficulties experienced when testing the financing program with older Internet browser software and the older Windows version 3.11 operating environment. There can be no assurance that the Company will successfully develop or introduce these new services, that such services will achieve market acceptance or that subscribing dealerships will not view such new services as competitive to services already offered by such dealerships. For example, consumers may be reticent to purchase insurance or procure vehicle financing online. Also, it may be more difficult to educate consumers as to the value of locating used vehicles for purchase through the Internet since used vehicle purchases are generally thought to require a greater level of hands-on involvement in the inspection and purchase of a used vehicle. The Company intends to incur additional expenses to develop and successfully market such services. To the extent that revenues generated by such additional services are insufficient to cover such expenses, the Company's operating results would be adversely affected. Should the Company fail to develop and successfully market these services, or should competitors successfully introduce competing services, the Company's business, results of operations, and financial condition may be materially and adversely affected.

MARKETING AND SALES

The Company believes that enhancing its national brand name recognition and position as a leading Internet-based marketing service is critical to its efforts to increase the number of purchase requests and subscribing dealerships. The growing number of Web sites which offer competing services and the relatively low barriers to entry in providing Internet services increase the importance of establishing and maintaining brand name recognition.

In order to enhance brand name awareness, the Company aggressively markets its services to vehicle consumers and Internet users by advertising on the Internet, in print media and on television. The Company has established marketing programs with many of the leading automotive information providers on the Internet, including AutoSite, Edmund's and Microsoft CarPoint. The Company's agreements with automotive information providers typically have terms ranging from one to three years, but some are cancellable with 30 days notice. Microsoft may terminate its marketing agreement with the Company at any time if it determines, in its sole discretion, that the Company's or its dealers' services jeopardize Microsoft's good name or expose it to unacceptable legal risks. In addition, Microsoft may terminate such agreement without cause upon 30 days' prior written notice. Under the agreements, Auto-By-Tel typically pays the automotive information provider a monthly fee based on the number of users who submit Auto-By-Tel purchase requests. In 1996, the Company incurred expenses related to automotive information providers of approximately $630,000. The Company has established a relationship with Edmund's, a leading source of online automobile and light truck price and model information. Consumers are sometimes referred to Auto-By-Tel from

Edmund's. At other times, consumers will begin at the Auto-By-Tel Web site and will be hyperlinked to the Edmund's Web site to obtain price and model information, before returning to Auto-By-Tel to submit a purchase request. The Company pays Edmund's a fee based on the aggregate number of referred and returning consumers submitting a purchase request. In 1996, approximately 170,000 consumers who eventually submitted purchase requests with Auto-By-Tel either were referred to the Company from Edmund's, or went to the Edmund's site and then returned to Auto-By-Tel. Edmund's may terminate its agreement with the Company if fees payable to Edmund's are less than $500,000 in fiscal 1997. While the Company expects the number of referrals and returning consumers from the Edmund's Web site to remain significant, the percentage of consumers entering from or visiting Edmund's during an Auto-By-Tel session has decreased in the past several months due to (i) the availability of other automobile information web sites, (ii) Auto-By-Tel's new practice of referring consumers to an alternate automobile information provider, and (iii) the Company's marketing efforts to encourage consumers beginning their automobile purchasing

sessions at the Company's Web site. Nevertheless, given the current level of consumers accessing the Company from Edmund's, a change or termination in the Edmund's arrangement could have a material adverse effect on the Company's business, results of operations and financial condition. See "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Business--Strategy."

Auto-By-Tel continues to position itself as the leading vehicle and related consumer services marketing program with major online services, such as America Online's Digital Cities, CompuServe and Prodigy, and major Internet search engine companies such as Excite, Magellan, and Web Crawler. The Company believes that its comprehensive coverage of these Internet sites helps to increase purchase request volume and will remain a critical element of the Company's future business. Advertising agreements with these online service providers and search engine companies are generally short-term contracts or are otherwise cancelable on short notice. Payments under these agreements have not been material to date. While no single online or search engine company has individually accounted for material leads to the Company, these companies as a group are a
material source of Internet referrals's to the Auto-By-Tel web site and the Company believes an inability to continue advertising on online service provider or search engine websites would adversely affect the Company.

The Company supplements its coverage of Internet referral sources with traditional print advertising. The Company has historically focused on computer user and hobbyist publications and major automotive magazines. The Company advertises in publications such as Car & Driver, Motor Trend, Road & Track, and their respective buyers guides, as well as magazines such as Internet World, OnLine Access and CompuServe to direct traffic to its Web site. The Company has begun to expand this marketing with a campaign to accelerate awareness of the Auto-By-Tel brand name and drive traffic to its Web site through television ads featured on the CNN and MSNBC networks and C/NET television programs. In the fourth quarter of 1996, the Company commenced advertising on cable television and, in the first quarter of 1997, launched national network television advertising (including a 30 second commercial during the broadcast of the Super Bowl).

The revolutionary nature of the Company's program compared to traditional vehicle sales methods has also resulted in a significant amount of unpaid media coverage. To date, the Company has been the subject of over 500 newspaper, magazine, radio and television stories. Articles about the Company's new vehicle program have appeared in BusinessWeek, Fortune, Time, and the Wall Street Journal. Television stories featuring the Company have been aired on the NBC Nightly News and CNN. The Company believes that the initial media coverage has been an important element in creating consumer awareness of the Auto-By-Tel program and contributed to early dealership subscriptions to the program.

In addition to its consumer-oriented marketing activities, which help to attract participating dealerships, the Company also markets its programs directly to dealerships by soliciting targeted dealerships, participating in trade shows, advertising in trade publications, and encouraging subscribing dealerships to recommend the Auto-By-Tel program to other dealerships.

DEALERSHIP NETWORK AND TRAINING

[CHART APPEARS HERE]

Paying Franchises	0	38	111	253	546	728	978	1,206
Non-Paying Franchises	0	15	43	114	308	380	474	509
*Total Subscribing	0	53	154	367	854	1,108	1,452	1,715

- --------

* Does not include dealers who were participating on a trial basis. As of December 31, 1996, the Company had approximately 230 non-paying, trial dealers.

As of December 31, 1996 the Company's participating dealership base consisted of (i) 1,206 paying franchises of subscribing dealerships, (ii) 509 non-paying franchises affiliated with paying subscribing dealerships and (iii) approximately 230 "trial dealers." A subscribing dealership is comprised of one or more franchises with typically high volume vehicle sales (such as Ford or Toyota). A subscribing dealership may sell vehicles from multiple manufacturers and therefore have multiple subscribing dealer franchises. Dealerships pay initial, annual and monthly fees per franchise to subscribe to the Company's online marketing program. Non-paying franchises are typically associated with lower-volume vehicle manufacturers (such as Audi, Saab or Suzuki) and receive purchase request referrals without paying fees to Auto-By-Tel. The non-paying franchise is typically affiliated with a paying franchise participating in the Auto-By-Tel program. (For example, a paying Ford dealership may also have a Volvo franchise at the same premises and this Volvo franchise would be enrolled as a non-paying franchise and receive Auto-By-Tel referrals without paying an additional fee.) The Company enters into agreements with non-paying franchises to ensure that it is able to serve the broadest base of customers and its geographic for the make of vehicle represented by the non-paying franchise. Accommodating non-paying franchises also allows Auto-By-Tel to offer additional benefit to its dealership network and represents a potential source of additional financing and insurance revenue. In addition, the Company may begin charging marketing fees to a non-paying franchise which begins to receive a sufficient

number of purchase requests. The Company enters into informal arrangements with potential dealership participants on a trial basis in order to assist the Company and the dealership in evaluating the effectiveness of the Auto-By-Tel program at such dealerships. The Company refers consumers to trial dealerships but does not collect fees. As of December 31, 1996, approximately 230 dealerships were participating on a trial basis. In order to better serve consumers, the Company intends to significantly increase the number of participating North American dealership franchises by the end of fiscal 1998, but there can be no assurance that it will be able to do so.

Although the number of the Company's subscribing dealerships has increased in every quarter since the Company's inception, the Company periodically terminates agreements or relationships with subscribing dealerships when the Company receives repeated complaints from consumers regarding dealer sales practices that conflict with the Auto-By-Tel marketing program. Currently, less than half of subscribing dealerships have entered into written agreements with the Company. Dealership marketing agreements have a five year term but are cancelable by either party with 30 days notice. From inception through February 28, 1997, the loss of paying dealerships due to terminations by the Company and cancellations by dealerships totaled 85 and 145 franchises respectively. This represented a termination attrition rate of 6.8% from inception through February 28, 1997 (85 terminated paying dealerships divided by a high of 1,256 paying dealerships during the period) and a cancellation attrition rate of 11.5% from inception through February 28, 1997 (145 cancelling paying dealerships divided by a high of 1,256 paying dealerships during the period). These losses were more than offset by new subscribing dealerships during the same period.

In December 1996, the Company commenced an effort to have all subscribing dealerships execute written marketing agreements with the Company which have been revised to provide, among other things, that such dealerships will not

participate with any other program with attributes similar to those of the Auto-By-Tel program. At the same time, the Company has begun a program to have all subscribing dealerships enter into written marketing agreements relating to the Auto-By-Tel financing program. As of March 11, 1997, approximately 48% and 26% of all subscribing dealerships had signed the revised marketing agreement and the financing agreement, respectively. Some of the Company's dealers have resisted signing written agreements. Among the reasons cited by dealerships in resisting entering into written agreements are: (i) the exclusivity provision of the revised form of agreement which requires that dealerships not participate in any other Internet-based or online program with attributes similar to those of the Auto-By-Tel program, (ii) the indemnification provisions which require dealerships to indemnify Auto-By-Tel under certain circumstances, (iii) concerns by dealerships that by signing a written agreement they will surrender control of the rates they will be charged by Auto-By-Tel, and (iv) concerns over the California choice of law and venue provisions in the agreement. There can be no assurance that the Company will be able to convince subscribing dealerships to enter into written agreements with the Company or revise their existing agreements or that the Company's efforts to cause subscribing dealerships to revise their agreements will not result in subscribing dealerships terminating their relationship with Auto-By-Tel.

In addition, should the volume of purchase requests increase, the Company anticipates that it will need to reduce the size of the exclusive territories currently allocated to dealerships in order to serve consumers more effectively. Dealers may be unwilling to accept reductions in the size of their territories and may, therefore, terminate their relationship, refuse to execute formal agreements with the Company or decide not to join the Company's marketing program. A material decrease in the number of subscribing dealerships, or slower than expected growth in the number of subscribing dealerships, could have a material adverse effect on the Company's business, results of operations or financial condition. The Company may also become unable to refer an adequate number of consumers to participating dealerships. There can be no assurance that the Company will be able to continue to attract additional dealerships and retain existing dealerships.

Auto-By-Tel dealerships are located in virtually all major metropolitan areas in the United States and Canada. In December 1996, the Company's computer systems were able to match and electronically route 92% of total purchase requests to participating dealerships. The remaining 8% of purchase requests were received from consumers in unassigned territories and were manually assigned and subsequently electronically routed to

dealers. Auto-By-Tel dealerships are often leaders in their respective markets. Of the ten largest dealership holding companies (according to the Automotive News 1996 Data Book), eight participate in the Company's new vehicle marketing program at some level. Size is not always a sufficient criterion, however, in the selection of Auto-By-Tel participating dealers. Auto-By-Tel is only interested in establishing relationships with dealers which share the Company's commitment to improving consumer service in the vehicle retailing industry. To meet this goal, the Company requests that participating dealerships have their representatives trained in the Auto-By-Tel marketing program, dedicate electronic and human resources to the Auto-By-Tel system and comply with the Auto-By-Tel guidelines of rapid consumer response, full disclosure, competitive and up-front pricing communicated by telephone and the selection of an employee to be the dedicated Auto-By-Tel manager. To further increase consumer satisfaction and reduce dealership costs, the Company discourages dealerships from using commissioned salespersons and the accompanying layers of personnel to interface with Auto-By-Tel consumers.

The Company trains Auto-By-Tel dealers over the telephone, via satellite seminars, at the Company's headquarters in Irvine, California, at regional training centers and at dealerships' premises. The Company's staff strives to shift dealer salespersons away from traditional vehicle selling techniques and to the Auto-By-Tel approach. Special emphasis is placed upon telephone skills and addressing consumer questions and concerns. Generally, within ten days of the submission of a vehicle purchase request, the Company contacts the consumer by e-mail requesting completion of a quality assurance survey on the Company's Web site that is used by the Company and dealers to improve the quality of dealer service and allows the Company to evaluate the sales process at participating dealers. Dealerships that fail to abide by the Auto-By-Tel

program or who receive repeated consumer complaints are terminated from the Auto-By-Tel program.

Auto-By-Tel participating dealerships are assigned exclusive territories based upon specific zip codes. Auto-By-Tel assigned regions tend to be larger than the traditional dealership region assigned by automobile manufacturers, in order to allow the Company to generate sufficiently high volume to the subscribing dealership to make participation in the Auto-By-Tel program attractive. Pursuant to an agreement with the Texas Department of Transportation, Auto-By-Tel cannot effectively guarantee exclusive territories to dealerships located in Texas, and dealership sign-up and annual fees in Texas are required to be uniform while monthly fees are based solely on population density in a given zip code.

COMPETITION

The Company's vehicle purchasing services compete against a variety of Internet and traditional vehicle buying services and automotive brokers. In the Internet-based market, the Company competes for attention with other entities which maintain similar commercial Web sites. The Company also competes indirectly against vehicle brokerage firms and affinity programs offered by several companies, including Price Costco and Wal-Mart. Like the Company's services, the services offered by competing Web sites, automotive brokerage firms and affinity programs seek to increase consumer satisfaction and reduce vehicle purchasing costs.

Although the Company does not currently compete directly with vehicle dealers and manufacturers, such competition would arise in the future if dealers and manufacturers introduced competing Web sites or developed cooperative relationships among themselves or with online automotive information providers. Moreover, the Company's ability to achieve its objectives would be adversely affected if dealers and manufacturers adopted a low cost, firm price sales model similar to that facilitated by the Auto-By-Tel program.

The market for Internet-based commercial services is new and competition among commercial Web sites is expected to increase significantly in the future. The Internet is characterized by minimal barriers to entry, and current and new competitors can launch new Web sites at relatively low cost. Potential competitors could include, but are not limited to, automotive information service providers, vehicle manufacturers and new and used vehicle dealers. In order to compete successfully as an Internet commerce entity, the Company must significantly increase awareness of the Company and its brand name, effectively market its services and successfully differentiate its Web site. Many of the Company's current and potential competitors have longer operating histories, greater name recognition and significantly greater financial and marketing resources than the

Company. Such competitors could undertake more aggressive and costly marketing campaigns than the Company which may adversely affect the Company's marketing strategies which could have a material adverse effect on the Company's business, results of operations or financial condition.

In addition, as the Company introduces new services, it will compete directly with a greater number of companies, including vehicle insurers, lenders and lessors as well as used vehicle superstores, such as CarMax and Auto Nation. Such companies may already maintain or may introduce Web sites which compete with that of the Company. There can be no assurance that the Company can continue to compete successfully against current or future competitors nor can there be any assurance that competitive pressures faced by the Company will not result in increased marketing costs, decreased Internet traffic or loss of market share or otherwise will not materially adversely affect its business, results of operations and financial condition.

The Company believes that the principal competitive factors affecting the market for Internet-based vehicle marketing services are the speed and quality of service execution, the size and effectiveness of the participating dealership base, competitive dealer pricing, successful marketing and establishment of national brand name recognition, positioning itself as a leading Internet-based marketing service, the volume and quality of traffic to and purchase requests from a Web site and the ability to introduce new services in a timely and cost-effective manner. Although the Company believes

that it currently competes favorably with respect to such factors, there can be no assurance that the Company will be able to compete successfully against current or future competitors with respect to any of these factors.

OPERATIONS AND TECHNOLOGY; FACILITIES

The Company believes that its future success is significantly dependent on its ability to continuously improve the speed and reliability of its Web site, enhance communications functionality with its consumers and dealers and maintain the highest-level of information privacy and transactional security. The Company maintains all of its own Web server hosting functions and, to accelerate connectivity, has installed two 1.54 Mbps T-1 lines for outbound traffic and a 6 Mbps fractional DS/3 line for inbound traffic. The Company has also recently upgraded its routers and has installed firewall technology to protect its private network. Continuous system enhancements are primarily intended to accommodate increased traffic across the Company's Web site, improve the speed with which purchase requests are processed and heighten Web site security which will be increasingly important as the Company offers new services such as vehicle insurance and financing. System enhancements entail the implementation of sophisticated new technology and system processes and there can be no assurance that such continuous enhancements may not result in unanticipated system disruptions. For example, since April 1, 1996, the Company has experienced three periods of system downtime with an average downtime of approximately three hours due to power loss and telecommunications failures, and there can be no assurance that interruptions will not recur. Although the Company maintains redundant local offsite backup servers, all of the Company's primary servers are located at its corporate headquarters and are vulnerable to interruption by damage from fire, earthquake, power loss, telecommunications failure and other events beyond the Company's control. The Company is in the process of developing comprehensive out-of-state disaster recovery plans to safeguard dealer and consumer information. The Company maintains business interruption insurance which pays up to $1,000,000 ($333,333 monthly limit) 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 the Company's offices. However, in the event of a prolonged interruption, it is probable that this business interruption insurance will not be sufficient to fully compensate the Company. In the event that the Company experiences significant system disruptions, the Company's business, results of operations or financial condition could be materially and adversely affected.

The Company recently implemented its proprietary Dealer Realtime System, a personal computer-based network which allows participating dealers to receive consumer purchase requests online shortly after submission by consumers. Historically, all purchase requests were transmitted through the Company's fax server to dealers. By complementing the fax server (a computer which transmits and routes facsimile transmissions) process, the Dealer Realtime System, is designed to shorten dealer response time to consumers. The successful implementation of the Dealer Realtime System requires the active support of the Company's dealership base. To

receive consumer purchase requests online, dealers must purchase or lease the Dealer Realtime System and train, under the Company's guidance, their personnel. There can be no assurance that all or most dealerships will acquire the Dealer Realtime System or adopt the skills necessary to effectively use this system.

In addition, the Company has developed and intends to further develop its proprietary client/server database applications which allow consumers to search and display used vehicle information. Such database applications allow Auto-By-Tel dealerships to upload their inventory, including digitized photographs of vehicles, to the Company's used vehicle database. Dealerships participating in the Company's Dealer Realtime System will already have acquired the equipment necessary to participate in the used vehicle marketing program. As of January 30, 1997, 118 subscribing dealerships have acquired the Dealer Realtime System. There can be no assurance that Auto-By-Tel dealerships will agree to invest in the Dealer Realtime System, or pay the associated monthly maintenance charges on a timely basis, or at all.

The Company has developed and intends to further enhance systems which allow consumers to complete and securely transmit online loan applications which will be forwarded by the Company to the appropriate lender. The Company

anticipates launching these services during the first quarter of 1997.

In addition, the Company is currently in the process of completing a conversion to a redundant client/server SQL database platform which involves the integration of several different internal databases used to handle the Company's consumer and dealer information and transmission requirements as well as the Company's financial, accounting and record-keeping requirements. In addition to increasing the overall efficiency of the Company's operations, the Company anticipates that these new integrated systems could enable Auto-By-Tel to develop and market new and strategically targeted database services. No assurance can be given that the implementation of this new platform will not result in disruptions to the Company's business, such as the loss of data, errors in purchase request transmissions, delays in the Company's ability to effect periodic closings of its accounting records and other similar problems. Any such disruptions or any failure to successfully implement this new information system in a timely manner could have a material adverse effect on the Company's business, results of operations or financial condition. In addition, interruptions at the Company's Internet referral sources could reduce the level of referrals to the Company's Web site. For example, in the Company's agreement with AutoSite, AutoSite expressly disclaims any representation that their referral will be uninterrupted or error free.

The Company's services may be vulnerable to break-ins and similar disruptive problems caused by Internet users. Further, weaknesses in the Internet may compromise the security of confidential electronic information exchanged across the Internet. This includes, but is not limited to, the security of the physical network and security of the physical machines used for the information transfer. Any such flaws in the Internet or the end-user environment, or weaknesses or vulnerabilities in the Company's services or the licensed technology incorporated in such service, would jeopardize the confidential nature of information transmitted over the Internet and could require the Company to expend significant financial and human resources to protect against future breaches, if any, in order to alleviate or mitigate problems caused by such security breaches. Concerns over the security of Internet transactions and the privacy of users may also inhibit the growth of the Internet generally, particularly as a means of conducting commercial transactions. To the extent that activities of the Company, or third party contractors, involve the storage and transmission of proprietary information (such as personal financial information or credit card numbers), security breaches could expose the Company to a risk of financial loss or litigation or other liabilities. Any such occurrence could reduce consumer satisfaction in the Company's services and could have a material adverse effect on the Company's business, results of operations or financial condition.

The Company's success and ability to compete is dependent in part upon its proprietary systems and technology. While the Company relies on trademark, trade secret and copyright laws to protect its proprietary rights, the Company believes that the technical and creative skills of its personnel, continued development of its proprietary systems and technology, brand name recognition and reliable Web site maintenance are more essential in establishing and maintaining a leadership position. Despite the Company's efforts to protect its proprietary rights, unauthorized parties may attempt to copy aspects of the Company's services or to obtain and use information that the Company regards as proprietary. Policing unauthorized use of the Company's

proprietary rights is difficult. In addition, litigation may be necessary in the future to enforce or protect the Company's intellectual property rights or to defend against claims of infringement or invalidity. Misappropriation of the Company's intellectual property or potential litigation could have a material adverse effect on the Company's business, results of operations or financial condition.

All of the Company's operations are centrally located in approximately 13,700 square feet of office space in Irvine, California. Approximately 12,300 square feet is leased through August 1, 2001, and the Company has the option to renew this lease for an additional five-year period. Approximately 1,400 square feet is separately leased under a sublease through April 30, 1997.

GOVERNMENT REGULATION

The Company believes that its dealer marketing service does not qualify as a brokerage activity and, therefore, that the Company does not need to comply

with state broker licensing requirements. In Texas, however, the Company was required to modify its marketing program to include a pricing model under which subscribing dealerships are charged uniform fees based on the population density of their particular geographic area and to make its program open to all dealerships who wish to apply. In the event that individual state regulatory requirements change or additional requirements are imposed on the Company, the Company may be required to modify its marketing programs in such states in a manner which may undermine the program's attractiveness to consumers or dealers. In addition, in the event that a state deems that the Company is acting as a broker, the Company may be required to comply with burdensome licensing requirements of such state or terminate operations in such state. In each case, the Company's business, results of operations or financial condition could be materially and adversely affected.

The Company's marketing service may result in changes in the way new and used vehicles are sold which may be deemed to be threatening by new and used vehicle dealers who do not subscribe to the Auto-By-Tel program. Such businesses are often represented by influential lobbying organizations, and such organizations may seek to introduce legislation which may impact the evolving marketing and distribution model which the Company's service promotes. Should legislative or legal challenges be brought successfully by such organizations, the Company's business, results of operations or financial condition could be materially and adversely affected.

As the Company introduces new services, the Company may need to comply with additional licensing regulations and regulatory requirements. For example, the Company's wholly-owned subsidiary Auto-By-Tel Insurance Services, Inc. ("ABTIS") recently became licensed in California as a fire and casualty insurance broker-agent. ABTIS is not currently licensed in any other jurisdiction in the United States. In conducting its operations, ABTIS must comply with numerous California insurance and related laws, which regulate, among other things, the maintenance of fiduciary funds and trust accounts, including limitations on the commingling of funds, rebating, discriminatory practices, market conduct, claims practices, license maintenance and renewal requirements, time limitations for the retention of insurance records and advertising and marketing. In addition, in order to maintain its license, ABTIS must employ a "named transactor"--an individual licensed by the insurance regulatory authorities for the types of insurance that ABTIS is licensed to transact. In the event that such individual ceases being employed by ABTIS, ABTIS must replace that individual with an appropriately licensed person to act as its named transactor.

Although the Company believes that ABTIS is eligible to receive referral fees from AIG, the use of the Internet in connection with insurance products is a relatively new practice. The applicability of laws of other states to ABTIS's activities is not clear. Nonetheless, ABTIS has commenced applying for licenses to act as an insurance agent or broker in all jurisdictions in the United States where it may become so licensed.

In addition, the Company is currently in the process of applying for financial brokers' licenses in those states in which the Company believes such licenses are required. Becoming licensed may be an expensive and time-consuming process which could divert the efforts of management. In the event that the Company does not

successfully become licensed under applicable state insurance or lending rules or otherwise comply with regulations necessitated by changes in current regulations or the introduction of new services, the Company's business, results of operations or financial condition could be materially and adversely affected.

Additionally, there are currently few laws or regulations directly applicable to access to or commerce on the Internet. However, due to the increasing popularity and use of the Internet, it is likely that a number of laws and regulations may be adopted at the local, state, national or international levels with respect to commerce over the Internet, potentially covering issues such as pricing of services and products, advertising, user privacy and expression, intellectual property, information security, anti-competitive practices or the convergence of traditional distribution channels with Internet commerce. In addition, 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 the Company to

additional state sales and income taxes. The adoption of any such laws or regulations may decrease the growth of Internet usage or the acceptance of Internet commerce which could, in turn, decrease the demand for the Company's services and increase the Company's costs or otherwise have a material adverse effect on the Company's business, results of operations or financial condition.

EMPLOYEES

The Company experienced significant growth in employment during 1996, and as of December 31, 1996, the Company had a total of 73 employees (including two in Canada), compared to 17 employees as of December 31, 1995. Employees as of December 31, 1996 included nine in management, 41 in marketing, selling, training and support, 11 engaged in technical activities and 12 administrative employees. The Company also employs independent contractors for software and hardware development, which totaled 17 people as of December 31, 1996. None of the Company's employees is represented by a labor union. The Company has not experienced any work stoppages and considers its relations with its employees to be good.

The Company's rapid growth has placed, and is expected to continue to place, a significant strain on the Company's managerial and technical resources. The Company's future success depends in significant part upon the continued service of its key technical and senior management personnel and its continuing ability to attract and retain qualified sales, marketing, technical and managerial personnel. As the Company introduces new services, it will need to hire a significant number of additional managerial, sales, marketing and technical personnel. Competition for qualified personnel is intense and there can be no assurance that the Company will be able to retain its key employees or that it will be able to attract and retain additional highly qualified personnel in the future.

The Company's performance is substantially dependent on the performance of its executive officers and key employees, all of whom are employed on an at-will basis and many of whom have worked together for only a short period of time. The Company maintains "key person" life insurance in the amount of $7.5 million on the life of Peter R. Ellis, the Company's President and Chief Executive Officer. However, the loss of the services of Mr. Ellis or one or more of the Company's other executive officers or key employees would likely have a material adverse effect on the business, results of operations and financial condition of the Company. See "Management."

MANAGEMENT

EXECUTIVE OFFICERS, DIRECTORS AND OTHER KEY EMPLOYEES

The following table sets forth certain information with respect to the executive officers, directors and other key employees of the Company.

EXECUTIVE OFFICERS AND DIRECTORS	AGE	POSITION
Peter R. Ellis..........	50	President, Chief Executive Officer and Director
John C. Bedrosian.......	62	Chairman of the Board
W. Randolph Ellspermann.	50	Senior Vice President of the Company and Chief Operating Officer of Auto-By-Tel Acceptance Corporation
Robert S. Grimes........	53	Executive Vice President and Director
Mark W. Lorimer.........	37	Vice President, General Counsel and Secretary
Michael J. Lowell.......	38	Senior Vice President of the Company and Chief Operating Officer of Auto-By-Tel Marketing Corporation
Brian B. MacDonald......	39	Vice President Finance and Treasurer
John M. Markovich.......	40	Senior Vice President Finance and Chief Financial Officer
Jeffrey H. Coats (1)(2).	39	Director
Michael Fuchs(1)(2).....	51	Director
OTHER KEY EMPLOYEES		
Thomas J. Ciresa........	55	Director of Used Vehicle Development and Canada Operations
Jacqueline A. Dufort....	35	Chief Technology Officer

John P. Honiotes........ 49 National Sales Director

- --------
(1) Member of the Audit Committee.
(2) Member of the Compensation Committee.

Peter R. Ellis co-founded the Company and has been President and Chief Executive Officer since its inception. Mr. Ellis has extensive experience in the automobile retailing industry. From June 1993 to December 1993, Mr. Ellis served as Chairman of PEAC Corporation, a retail used vehicle business. From August 1973 to May 1991, Mr. Ellis was a controlling stockholder and served as President of P.R. Ellis Corp. (formerly known as CAJ Corporation), a holding corporation for several companies which owned and operated automobile dealerships and related businesses in Northern and Southern California and Arizona. Mr. Ellis' corporations guaranteed in the ordinary course of business loans made to vehicle purchasers, and, in 1985, the principal amount outstanding under such guaranteed loans reached an aggregate of approximately $80 million. As a result of higher than industry standard defaults by vehicle purchasers in subsequent years, Mr. Ellis' corporations, which then owned three dealerships, were required to expend significant cash to satisfy these guarantees. In the early 1990's, vehicle sales decreased significantly as a result of the then ongoing recession in California. The effects of the recession, when combined with poor working capital, had a severe impact on Mr. Ellis' dealership operations. During this period, Mr. Ellis personally guaranteed additional capital and inventory loans with an aggregate principal amount in excess of $40 million on behalf of three dealerships. In 1991, Mr. Ellis closed the three remaining dealerships due to ongoing financial difficulties. As a result, certain company loans were defaulted. Subsequently, in response to a creditor's proceedings, Mr. Ellis declared personal bankruptcy under Chapter 7 of the United States Bankruptcy Code in January 1994. All outstanding debts were discharged in August 1994 by order of the Bankruptcy Court.

John C. Bedrosian co-founded the Company and has been Chairman of the Board since its inception. Since September 1993, Mr. Bedrosian has been engaged in personal investing activities. From August 1985 to September 1993, Mr. Bedrosian was Senior Executive Vice President of National Medical Enterprises ("NME"), a hospital management company. Mr. Bedrosian holds a B.S. from the University of California, Los Angeles and an LL.B. from the University of Southern California. Mr. Bedrosian also served on the Board of

NME from 1976 to September 1994. In 1992, the U.S. Attorney's office commenced an investigation of a subsidiary of NME for alleged Medicare and Medicaid billing improprieties. In June 1994, NME reached an out of court settlement with the U.S. Department of Justice paying fines and penalties of $379 million. Mr. Bedrosian was not involved in these proceedings. In addition, in 1995, the Securities and Exchange Commission (the "SEC") commenced an examination into potential improper disclosures made by NME in its periodic reports filed in 1991. Mr. Bedrosian and eight former employees appeared before the SEC to give testimony relating to the exercise of employee stock options and disposition of the underlying shares during this period. To date, the SEC has taken no further action.

W. Randolph Ellspermann joined the Company in July 1996 as Chief Operating Officer of Auto-By-Tel Acceptance Corporation and, in January 1997, was appointed a Senior Vice President of the Company. Mr. Ellspermann also serves as Chief Operating Officer of Auto-By-Tel Insurance Services, Inc. From November 1993 to June 1996, Mr. Ellspermann was employed by Mark III Industries, a van conversion company, where he last served as Chief Operating and Financial Officer. From June 1986 to June 1993, Mr. Ellspermann served at subsidiaries of Security Pacific Corporation, including five years as Chief Executive Officer of Security Pacific Information Services and two years as Chief Financial Officer of Security Pacific Auto Finance. Mr. Ellspermann's background also includes 13 years with Ford Motor Company and Ford Motor Credit Company in a variety of finance and management positions. Mr. Ellspermann holds a B.S. in Industrial Management from Purdue University and a Masters of Business Administration from the University of Michigan.

Robert S. Grimes has been a director of the Company since inception and has served as Executive Vice President since July 1996. Since September 1987, Mr. Grimes has been President of R.S. Grimes & Co., Inc., an investment company.

From April 1981 to March 1987, Mr. Grimes was a partner with the investment firm of Cowen & Company. Mr. Grimes holds a B.S. from the Wharton School of Commerce and Finance at the University of Pennsylvania and an LL.B. from the University of Pennsylvania Law School.

Mark W. Lorimer joined the Company in December 1996 as Vice President, General Counsel and Secretary. From January 1996 to November 1996, Mr. Lorimer was a partner and, from March 1989 to January 1996, was an associate with the law firm of Dewey Ballantine. Mr. Lorimer holds a B.S. in Speech from Northwestern University and a J.D. from the Fordham University School of Law.

Michael J. Lowell joined the Company in October 1996 as Chief Operating Officer of Auto-By-Tel Marketing Corporation and, in January 1997, was also appointed a Senior Vice President of the Company. From March 1995 to November 1996, Mr. Lowell served as Vice President and Chief Financial Officer of Alpha Microsystems, a publicly-held computer hardware and software developer. From February 1990 to March 1995, Mr. Lowell held various financial and management positions, most recently as Vice President and Chief Financial Officer, with Wahlco Environmental Systems, Inc. ("Wahlco"), a publicly-held manufacturer of environment control equipment. From February 1987 to February 1990, Mr. Lowell served in various management and financial positions, most recently as Vice President and Treasurer, with Pacific Diversified Capital Company, a diversified holding company, the investments of which included a controlling interest in Wahlco. Prior to working with Wahlco, Mr. Lowell held various positions with Ducommun, Inc., a publicly-held manufacturer and distributor of electronic components. Mr. Lowell holds a B.S. in Finance from California State University at Long Beach and a Masters of Business Administration from the University of San Diego.

Brian B. MacDonald joined the Company in October 1995 as Chief Financial Officer and Manager, was appointed Vice President in May 1996 and was appointed Vice President Finance and Treasurer in January 1997. From April 1990 to October 1994, Mr. MacDonald served as Controller for all of the subsidiaries of Long Beach Bank, F.S.B. and from December 1992 to October 1994 also managed the operations of the bank's insurance subsidiary. From September 1983 to January 1990, Mr. MacDonald worked at Price Waterhouse L.L.P. in a variety of divisions, including their audit and high-technology divisions. Mr. MacDonald holds a B.S. in Business from the University of Southern California.

John M. Markovich joined the Company in January 1997 as Senior Vice President Finance and Chief Financial Officer. From April 1995 to January 1997, Mr. Markovich served as Vice President Finance and Chief

Financial Officer of Optical Coating Laboratory, Inc., a publicly-held manufacturer of thin film coated optical products. From May 1993 to February 1995, Mr. Markovich served as Vice President Finance and Chief Financial Officer of Electrosci, Inc., an early stage environmental technology company, and from July 1992 to May 1993, he was Vice President and Chief Financial Officer of the Norden Fruit Company. From August 1987 to February 1992, Mr. Markovich served as Vice President and Treasurer of Western Digital Corporation, a publicly-held multinational electronics manufacturer. Previously, Mr. Markovich worked for Citibank, N.A. as a corporate banking officer in the bank's high technology group. Mr. Markovich holds a B.S. in General Business from Miami University and a Masters of Business Administration from Michigan State University.

Jeffrey H. Coats was elected a director of the Company on August 27, 1996. Mr. Coats has served as Managing Director of GE Equity Capital Group, Inc., a wholly-owned subsidiary of General Electric Capital Corporation, a significant shareholder in the Company, since April 1996. He was also a Managing Director of GE Capital Corporate Finance Group, Inc., a wholly-owned subsidiary of General Electric Capital Corporation, from June 1987 to April 1993. From March 1994 to April 1996, Mr. Coats served as President of Maverick Capital Equity Partners, LLC, and from April 1993 to January 1994, Mr. Coats was a partner with Veritas Capital, Inc., both of which are investment firms. Mr. Coats holds a B.B.A. in Finance from the University of Georgia and a Masters in Industrial Management in Finance from the American Graduate School of International Management. Mr. Coats is a director and Chairman of the Board of The Hastings Group, Inc., a privately held clothing retailer, which on October 23, 1995, filed a voluntary petition under Chapter 11 of the Bankruptcy Code and is currently in the process of formulating a plan of reorganization. Mr. Coats is a member of the board of directors of Krause's Furniture, Inc., a

publicly-held company.

Michael Fuchs was elected as a director of the Company on September 25, 1996. Mr. Fuchs was Chairman and Chief Executive Officer of Home Box Office ("HBO"), the world's largest pay-television company, from October 1984 until November 1995, and Chairman and Chief Executive Officer of Warner Music Group from May 1995 to November 1995. Mr. Fuchs holds a B.A. from Union College and a J.D. from the New York University School of Law. Mr. Fuchs is a member of the Board of Directors of Marvel Entertainment Group, an entertainment and publishing company, and IMAX Corp., an entertainment film and technology company. On December 27, 1996, Marvel Entertainment Group filed a voluntary petition under Chapter 11 of the Bankruptcy Code and is currently in the process of formulating its plan of reorganization.

Thomas J. Ciresa joined the Company in May 1995 as a regional director and subsequently launched the customer service and training departments. Since March 1996 Mr. Ciresa has served as Director of Used Vehicle Development and Canada Operations. From March 1993 to June 1994, Mr. Ciresa served as Western Regional Operations Manager for Kia Motors America. From November 1991 to March 1993, Mr. Ciresa worked as National Sales Manager of Agency Rent-A-Car and from September 1988 to November 1991 owned and operated a Toyota franchised vehicle dealership in Eugene, Oregon. From June 1965 to September 1988, Mr. Ciresa served in senior management positions with a variety of vehicle manufacturers, including Hyundai Auto Canada, Porsche Cars, N.A. and Toyota Motor Sales, U.S.A., Inc. Mr. Ciresa holds a B.E. from the University of Miami, Florida.

Jaqueline A. Dufort joined the Company in April 1996 as Director of Information Technology. Since October 1996, Ms. Dufort has served as Chief Technology Officer of the Company. From September 1990 to April 1996, Ms. Dufort served as Director of Information Technology Strategic Planning for Long Beach Mortgage Company, formerly known as Long Beach Bank, F.S.B. From November 1986 to August 1990, Ms. Dufort served as Senior Project Manager for Salomon Brothers Inc. Ms. Dufort holds a B.S. in Computer Science from Embry-Riddle Aeronautical University and a Masters of Business Administration from New York University.

John P. Honiotes joined the Company in May 1995 as National Sales Director. From October 1993 to October 1994, Mr. Honiotes served as regional director of ABAC, a sub-par lender and from October 1994 to April 1995 as an independent consultant, in each case developing sub-par programs and systems for use by automobile dealerships to determine more efficiently the eligibility of sub-prime credit consumers under the rules

of a large number of financing institutions. From June 1991 to October 1993, Mr. Honiotes served as Director of Sales at Cush Automotive Group, Escondido, California, an automotive dealership group, and, from June 1990 to June 1991, as Chief Executive Officer and President of Presidential/AMS. From August 1988 to May 1990, Mr. Honiotes served as President of After-Market Profit Plus, Inc., prior to which he served as Senior Vice President, National Sales Director of AutoMax, an automotive affinity card program. Mr. Honiotes holds a B.S. in Marketing from Northern Illinois University.

The Board of Directors has currently authorized five members. Members of the Board of Directors are elected each year at the Company's annual meeting of stockholders, and serve until the following annual meeting of stockholders or until their respective successors have been elected and qualified. In connection with the Series A Preferred Stock financing, Mr. Coats was elected to the Board of Directors pursuant to the Company's Amended and Restated Certificate of Incorporation. The provision providing for the Series A Preferred Stock nominee to the Board of Directors will terminate upon the closing of the Offering.

Director Compensation

The Company's non-employee directors do not currently receive any cash compensation for service on the Company's Board of Directors or any committee thereof, but directors may be reimbursed for certain expenses incurred in connection with attendance at Board and committee meetings. The Company's 1996 Stock Incentive Plan provides for automatic grants of stock options to non-employee directors commencing upon the closing of this offering. See "Stock Plans--1996 Stock Incentive Plan."

Officers of the Company are appointed by the Board of Directors and serve at its discretion. The Company has entered into indemnification agreements with each member of the Board of Directors and certain of its officers providing for the indemnification of such person to the fullest extent authorized, permitted or allowed by law.

EXECUTIVE COMPENSATION

Summary Compensation. The following table sets forth in summary form the compensation paid by the Company during the year ended December 31, 1996 to the Company's Chief Executive Officer and the four most highly paid executive officers (the "Named Officers").

SUMMARY COMPENSATION TABLE

		ANNUAL COMPENSATION		LONG-TERM COMPENSATION AWARDS	
NAME AND PRINCIPAL POSITION	YEAR	SALARY ($) (1)	BONUS ($)	SECURITIES UNDERLYING OPTIONS(#)	ALL OTHER COMPENSATION ($) (2)
Peter R. Ellis..........	1996	$122,502	$321,167	--	$11,301
W. Randolph Ellspermann.	1996	50,000	--	125,000	--
Robert S. Grimes........	1996	90,000	--	250,000	--
Michael J. Lowell.......	1996	15,000	--	166,666	--
Brian B. MacDonald......	1996	85,000	50,000	125,000	1,776

- --------

(1) Salary data reflect amounts paid for the year ended December 31, 1996 for the Chief Executive Officer and the Named Officers. Mr. Grimes began receiving cash compensation on August 1, 1996. The current annualized base salaries of the Chief Executive Officer and the Named Officers are as follows: Mr. Ellis--$275,000; Mr. Ellspermann--$120,000; Mr. Grimes--$180,000; Mr. Lowell--$120,000; and Mr. MacDonald--$120,000.

(2) Includes the following amounts: Mr. Ellis--$3,150 in health benefits, $369 in life insurance payments and $7,782 in automobile expenses; and Mr. MacDonald--$1,776 in health benefits.

OPTION GRANTS DURING FISCAL 1996

The following table sets forth for the Chief Executive Officer and the Named Officers and certain information concerning stock options granted during fiscal 1996. The Company did not grant SARs during fiscal 1996.

	INDIVIDUAL GRANTS				POTENTIAL REALIZABLE VALUE AT ASSUMED ANNUAL RATES OF STOCK PRICE APPRECIATION FOR OPTION TERM(5)	
NAME	NUMBER OF SECURITIES UNDERLYING OPTIONS GRANTED(1)(#)	PERCENT OF TOTAL OPTIONS GRANTED TO EMPLOYEES IN FISCAL 1996(2)	EXERCISE PRICE ($/SHARE)(3)	EXPIRATION DATE(4)	5%($)	10%($)
Peter R. Ellis..........	--	--	--	--	--	--
W. Randolph Ellspermann.	125,000	5.3%	$ 0.60	7/03/06	$ 47,167	$ 119,531
Robert S. Grimes........	250,000	10.7	0.60	7/03/06	94,334	239,062
Michael J. Lowell.......	166,666	7.1	3.00	10/23/06	314,446	796,868
Brian B. MacDonald	125,000	5.3	0.60	7/03/06	47,167	119,531

- -------

(1) Represent options granted under the Company's 1996 Stock Option Plan and the 1996 Stock Incentive Plan. On October 23, 1996, the Board of Directors terminated the 1996 Stock Option Plan, and no further options may be

granted thereunder.

(2) Based on an aggregate 2,352,066 shares subject to options granted to employees during fiscal 1996.

(3) Options were granted at an exercise price equal to the estimated fair market value of the Company's Common Stock at the date of grant. In determining the fair market value of the Company's Common Stock, the Board of Directors considered various factors, including the Company's financial condition and business prospects, its operating results, the absence of a market for its Common Stock and the risks normally associated with investments in companies engaged in similar businesses. For accounting purposes only, the Company recorded deferred compensation expense in connection with the grant of the options to Mr. Grimes. See Note 7 of Notes to Consolidated Financial Statements.

(4) The term of each option granted under the 1996 Stock Option Plan is generally ten years from the date of grant. Options may terminate before their expiration dates, however, if the optionee's status as an employee or a consultant is terminated or upon the optionee's death or disability. Options granted under the Company's 1996 Stock Option Plan and 1996 Stock Incentive Plan must generally be exercised within 30 days of the termination of the optionee's status as an employee or consultant of the Company, or within twelve months after such optionee's death or disability.

(5) The 5% and 10% assumed annual rates of compounded stock price appreciation are mandated by rules of the Securities and Exchange Commission and do not represent the Company's estimate or projection of the Company's future Common Stock prices.

AGGREGATED OPTION/SAR EXERCISES IN 1996 AND FISCAL YEAR-END OPTION/SAR VALUES

The following table sets forth for each of the Named Officers certain information concerning options exercised during fiscal 1996 and the number of shares subject to both exercisable and unexercisable stock options as of December 31, 1996. Also reported are values for "in-the-money" options that represent the positive spread between the respective exercise prices of outstanding options and the fair market value of the Company's Common Stock as of December 31, 1996. The Company has never issued stock appreciation rights ("SARs").

NAME	NUMBER OF SHARES ACQUIRED ON EXERCISE(#)	VALUE REALIZED($)(1)	NUMBER OF SECURITIES UNDERLYING UNEXERCISED OPTIONS/ SARS AT DECEMBER 31, 1996(#)		VALUE OF UNEXERCISED IN-THE-MONEY OPTIONS/SARS AT DECEMBER 31, 1996 ($)(2)	
			EXERCISABLE	UNEXERCISABLE	EXERCISABLE	UNEXERCISABLE
Peter R. Ellis..........	--	--	--	--	--	--
W. Randolph Ellspermann.	41,666	$308,328	0	83,333	$ 0	$616,656
Robert S. Grimes........	--	--	125,000	125,000	925,000	925,000
Michael J. Lowell.......	--	--	0	166,666	0	833,330
Brian B. MacDonald	--	--	41,666	83,333	308,328	616,656

- --------

(1) The amount set forth represents the difference between the fair market value of the shares at the time of exercise, as determined by the Board of Directors, and the exercise price of the option, multiplied by the applicable number of options.

(2) Calculated by determining the difference between the fair market value of the securities underlying the option as of December 31, 1996 ($8.00 per share as determined by the Board of Directors) and the exercise price of the Named Officer's options. In determining the fair market value of the Company's Common Stock, the Board of Directors considered various factors, including the Company's financial condition and business prospects, its operating results, the absence of a market for its Common Stock and the risks normally associated with technology companies.

STOCK PLANS

1996 Stock Option Plan. The Company's 1996 Stock Option Plan (the "Option

Plan") was approved by the Board of Directors and the stockholders on May 18, 1996. The Option Plan provides 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 grant to employees, consultants and directors of nonstatutory stock options. Under the Option Plan, the exercise price of all incentive stock options granted under the Option Plan cannot be lower than the fair market value of the Common Stock 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 the Company, 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 1996 Option Plan may be up to 10 years. The Option Plan may be administered by the Board of Directors or a committee of the Board (the "Administrator"). Any options granted under the Option Plan are exercisable at such times as determined by the Administrator, but in no case at a rate of less than 20% per year over five years from the grant date. A majority of the outstanding options vest and become exercisable as to one-third of the grant on October 31, 1996, and as to an additional one third of the grant at each successive October 31. Options granted under the Option Plan must be exercised within 30 days following termination of the optionee's status as an employee or consultant of the Company, or within 12 months following such optionee's termination by death or disability. The Board of Directors may at anytime amend, suspend or discontinue the Option Plan, but no amendment, suspension or discontinuation shall be made which would impair the rights of any optionee, without his or her consent. If so requested by the Company or any representative of the underwriters, the optionee shall not sell or transfer any shares of the Company during the 180-day period following the effective date of the registration statement relating to an initial public offering of securities filed pursuant to the Securities Act of 1933 (the "Securities Act"). On October 23, 1996, the Board of Directors terminated the Option Plan and no further options may be granted thereunder. On October 23, 1996, options to purchase an aggregate of 1,305,833 shares of Common Stock at an exercise price of $0.60 per share were outstanding under the Option Plan.

1996 Stock Incentive Plan. The Company's 1996 Stock Incentive Plan (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 ("SPRs"). The Incentive Plan was approved by the Board of Directors on October 23, 1996, amended by the Board of Directors on November 24, 1996 and approved by the stockholders on January 16, 1997. A total of 2,268,333 shares of Common Stock are currently reserved for issuance under the Incentive Plan. Shares available for future grant under the Incentive Plan will be increased as of the first day of each new fiscal year during the term of the Incentive Plan by the number of shares issuable upon exercise of options granted thereunder in the previous fiscal year, net of returns. This increase may not exceed 1,250,000 in any fiscal year. No option holder may be granted options to purchase more than 500,000 shares in any fiscal year; provided, however, that an option holder may be granted an additional 500,000 shares in connection with his or her initial service with the Company.

The Incentive Plan may be administered by the Board of Directors or a committee of the Board (the "Committee"), which Committee will, in the case of options intended to qualify as "performance-based compensation" within the meaning of Section 162(m) of the Code, consist of two or more "outside directors" within the meaning of Section 162(m) of the Code. The Committee has the power to determine the terms of the options or SPRs granted, including the exercise price, the number of shares subject to each option or SPR, the exercisability thereof, and the form of consideration payable upon such exercise. In addition, the Committee has the authority to amend, suspend or terminate the Incentive Plan, provided that no such action may affect any share of Common Stock previously issued and sold or any option previously granted under the Incentive Plan.

Options and SPRs granted under the Incentive Plan are not generally transferable by the optionee, and each option and SPR is exercisable during the lifetime of the optionee only by such optionee. Options granted under the Incentive Plan must generally be exercised within three months of the end of optionee's status as an employee or consultant of the Company, or within twelve months after such optionee's termination by death or disability, but in no event later than the expiration of the option's ten year term. In the case

of SPRs, unless the Committee determines otherwise, the Restricted Stock Purchase Agreement will grant the Company a repurchase option exercisable upon the voluntary or involuntary termination of the purchaser's employment with the Company for any reason (including death or disability). The purchase price for Shares repurchased pursuant to the Restricted Stock Purchase Agreement will be the original price paid by the purchaser and may be paid by cancellation of any indebtedness of the purchaser to the Company. The repurchase option shall lapse at a rate determined by the Committee. The exercise price of all incentive stock options granted under the Incentive Plan must be at least equal to the fair market value of the Common Stock on the date of grant. The exercise price of nonstatutory stock options and SPRs granted under the Incentive Plan is determined by the Committee, but with respect to nonstatutory stock options intended to qualify as "performance-based compensation" within the meaning of Section 162(m) of the Code, the exercise price must at least be equal to the fair market value of the Common Stock on the date of grant. With respect to any participant who owns stock possessing more than 10% of the voting power of all classes of the Company's outstanding capital stock, the exercise price of any incentive stock option granted must equal at least 110% of the fair market value on the grant date and the term of such incentive stock option must not exceed five years. The term of all other options granted under the Incentive Plan may not exceed ten years.

The Incentive Plan provides that in the event of a merger of the Company with or into another corporation, a sale of substantially all of the Company's assets or a like transaction involving the Company, each option will be assumed or an equivalent option substituted by the successor corporation. If the outstanding options are not assumed or substituted as described in the preceding sentence, the Committee shall provide for the Optionee to have the right to exercise the option or SPR as to all of the optioned stock, including shares as to which it would not otherwise be exercisable. If the Administrator makes an option or SPR exercisable in full in the event of a merger or sale of assets, the Administrator will notify the optionee that the option or SPR will be fully exercisable for a period of 15 days from the date of such notice, and the option or SPR will terminate upon the expiration of such period.

Non-employee directors are entitled to participate in the Company's Incentive Plan. The Incentive Plan provides for an automatic grant of an option to purchase 16,666 shares of Common Stock (the "First Option") to each non-employee director on the date on which the Incentive Plan becomes effective or, if later, on the date on which the person first becomes a non-employee director. After the First Option is granted to the non-employee director, he or she will automatically be granted an option to purchase 4,166 shares (a "Subsequent Option") on November 1 of each subsequent year provided he or she is then a non-employee director and, provided further, that on such date he or she has served on the Board for at least six months. First Options and each Subsequent Option will have a term of ten years. Twenty-five percent of the shares subject to the First Option shall vest on the date twelve months after the grant date of the option, and 1/48 of the shares subject to the First Option and each Subsequent Option shall become exercisable each month thereafter, provided that the optionee continues to serve as a director on such dates. The exercise price of the First Option and each Subsequent Option cannot have an exercise price lower be 100% of the fair market value per share of the Company's Common Stock on the date of the grant of the option.

1996 Employee Stock Purchase Plan. The Company's 1996 Employee Stock Purchase Plan (the "Purchase Plan") was adopted by the Board of Directors on November 18, 1996 and approved by the stockholders on January 16, 1997. The Company has reserved a total of 666,666 shares of Common Stock for issuance under the Purchase Plan. Shares available for future issuance under the Purchase Plan will be increased as of the first day of each new fiscal year during the term of the Purchase Plan by the number of shares issued thereunder in the prior fiscal year. The Purchase Plan, which is intended to qualify under Section 423 of the Code, as amended, permits eligible employees of the Company to purchase shares of Common Stock through payroll deductions of up to ten percent of their compensation, up to a maximum of $21,250 for all purchase periods ending within any calendar year. The Purchase Plan will be implemented in a series of successive 6-month offering periods. However, the initial offering period will begin on the effective date of this offering and will end on the last trading day in the period ending June 1997.

Individuals who are eligible employees on the start day of any offering

period may enter the Purchase Plan on that start date or on any subsequent quarterly entry date (January 1, April 1, July 1 or October 1). Individuals who become eligible employees after the start date of the offering period may join the Purchase Plan on any subsequent quarterly entry date within that period. Employees are eligible to participate if they are customarily employed by the Company or any designated subsidiary for at least 20 hours per week and for more than five months in any calendar year.

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 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 the Company. Rights granted under the Purchase Plan are not transferable by a participant other than by will, the laws of descent and distribution, or as otherwise provided under the plan.

The Purchase Plan will be administered by the Board of Directors or by a committee appointed by the Board. The Board may amend or modify the Purchase Plan at any time. The Purchase Plan will terminate on the last business day in October 2006, unless sooner terminated by the Board.

COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

No interlocking relationship exists between the Company's Board of Directors or Compensation Committee and the board of directors or compensation committee of any other company, nor has any such interlocking relationship existed in the past. The Compensation Committee of the Board of Directors currently consists of Messrs. Coats and Fuchs.

EMPLOYMENT AGREEMENTS

The Company does not presently have any employment contracts in effect with the Chief Executive Officer or any of the Named Officers, except for Mr. Lowell. Mr. Lowell has an employment offer letter which provides that he is entitled to continue to receive his salary for a period of six months as severance if he is terminated without cause within one year from the commencement of his employment. Mr. Markovich also has an offer letter which entitles him to receive a severance payment equal to six months' salary if he is terminated without cause within one year of the commencement of his employment. In addition, Mr. Lorimer has an offer letter which entitles him to receive a severance payment equal to one year's salary (payable monthly) and an acceleration of all outstanding options, if he is terminated without cause, dies, becomes disabled or there occurs a change in control of the Company.

LIMITATION OF LIABILITY AND INDEMNIFICATION MATTERS

The Company's Amended and Restated Certificate of Incorporation limits the liability of directors to the maximum extent permitted by Delaware law. Delaware law provides that a corporation's certificate of incorporation may contain a provision eliminating or limiting the personal liability of a director for monetary damages for breach of their fiduciary duties as directors, except for liability (i) for any breach of their duty of loyalty to the corporation or its stockholders, (ii) for acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law, (iii) for unlawful payments of dividends or unlawful stock repurchases or redemptions as provided in Section 174 of the Delaware General Corporation Law or (iv) for any transaction from which the director derived an improper personal benefit.

The Company's Restated Bylaws provide that the Company shall indemnify its directors and officers and may indemnify its employees and agents to the fullest extent permitted by law. The Company believes that indemnification under its Restated Bylaws covers at least negligence and gross negligence on the part of indemnified parties.

The Company has entered into agreements to indemnify its directors and officers, in addition to the indemnification provided for in the Company's Restated Bylaws. These agreements, among other things, indemnify the Company's directors and officers for certain expenses (including attorneys' fees), judgments, fines and settlement amounts incurred by any such person in any action or proceeding, including any action by or in the right of the Company,

arising out of such person's services as a director or officer of the Company, any subsidiary of the Company or any other company or enterprise to which the person provides services at the request of the Company. The Company believes that these provisions and agreements are necessary to attract and retain qualified directors and officers.

CERTAIN TRANSACTIONS

Pursuant to a Contribution Agreement and Plan of Reorganization dated May 31, 1996 among the Company, Auto-By-Tel, LLC, ABT Acceptance Company, LLC, Peter R. Ellis, John C. Bedrosian, the John C. Bedrosian and Judith D. Bedrosian Revocable Trust (the "Trust"), and Robert S. Grimes, the Company issued to the Trust, Mr. Ellis and Mr. Grimes 5,354,166, 6,187,500 and 833,333 shares of Common Stock of the Company, respectively, in exchange for the transfer to the Company of their respective membership interests in Auto-By-Tel, LLC and ABT Acceptance Company, LLC. See Note 5.b of Notes to Consolidated Financial Statements.

On July 31, 1996, the Company issued to Robert S. Grimes, a director, officer and significant stockholder of the Company, an option to purchase 250,000 shares of Common Stock of the Company at an exercise price of $0.60 per share, which option vests over two years.

From time to time, the Company has advanced funds to Peter R. Ellis, the Company's President and Chief Executive Officer. At no time did Mr. Ellis' indebtedness to the Company exceed $30,000. The advances did not accrue interest and were unsecured. The advances were made without a specific due date. Advances were approved by Mr. Bedrosian, the Company's Chairman and controlling stockholder. The advances were used to pay personal expenses of Mr. Ellis and were retired by subsequent offsets to Mr. Ellis' salary and bonus. The Company believes that these advances were in the best interest of the Company and its stockholders because they allowed Mr. Ellis to meet his personal needs without requiring an increase in salary or a larger bonus. As of January 30, 1997, no advances to Mr. Ellis were outstanding. In the future, the Company will not grant loans to officers or other key employees without the prior approval of the Compensation Committee of the Board of Directors.

On May 31, 1996 and June 28, 1996, John C. Bedrosian, a director and significant stockholder of the Company made unsecured loans to the Company in the amounts of $910,863 and $170,000, respectively. The loans accrued interest at a simple rate of 8% per annum. These principal and all outstanding and accrued interest outstanding under loans was repaid in full in a single repayment on August 28, 1996 and all promissory notes evidencing such debt were canceled. The Company believes that such loans were on terms more favorable than the Company would have received from disinterested parties.

In connection with the Company's lease of its principal offices, the Company was required to establish a $175,000 letter of credit. On June 19, 1996, Mr. Bedrosian co-signed this letter of credit and pledged a certificate of deposit as collateral. Mr. Bedrosian has also personally guaranteed the Company's Merchant Card Agreement, and has provided a personal guarantee to the financial institution that issued the Company's corporate credit cards, guaranteeing the payment of all outstanding indebtedness under these credit facilities.

On August 26, 1996, the Company issued 1,500,000 shares of Series A Preferred Stock at $10.00 per share in a private placement for an aggregate consideration of $15.0 million in cash and cancellation of indebtedness. The holders of such Series A Preferred Stock are entitled to certain registration rights with respect to the shares of Common Stock issued or issuable upon conversion thereof. See "Description of Capital Stock--Registration Rights." Each share of Series A Preferred Stock will convert on a five-for-three basis into an aggregate of 2,500,000 shares of Common Stock (at a conversion price of $6.00 per share) on or immediately prior to the closing of this offering. In connection with such financing, the Company issued (i) 200,000 shares to ContiTrade Services L.L.C. in exchange for $2,000,000 in cash, (ii) 400,000 shares to National Union Fire Insurance Company of Pittsburgh in exchange for $4,000,000 in cash, (iii) 800,000 shares to General Electric Capital Corporation in exchange for $8,000,000 in cash, and (iv) 100,000 shares to Michael Fuchs in exchange for $1,000,000 in cash and cancellation of indebtedness. Sales of Series A Preferred Stock were made in reliance on the exemption from registration provided by Section 4(2) of the Securities Act.

On July 9, 1996 and August 13, 1996, Michael Fuchs, made unsecured loans to the Company in the principal amount of $250,000 and $250,000, respectively. These loans accrued interest at a simple rate of 10% per annum. All principal and accrued interest under these loans was converted into Series A Preferred Stock on

August 26, 1996 at $10.00 per share. No cash repayments of principal or interest were made on such loans prior to their conversion. The Company believes that such loans were on terms more favorable than the Company could have received from disinterested parties. In September 1996, Mr. Fuchs was appointed to the Company's Board of Directors.

On January 30, 1997, the Company issued 967,915 shares of Series B Preferred Stock at $9.35 per share in a private placement or an aggregate consideration of $9.05 million in cash. The holders of such Series B Preferred Stock are entitled to certain registration rights with respect to the shares of Common Stock issued or issuable upon conversion thereof. See "Description of Capital Stock--Registration Rights." Each share of Series B Preferred Stock will convert on a one-for-one basis into an aggregate of 967,915 shares of Common Stock on or immediately prior to the closing of the Offering. In connection with such financing, the Company issued (i) 133,690 shares to ContiTrade Services L.L.C. in exchange for $1.25 million in cash, (ii) 267,380 shares to National Union Fire Insurance Company of Pittsburgh in exchange for $2.5 million in cash, (iii) 534,760 shares to General Electric Capital Corporation in exchange for $5.0 million in cash, and (iv) 32,085 shares to Michael Fuchs in exchange for $300,000 in cash. Sales of Series B Preferred Stock were made in reliance on the exemption from registration provided by Section 4(2) of the Securities Act.

In 1996, the Company paid approximately $89,000 in legal fees and expenses to Dewey Ballantine. Mr. Lorimer was a partner at Dewey Ballantine during fiscal 1996. Mr. Lorimer joined Auto-By-Tel as Vice President, General Counsel and Secretary in December 1996.

PRINCIPAL AND SELLING STOCKHOLDERS

The following table sets forth certain information with respect to the beneficial ownership of the Company's Common Stock as of January 31, 1997 and as adjusted to reflect the sale of Common Stock offered hereby for (i) each person or entity who is known by the Company to beneficially own five percent or more of the outstanding Common Stock of the Company, (ii) each of the Company's directors, (iii) each of the Named Officers, and (iv) all directors and executive officers of the Company as a group:

NAME OR GROUP OF BENEFICIAL OWNERS	SHARES BENEFICIALLY OWNED PRIOR TO OFFERING(1)		NUMBER OF SHARES OFFERED	SHARES BENEFICIALLY OWNED AFTER OFFERING(1)	
	NUMBER	PERCENT		NUMBER	PERCENT
Peter R. Ellis(2) c/o Auto-By-Tel Corporation 18872 MacArthur Boulevard, Suite 200 Irvine, California 92612-1400	6,083,499	38.3%	400,000	5,683,499	29.2%
John C. Bedrosian(3) c/o Auto-By-Tel Corporation 18872 MacArthur Boulevard, Suite 200 Irvine, California 92612-1400	5,354,166	33.7	--	5,354,166	27.5
General Electric Capital Corporation(4) 260 Long Ridge Road Stamford, Connecticut 06927	1,868,093	11.8	--	1,868,093	9.6
Robert S. Grimes(5) 152 West 57th Street New York, NY 10019	958,333	6.0	--	958,333	4.9
National Union Fire Insurance Company of Pittsburgh	934,046	5.9	--	934,046	4.8

70 Pine Street 19th Floor New York, New York 10270					
W. Randolph Ellspermann.............	41,666	*	--	41,666	*
Mark W. Lorimer(6)..................	0	0	--	0	0
Michael J. Lowell(8)................	0	0	--	0	0
Brian B. MacDonald(6)...............	41,666	*	--	41,666	*
John M. Markovich(6)................	0	0	--	0	0
Jeffrey H. Coats(7).................	0	0	--	0	0
Michael Fuchs(8)....................	198,751	1.3	--	198,751	*
All directors and executive officers as a group (8 persons)(9)..........	14,537,842	91.6	400,000	14,137,842	72.6

- -------

* Less than 1%

(1) Assumes no exercise of the Underwriters' over-allotment option. Beneficial ownership is determined in accordance with the rules of the Securities and Exchange Commission. In computing the number of shares beneficially owned by a person and the percentage ownership of that person, shares of Common Stock subject to options held by that person that are currently exercisable or exercisable within 60 days of January 31, 1997 are deemed outstanding. Such shares, however, are not deemed outstanding for the purposes of computing the percentage ownership of each other person. Except as indicated in the footnotes to this table and pursuant to applicable community property laws, each stockholder named in the table has sole voting and investment power with respect to the shares set forth opposite such stockholder's name.

(2) Includes (a) 33,333 shares held by certain irrevocable trusts established for family members of Mr. Ellis as to which Mr. Ellis' spouse maintains sole voting power, and (b) 8,333 shares held by a family trust for the benefit of certain family members of Mr. Ellis as to which Mr. Ellis maintains sole voting power. Excludes 101,498 shares held by family members of Mr. Ellis as to which Mr. Ellis disclaims beneficial ownership.

(3) All shares are held in The John C. Bedrosian and Judith D. Bedrosian Revocable Trust in which Mr. Bedrosian maintains shared voting power.

(4) Excludes 16,666 shares subject to options held by General Electric Capital Corporation, none of which are exercisable within 60 days of January 31, 1997.

(5) Includes 125,000 shares subject to options exercisable within 60 days of January 31, 1997 and an aggregate of 8,333 shares held in irrevocable trusts as to which Mr. Grimes' spouse maintains sole voting power.

(6) Represents shares subject to options exercisable within 60 days of January 31, 1997. Excludes 93,333, 500,000, 166,666, 83,333, and 200,000 shares subject to outstanding options granted to Messrs. Ellspermann, Lorimer, Lowell, MacDonald and Markovich, respectively, none of which are exercisable within 60 days of January 31, 1997.

(7) Mr. Coats is a managing director of GE Equity Capital Group, Inc., an affiliate of General Electric Capital Corporation, and is a director of the Company. Mr. Coats was granted an option to purchase 16,666 shares of Common Stock which was subsequently assigned to General Electric Capital Corporation. Mr. Coats disclaims any beneficial ownership in all shares held by General Electric Capital Corporation.

(8) Excludes 16,666 shares subject to options granted to Mr. Fuchs, none of which are exercisable within 60 days of January 31, 1997.

(9) Includes 166,666 shares subject to options exercisable within 60 days of January 31, 1997.

DESCRIPTION OF CAPITAL STOCK

Upon the closing of the Offering, the outstanding Common Stock of the Company will consist of 19,495,126 shares, $0.001 par value. As of January 31, 1997, there were 15,895,126 shares of Common Stock outstanding (assuming the conversion of all outstanding shares of Preferred Stock) held of record by approximately 26 stockholders.

COMMON STOCK

A total of 50,000,000 shares of Common Stock of the Company will be authorized upon the closing of the Offering. Holders of Common Stock are entitled to one vote per share in all matters to be voted on by the stockholders. Subject to the preferences of the Preferred Stock, holders of Common Stock are entitled to receive ratably such dividends, if any, as may be declared from time to time by the Board of Directors out of funds legally available for payment. See "Dividend Policy." In the event of a liquidation, dissolution or winding up of the Company, the holders of Common Stock are entitled to share ratably in all assets remaining after payment of liabilities, subject to prior distribution rights of Preferred Stock then outstanding, if any. The Common Stock has no preemptive or conversion rights or other subscription rights. There are no redemption or sinking fund provisions applicable to the Common Stock. All outstanding shares of Common Stock are fully paid and non-assessable, and the shares of Common Stock to be issued upon completion of the Offering will be fully paid and non-assessable.

PREFERRED STOCK

Pursuant to the Company's Amended and Restated Certificate of Incorporation, the Board of Directors has the authority, without further action by the stockholders, to issue up to 5,000,000 shares of Preferred Stock in one or more series and to fix the designations, powers, preferences, privileges, and relative participating, optional or special rights and the qualifications, limitations or restrictions thereof, including dividend rights, conversion rights, voting rights, terms of redemption and liquidation preferences, any or all of which may be greater than the rights of the Common Stock. The Board of Directors, without stockholder approval, can issue Preferred Stock with voting, conversion or other rights that could adversely affect the voting power and other rights of the holders of Common Stock. Preferred Stock could thus be issued quickly with terms calculated to delay or prevent a change in control of the Company or make removal of management more difficult. Additionally, the issuance of Preferred Stock may have the effect of decreasing the market price of the Common Stock, and may adversely affect the voting and other rights of the holders of Common Stock. Upon the closing of the Offering, no shares of Preferred Stock will be outstanding and the Company has no plans to issue any of the Preferred Stock.

REGISTRATION RIGHTS

Pursuant to an agreement between the Company and the holders (the "Holders") of approximately 15,288,912 shares of Common Stock and securities convertible into Common Stock (collectively, and as converted, the "Registrable Securities"), the Holders are entitled to certain rights with respect to the registration of such shares under the Act. If the Company proposes to register any of its securities under the Act, either for its own account or for the account of other Holders exercising registration rights, the Holders are entitled to notice of such registration and are entitled to include shares of Registrable Securities therein. Additionally, the Holders are also entitled to certain demand registration rights pursuant to which they may require the Company to file a registration statement under the Act at the Company's expense with respect to their shares of Registrable Securities, and the Company is required to use its best efforts to effect such registration. All of these registration rights are subject to certain conditions and limitations, among them the right of the underwriters of an offering to limit the number of shares included in such registration and the right of the Company not to effect a requested registration within one year of an initial public offering of the Company's securities, such as the Offering made hereby, or if such requested registration would have an anticipated aggregate offering to the public of less than $30,000,000.

DELAWARE ANTI-TAKEOVER LAW AND CERTAIN CHARTER PROVISIONS

Anti-Takeover Law

The Company is subject to the provisions of Section 203 of the Delaware General Corporation Law. In general, Section 203 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 or unless the

interested stockholder acquired at least 85% of the corporation's voting stock (excluding shares held by certain designated stockholders) in the transaction in which it became an interested stockholder. 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. Subject to certain exceptions, an "interested stockholder" is a person who, together with affiliates and associates, owns, or within the previous three years did own, 15% or more of the corporation's voting stock.

Limitation of Director and Officer Liability

The Company's Amended and Restated Certificate of Incorporation and Bylaws contain certain provisions relating to the limitation of liability and indemnification of directors and officers. The Company's Amended and Restated Certificate of Incorporation provides that directors of the Company may not be held personally liable to the Company or its stockholders for a breach of fiduciary duty, except for liability (i) for any breach of the director's duty of loyalty to the Company or its stockholders, (ii) for acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of the law, (iii) under Section 174 of the Delaware General Corporation Law, relating to prohibited dividends, distributions and repurchases or redemptions of stock, or (iv) for any transaction from which the director derives an improper benefit. In addition, the Company's Amended and Restated Certificate of Incorporation and Bylaws provide that the Company shall indemnify its directors and officers to the fullest extent authorized by Delaware law.

No Stockholder Action by Written Consent

Prior to the closing of the Offering, the Company's Amended and Restated Certificate of Incorporation will provide that the stockholders can take action only at a duly called annual or special meeting of stockholders. Accordingly, stockholders of the Company will not be able to take action by written consent in lieu of a meeting. This provision may have the effect of deterring hostile takeovers or delaying changes in control or management of the Company.

TRANSFER AGENT AND REGISTRAR

ChaseMellon Shareholder Services, L.L.C. has been appointed as the transfer agent and registrar for the Company's Common Stock. Its telephone number for such purposes is (818) 971-4758.

SHARES ELIGIBLE FOR FUTURE SALE

Prior to the Offering, there has been no market for the Common Stock of the Company. Future sales of substantial amounts of Common Stock in the public market could adversely affect market prices prevailing from time to time. Upon completion of the Offering, based upon shares outstanding as of January 31, 1997, the Company will have outstanding an aggregate of 19,495,126 shares of Common Stock, assuming no exercise of the Underwriters' over-allotment option and no exercise of outstanding options. Of these shares, the 4,000,000 shares sold in the Offering will be freely tradeable without restriction or further registration under the Securities Act, except that any shares purchased by "affiliates" of the Company, as that term is defined in Rule 144 of the Securities Act ("Affiliates"), may generally only be sold in compliance with the limitations of Rule 144 described below.

SALES OF RESTRICTED SHARES

The remaining 15,495,126 shares of Common Stock held by existing stockholders are "restricted securities" under Rule 144 ("Restricted Shares"). The number of shares of Common Stock available for sale in the public market is limited by restrictions under the Securities Act and lock-up agreements under which the holders of such shares have agreed not to sell or otherwise dispose of any of their shares for a period of 180 days after the date of this Prospectus (the "lock-up period") without the prior written consent of Montgomery Securities. On the date of this Prospectus, no shares other than the 4,000,000 offered hereby will be eligible for sale. In addition, following the expiration of the lock-up period, none of the Restricted Shares will become available for sale in the public market until the expiration of their two year holding periods.

In general, under Rule 144 as currently in effect, beginning 90 days after the date of this Prospectus, a person (or persons whose shares are aggregated) who has beneficially owned Restricted Shares for at least two years (including the holding period of any prior owner, except if the prior owner was an Affiliate) would be entitled to sell within any three-month period a number of shares that does not exceed the greater of: (i) one percent of the number of shares of Common Stock then outstanding (which will equal approximately 194,951 shares immediately after the Offering); or (ii) the average weekly trading volume of the Common Stock on the Nasdaq National Market during the four calendar weeks preceding the filing of a notice on Form 144 with respect to such sale. Sales under Rule 144 are also subject to certain manner of sale provisions and notice requirements and to the availability of current public information about the Company. Under Rule 144(k), a person who is not deemed to have been an Affiliate of the Company at any time during the 90 days preceding a sale, and who has beneficially owned the shares proposed to be sold for at least three years (including the holding period of any prior owner except an Affiliate), is entitled to sell such shares without complying with the manner of sale, public information, volume limitation or notice provisions of Rule 144; therefore, unless otherwise restricted, "144(k) shares" could be sold immediately upon the completion of the Offering. All of the Restricted Shares, however, will have been held for less than one year upon completion of the Offering.

Upon completion of the Offering, the holders of 15,288,912 shares of Common Stock, or their transferees, will be entitled to certain rights with respect to the registration of such shares under the Securities Act. See "Description of Capital Stock--Registration Rights." Registration of such shares under the Securities Act would result in such shares becoming freely tradeable without restriction under the Securities Act (except for shares purchased by Affiliates) immediately upon the effectiveness of such registration.

OPTIONS

The Company intends to file a registration statement under the Securities Act covering shares of Common Stock reserved for issuance for options outstanding under the Option Plan and the Incentive Plan and reserved for issuance under the Purchase Plan. See "Management--Stock Plans." Such registration statement is expected to be filed and become effective as soon as practicable after the effective date of this offering. Accordingly, shares registered under such registration statement will, subject to Rule 144 volume limitations applicable to Affiliates, be available for sale in the open market, unless such shares are subject to vesting restrictions with the

Company or the lock-up agreements described above. A total of 4,197,500 shares have been reserved for issuance under the Option Plan, the Incentive Plan and the Purchase Plan. As of January 31, 1997, options to purchase 2,405,565 shares of Common Stock were issued and outstanding under the Option Plan and no options had been granted under the Incentive Plan. See "Management--Stock Plans."

In addition, under Rule 701 of the Securities Act as currently in effect, any employee, consultant or advisor of the Company (other than an affiliate) who purchased shares from the Company in connection with a compensatory stock or option plan or other written agreement is eligible to resell such shares 90 days after the effective date of this offering in reliance on Rule 144, but without compliance with certain restrictions, including the holding period, contained in Rule 144.

LOCK-UP AGREEMENTS

All officers, directors, and other stockholders of the Company have agreed not to sell, offer, contract or grant any option to sell, make any short sale, pledge, transfer, establish an open "put equivalent position" within the meaning of the Rule 16a-1(h) under the Securities Exchange Act of 1934, as amended, or otherwise dispose of any shares of Common Stock or any securities convertible into or exercisable or exchangeable for Common Stock for a period of 180 days after the date of this Prospectus, without the prior written consent of Montgomery Securities. In addition, under the terms of the Option Plan and Incentive Plan, holders of options to purchase Common Stock are obligated not to sell or transfer any shares of the Company during such 180-day period if so requested by the Company or the underwriters. See "Underwriting."

UNDERWRITING

The Underwriters named below, represented by Montgomery Securities, Cowen & Company and Robertson, Stephens & Company LLC (the "Representatives"), have severally agreed, subject to the terms and conditions set forth in the Underwriting Agreement, to purchase from the Company the number of shares of Common Stock indicated below opposite their respective names at the initial public offering price less the underwriting discount set forth on the cover page of this Prospectus. The Underwriting Agreement provides that the obligations of the Underwriters are subject to certain conditions precedent, and that the Underwriters are committed to purchase all of such shares, if any are purchased.

UNDERWRITER	NUMBER OF SHARES
Montgomery Securities....................................	
Cowen & Company..	
Robertson, Stephens & Company LLC........................	
Total..	4,000,000

The Representatives have advised the Company that the Underwriters initially propose to offer the Common Stock to the public on the terms set forth on the cover page of this Prospectus. The Underwriters may allow to selected dealers a concession of not more than $ per share, and the Underwriters may allow, and such dealers may reallow, a concession of not more than $ per share to certain other dealers. After the initial public offering, the offering price and other selling terms may be changed by the Representatives. The shares of Common Stock are offered subject to receipt and acceptance by the Underwriters, and to certain other conditions, including the right to reject orders in whole or in part.

The Company has granted an option to the Underwriters, exercisable during the 30-day period after the date of this Prospectus, to purchase up to a maximum of 600,000 additional shares of Common Stock to cover over-allotments, if any, at the same price per share as the initial shares of Common Stock to be purchased by the Underwriters. To the extent the Underwriters exercise this option, each of the Underwriters will be committed to purchase such additional shares in approximately the same proportion as set forth in the above table. The Underwriters may purchase such shares only to cover over-allotments made in connection with the offering.

The Underwriting Agreement provides that the Company will indemnify the Underwriters against certain liabilities, including civil liabilities under the Securities Act, or will contribute to payments the Underwriters may be required to make in respect thereof.

The shares of Common Stock offered hereby have not been and will not be qualified for distribution under the securities legislation of any of the provinces of Canada. Accordingly, the shares of Common Stock offered hereby may not be distributed in Canada, except pursuant to a prospectus exemption under applicable securities legislation. Each Underwriter has agreed that it will not distribute any shares of Common Stock in Canada except in accordance with a prospectus exemption under applicable securities legislation.

All of the Company's officers, directors and stockholders have agreed that they will not, without the prior written consent of Montgomery Securities (which consent may be withheld in its sole discretion) and subject to certain limited exceptions, directly or indirectly, sell, offer, contract or grant any option to sell, make any short sale, pledge, transfer, establish an open "put equivalent position" within the meaning of the Rule 16a-1(h) under the Securities Exchange Act of 1934, as amended, or otherwise dispose of any shares of Common Stock, options or warrants to acquire Common Stock, or securities exchangeable or exercisable for or convertible into Common Stock currently owned either of record or beneficially by them for a period commencing on the date of this Prospectus and continuing to a date 180 days

after the first date any of the shares of Common Stock offered hereby are released by the Underwriters for sale to the public. Montgomery Securities may, in its sole discretion and at any time without notice, release all or any portion of the securities subject to these lock-up agreements. In

addition, the Company has agreed that, for a period of 180 days after the date of this Prospectus, it will not, without the consent of Montgomery Securities, issue, offer, sell or grant options to purchase or otherwise dispose of any equity securities or securities convertible into or exchangeable for equity securities except for (i) the shares of Common Stock offered hereby, (ii) shares of Common Stock issued pursuant to the exercise of outstanding options and (iii) options to purchase shares of Common Stock granted pursuant to the Incentive Plan and shares of Common Stock issued pursuant to the exercise of such options. See "Management--Stock Plans" and "Shares Eligible for Future Sale."

Prior to the Offering, there has been no public market for the Common Stock. Consequently, the initial public offering price will be determined by negotiations between the Company and the Representatives. Among the factors to be considered in such negotiations are the history of, and prospects for, the Company and the industry in which it competes, an assessment of the Company's management, its past and present operations and financial performance, the prospects for future earnings of the Company, the present state of the Company's development, the general condition of the securities markets at the time of the Offering, the market prices of and demand for publicly traded common stocks of companies in recent periods and other factors deemed relevant.

In order to facilitate the offering of the Common Stock, the Underwriters may engage in transactions that stabilize, maintain or otherwise affect the price of the Common Stock. Specifically, the Underwriters may overallot in connection with the Offering, creating a short position in the Common Stock for their own account. In addition, to cover overallotments or to stabilize the price of the Common Stock, the Underwriters may bid for, and purchase, shares of Common Stock in the open market. Finally, the underwriting syndicate may reclaim selling concessions allowed to an underwriter or a dealer for distributing the Common Stock in the Offering if the syndicate repurchases previously distributed Common Stock in transactions to cover syndicate short positions, in stabilization transactions or otherwise. Any of these activities may stabilize or maintain the market price of the Common Stock above independent market levels. The Underwriters are not required to engage in these activities and may end any of these activities at any time.

The Representatives have informed the Company that the Underwriters do not expect to make sales to accounts over which they exercise discretionary authority in excess of 5% of the number of shares of Common Stock offered hereby.

The Company and the Selling Stockholder have agreed to indemnify the several Underwriters against certain liabilities, including liabilities under the Securities Act.

LEGAL MATTERS

The validity of the shares of Common Stock offered hereby will be passed upon for the Company by Wilson Sonsini Goodrich & Rosati, Palo Alto, California. Certain legal matters in connection with the Common Stock offered hereby will be passed upon for the Underwriters by Skadden, Arps, Slate, Meagher & Flom LLP, Los Angeles, California.

EXPERTS

The consolidated financial statements as of and for the period from inception (January 31, 1995) to December 31, 1995 and as of and for the year ended December 31, 1996 appearing in this Prospectus and Registration Statement have been audited by Arthur Andersen LLP, independent public accountants, as set forth in their report with respect thereto and are included herein in reliance upon the authority of said firm as experts in giving said report.

ADDITIONAL INFORMATION

A Registration Statement on Form S-1, including amendments thereto, relating to the Common Stock offered hereby has been filed by the Company with the Securities and Exchange Commission (the "Commission"), Washington, D.C. This Prospectus does not contain all of the information set forth in the Registration Statement and the exhibits and schedules thereto. Statements contained in this Prospectus as to the contents of any contract or other document referred to are not necessarily complete and in each instance reference is made to the copy of such contract or other document filed as an exhibit to the Registration Statement, each such statement being qualified in all respects by such reference. For further information with respect to the Company and the Common Stock offered hereby, reference is made to such Registration Statement, exhibits and schedules. A copy of the Registration Statement may be inspected by anyone without charge at the Commission's principal office, 450 Fifth Street, N.W., Washington, D.C. 20549, the New York Regional Office located at 7 World Trade Center, 13th Floor, New York, NY 10048, and the Chicago Regional Office located at Northwestern Atrium Center, 500 West Madison Street, Chicago, IL 60661, and copies of all or any part thereof, including any exhibit thereto, may be obtained from the Commission upon the payment of certain fees prescribed by the Commission. The Commission maintains a World Wide Web Site that contains reports, proxy and information statements and other information regarding registrants that file electronically with the Commission. The address of the site is http://www.sec.gov.

AUTO-BY-TEL CORPORATION AND SUBSIDIARIES

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

	PAGE
Report of Independent Public Accountants	F-2
Consolidated Balance Sheets	F-3
Consolidated Statements of Operations	F-4
Consolidated Statements of Stockholders' Equity	F-5
Consolidated Statements of Cash Flows	F-6
Notes to Consolidated Financial Statements	F-7

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Board of Directors and Shareholders of
Auto-By-Tel Corporation:

We have audited the accompanying consolidated balance sheets of Auto-By-Tel Corporation (a Delaware corporation) and subsidiaries as of December 31, 1995 and 1996, and the related consolidated statements of operations, stockholders' equity and cash flows for the period from inception (January 31, 1995) to December 31, 1995 and the year ended December 31, 1996. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards 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. 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 financial statements referred to above present fairly, in all material respects, the financial position of Auto-By-Tel Corporation and subsidiaries as of December 31, 1995 and 1996, and the results of their operations and their cash flows for the period from inception (January 31, 1995) to December 31, 1995 and the year ended December 31, 1996 in conformity with generally accepted accounting principles.

ARTHUR ANDERSEN LLP

Orange County, California
January 22, 1997,
(except Note 8, as to which the date is January 30, 1997)

AUTO-BY-TEL CORPORATION
AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

	DECEMBER 31, 1995	DECEMBER 31, 1996	PRO FORMA STOCKHOLDERS' EQUITY DECEMBER 31, 1996 (UNAUDITED) (NOTE 8.C.)
ASSETS			
Current assets:			
Cash and cash equivalents, includes restricted amounts of $0 and $985,000, respectively	$ 48,000	$ 9,062,000	
Accounts receivable, net of allowance for doubtful accounts of $20,000 and $162,000, respectively	14,000	298,000	
Prepaid advertisement	--	716,000	
Other	114,000	186,000	
Total current assets	176,000	10,262,000	
Property and equipment, net	102,000	1,425,000	
Other assets	7,000	611,000	
Total assets	$ 285,000	$12,298,000	
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current liabilities:			
Accounts payable	$ 87,000	$ 651,000	
Deferred revenue	356,000	2,326,000	
Customer deposits	--	554,000	
Other current liabilities	16,000	771,000	
Due to shareholder	816,000	--	
Total current liabilities	1,275,000	4,302,000	
Commitments and contingencies			
Stockholders' equity:			
Convertible preferred stock, Series A, $0.001 par value, 1,500,000 shares authorized; none issued and outstanding at December 31, 1995; 1,500,000 shares issued and outstanding at December 31, 1996, aggregate liquidation preference of $15,000,000 (5,000,000 shares			

authorized, none issued and outstanding, pro forma).....	--	2,000	$ --
Common stock, $0.001 par value; 16,666,666 shares authorized; none issued and outstanding at December 31, 1995; 12,427,213 shares issued and outstanding at December 31, 1996 (50,000,000 shares authorized, 15,895,126 shares issued and outstanding, pro forma).....	--	12,000	16,000
Members' interests/additional paid-in capital............	40,000	15,073,000	24,121,000
Deferred compensation........	--	(26,000)	(26,000)
Accumulated deficit..........	(1,030,000)	(7,065,000)	(7,065,000)
Total stockholders' equity (deficit)................	(990,000)	7,996,000	$17,046,000
Total liabilities and stockholders' equity......	$ 285,000	$12,298,000	

The accompanying notes are an integral part of these consolidated balance sheets.

AUTO-BY-TEL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

	INCEPTION (JANUARY 31, 1995) TO DECEMBER 31, 1995	YEAR ENDED DECEMBER 31, 1996
Revenues................................	$ 274,000	$ 5,025,000
Operating expenses:		
Marketing and advertising..............	476,000	4,439,000
Selling, training and support..........	454,000	3,193,000
Technology development.................	99,000	1,393,000
General and administrative.............	275,000	2,159,000
	1,304,000	11,184,000
Loss from operations.................	(1,030,000)	(6,159,000)
Other income (expense):		
Interest income........................	--	148,000
Interest expense.......................	--	(24,000)
	--	124,000
Net loss.............................	$(1,030,000)	$(6,035,000)
Net loss per common and common equivalent share.................................	$ (.07)	$ (.38)
Weighted average common and common equivalent shares outstanding...........	15,262,262	15,792,293

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

AUTO-BY-TEL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

	SERIES A CONVERTIBLE PREFERRED STOCK		COMMON STOCK		MEMBERS' INTEREST/ ADDITIONAL PAID-IN CAPITAL	DEFERRED COMPENSATION	ACCUMULATED DEFICIT	STOCKHOLDERS' EQUITY (DEFICIT)
	NUMBER OF SHARES	AMOUNT	NUMBER OF SHARES	AMOUNT				
Balance, Inception (January 31, 1995).....	--	$ --	--	$ --	$ --	$ --	$ --	$ --
Sale of members' interest in ABT for cash.................	--	--	--	--	40,000	--	--	40,000
Net loss..............	--	--	--	--	--	--	(1,030,000)	(1,030,000)
Balance, December 31, 1995..................	--	--	--	--	40,000	--	(1,030,000)	(990,000)
Sale of members' interest in ABTAC for cash.................	--	--	--	--	50,000	--	--	50,000
Issuance of Common Stock in exchange for members' interest.....	--	--	12,374,991	12,000	(12,000)	--	--	--
Issuance of Common Stock options with an exercise price of $0.60 per share.......	--	--	--	--	87,000	(87,000)	--	--
Issuance of Series A Preferred Stock at $10.00 per share for cash, net of costs of $135,000.............	1,450,000	2,000	--	--	14,363,000	--	--	14,365,000
Issuance of Series A Preferred Stock at $10.00 per share upon conversion of debt....	50,000	--	--	--	500,000	--	--	500,000
Issuance of Common Stock for services in August 1996...........	--	--	10,000	--	20,000	--	--	20,000
Issuance of Common Stock upon exercise of stock options.........	--	--	42,222	--	25,000	--	--	25,000
Amortization of deferred compensation.	--	--	--	--	--	61,000	--	61,000
Net loss..............	--	--	--	--	--	--	(6,035,000)	(6,035,000)
Balance, December 31, 1996..................	1,500,000	$2,000	12,427,213	$12,000	$15,073,000	$(26,000)	$(7,065,000)	$7,996,000

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

AUTO-BY-TEL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

	INCEPTION (JANUARY 31, 1995) TO DECEMBER 31, 1995	YEAR ENDED DECEMBER 31, 1996
Cash flows from operating activities:		
Net loss............................	$(1,030,000)	$(6,035,000)
Adjustments to reconcile net loss to net cash used in operating activities--		
Depreciation and amortization.......	25,000	178,000
Provision for bad debt..............	20,000	145,000
Amortization of deferred		

compensation	--	61,000
Changes in assets and liabilities:		
Increase in accounts receivable	(34,000)	(429,000)
Increase in prepaid advertisement	--	(716,000)
Increase in other current assets	(114,000)	(72,000)
Increase in other assets	(7,000)	(604,000)
Increase in accounts payable	87,000	564,000
Increase in deferred revenue	356,000	1,970,000
Increase in customer deposits	--	554,000
Increase in other current liabilities	16,000	775,000
Net cash used in operating activities	(681,000)	(3,609,000)
Cash flows from investing activities:		
Purchases of property and equipment	(127,000)	(1,501,000)
Cash flows from financing activities:		
Proceeds from sale of common stock	--	25,000
Proceeds from sale of members' interest in ABT	40,000	--
Proceeds from sale of members' interest in ABTAC	--	50,000
Proceeds from issuance of Series A Preferred Stock, net	--	14,365,000
Proceeds from issuance of notes payable	816,000	765,000
Repayments of notes payable	--	(1,081,000)
Net cash provided by financing activities	856,000	14,124,000
Net increase in cash and cash equivalents	48,000	9,014,000
Cash and cash equivalents, at beginning of period	--	48,000
Cash and cash equivalents, at end of period	$ 48,000	$ 9,062,000
Supplemental disclosures of cash flow information:		
Cash paid during the period for income taxes	$ 2,000	$ 4,000
Cash paid during the period for interest	$ --	$ 24,000

Supplemental disclosure of noncash activities:

During August 1996, 50,000 shares of Series A Preferred Stock were issued in exchange for $500,000 previously advanced to the Company under three notes payable.

During September 1996, 10,000 shares of Common Stock with a fair market value of $20,000 were issued for consulting services

During May 1996, 12,374,999 shares of Common Stock were issued to founding shareholders in exchange for members' interests

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(1) THE COMPANY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. The Company

Auto-By-Tel Corporation (the Company) is establishing a nationally branded Internet-based marketing service for new and used vehicles and related consumer services. The Company's Web site (www.autobytel.com) enables consumers to gather information on automobiles and light duty trucks (vehicles) and shop for vehicles and related consumer services from their home or office. The Company's services are free to consumers and, to date, the Company has derived substantially all of its revenues from fees paid by subscribing dealerships located in the United States and Canada.

The business commenced operations as a limited liability company (See Note 5.b.).

b. Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the Company, its predecessors (See Note 5.b.) and its wholly-owned subsidiaries: Auto-By-Tel Marketing Corporation, Auto-By-Tel Acceptance Corporation, Auto-By-Tel Insurance Services, Inc. and Auto-By-Tel Canada, Inc.. All intercompany transactions and balances have been eliminated.

c. Cash and Cash Equivalents

All highly liquid investments with a maturity of three months or less when purchased are considered to be cash equivalents and those with maturities greater than three months are considered to be short-term investments.

d. Property and Equipment

Property and equipment are stated at cost. Depreciation is provided using the straight-line method over the estimated useful lives of the respective assets, generally three years. Leasehold improvements are stated at cost. Amortization is provided using the straight-line method over the lesser of the lease term or the estimated useful lives of the respective assets.

e. Revenue Recognition

Substantially all revenues to date have consisted of marketing fees paid by franchises of subscribing dealerships. These marketing fees are comprised of an initial fee, a monthly fee and an annual fee. The initial fee and annual fee are recognized ratably over the service period of 12 months. The monthly fee is recognized in the period the service is provided. Deferred revenue is comprised of unamortized initial and annual fees.

f. Advertising and Promotion Costs

Advertising and promotion costs consist primarily of fees paid to automotive information providers, online services providers, online search engines and print advertising. Advertising and promotion costs are recorded as expense in the period that the advertisement appears or the service is provided.

g. Technology Development

Technology development expenses consist primarily of personnel and related compensation costs and contract labor to support software development and configuration and implementation of the Company's Internet, telecommunications and support system infrastructure. Technology development expenditures are charged to expense as incurred.

h. Stock-Based Compensation

The Company accounts for stock-based compensation issued to employees using the intrinsic value based method as prescribed by APB Opinion No. 25 "Accounting for Stock Issued to Employees" (APB No. 25). Under the intrinsic value based method, compensation is the excess, if any, of the fair value of the stock at grant date or other measurement date over the amount an employee must pay to acquire the stock. Compensation, if any, is recognized over the applicable service period, which is usually the vesting period.

In October 1995, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards (SFAS) No. 123, "Accounting for Stock-Based Compensation" (SFAS No. 123). This standard, if fully adopted, changes the methods of accounting for employee stock-based compensation plans to the fair value based method. For stock options, fair value is determined using an option-pricing model that takes into account the stock price at the grant date, the exercise price, the expected life of the option, the volatility of the underlying stock (not applicable for private entities), expected dividends and the risk-free interest rate over the expected life of the option. Compensation expense, if any, is recognized over the applicable service period, which is usually the vesting period.

The adoption of the accounting methodology of SFAS No. 123 is optional and the Company has elected to continue accounting for stock-based compensation issued to employees using APB No. 25; however, pro forma disclosures as if the Company adopted the cost recognition requirements under SFAS No. 123 are required to be presented (See Note 7).

i. Income Taxes

The Company accounts for income taxes using the asset and liability method as prescribed by SFAS No. 109, "Accounting for Income Taxes" (SFAS No. 109). Under the asset and liability method, deferred income tax assets and liabilities are determined based on the differences between the financial reporting and tax basis of assets and liabilities and are measured using the currently enacted tax rates and laws.

Prior to May 31, 1996, the business operated as limited liability companies taxed as partnerships under the provisions of the Internal Revenue Code of 1986 (Internal Revenue Code). Under those provisions, the Company was not subject to corporate income taxes on its taxable income. Instead, the Company's taxable income or loss prior to May 31, 1996 is includable in the individual income tax returns of its members.

Effective May 31, 1996, as a result the reorganization under the terms of a Contribution Agreement and Plan of Organization, the business was reorganized as a C Corporation under the provisions of the Internal Revenue Code (See Note 5.b.). The reorganization required that the Company record the cumulative tax effect of temporary differences between book income and taxable income as deferred tax assets and deferred tax liabilities (net of valuation allowance) in accordance with SFAS No. 109. At May 31, 1996, the cumulative tax effect of these temporary differences was immaterial.

j. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management 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.

k. Fair Value of Financial Instruments

The carrying amount of the Company's financial instruments approximates fair value.

l. Concentration of Credit Risk

Financial instruments that potentially subject the Company to significant concentrations of credit risk consist primarily of cash and cash equivalents, and accounts receivable. Substantially all of the Company's cash and cash equivalents are invested in one money market fund with underlying assets consisting primarily of commercial paper.

To date, accounts receivable have been derived from marketing fees billed to franchises of subscribing dealerships located in the United States and Canada. The Company generally requires no collateral. The Company maintains reserves for potential credit losses; historically, such losses have been minor and within management's expectations. From inception (January 31, 1995) through December 31, 1996, no subscribing dealership franchise accounted for greater than 10% of the accounts receivable or revenue of the Company.

The Company conducts its business within one industry segment within the United States and Canada. Revenues from customers outside of the United States were less than 10% of total revenues for all periods presented in the accompanying consolidated statements of operations.

m. Foreign Currency Translation

Assets and liabilities of the Canadian operations are remeasured from Canadian dollars into U.S. dollars in accordance with Financial Accounting Standards Board Statement No. 52. Revenues and expenses are translated at average monthly exchange rates prevailing during the period. Resulting translation adjustments are immaterial.

n. New Accounting Pronouncements

The Company adopted SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of" on January 1, 1996. This standard requires that long-lived assets and certain identifiable intangibles held and used by an entity be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The adoption of this standard did not have a material impact on the consolidated financial statements.

o. Net Loss Per Share

Net loss per share is computed based on the weighted average number of shares of common stock outstanding and common equivalent shares from stock options (under the treasury stock method, if dilutive). In accordance with certain SEC Staff Accounting Bulletins, such computations include all common equivalent shares (using the treasury stock method and the anticipated public offering price) issued twelve months prior to the filing of the Initial Public Offering (IPO) as if they were outstanding for all periods presented. Furthermore, common equivalent shares from convertible preferred stock that will automatically convert upon the completion of the Company's proposed IPO are included in the calculation for all periods presented as if converted using the treasury stock method.

(2) PROPERTY AND EQUIPMENT

Property and equipment consists of the following:

	DECEMBER 31,		
	1995	1996	ASSET LIVES
Computer hardware.......	$ 88,000	$1,125,000	3 years
Furniture and equipment.	39,000	412,000	3 years

Leasehold improvements..	--	77,000	5 years or term of lease if shorter
	127,000	1,614,000	
Less--Accumulated depreciation and amortization..........	(25,000)	(189,000)	
	$102,000	$1,425,000	

(3) DUE TO SHAREHOLDER

During 1995 and 1996, the Company's Chairman and co-founder advanced funds to the Company totaling $1,081,000. During 1996, these advances were converted to notes that were payable on demand and bore interest at a rate of 8% per annum. These notes were paid in full using the proceeds of the Series A Preferred Stock offering (See Note 5.a).

(4) INCOME TAXES

No provision for federal and state income taxes has been recorded as the Company incurred net operating losses through December 31, 1996. As of December 31, 1996, the Company had approximately $4.7 million of federal and state net operating loss carryforwards available to offset future taxable income; such carryforwards expire in various years through 2011. Under the Tax Reform Act of 1986, the amounts of and benefits from net operating losses carried forward may be impaired or limited in certain circumstances. Events which may cause limitations in the amount of net operating losses that the Company may utilize in any one year include, but are not limited to, a cumulative ownership change of more than 50% over a three year period. As of December 31, 1996, the effect of such limitation, if imposed, has not been determined.

Net deferred income tax assets, totaling approximately $2.0 million at December 31, 1996, consist primarily of the tax effect of net operating loss carryforwards, reserves and accrued expenses which are not yet deductible for tax purposes. The Company has provided a full valuation allowance on these deferred income tax assets because of the uncertainty regarding their realization.

(5) STOCKHOLDERS' EQUITY

a. Series A Convertible Preferred Stock

On August 22, 1996, the Board of Directors of the Company authorized 1,500,000 shares of Series A Convertible Preferred Stock (Series A Preferred). On August 23, 1996, the Company completed the sale of 1,500,000 shares of Series A Preferred at $10.00 per share through a private placement offering. Of the total shares sold, 50,000 shares were issued to an individual in exchange for $500,000 previously advanced to the Company under three notes payable. In addition, $1,081,000 of the proceeds were used to repay notes due to the Company's Chairman and co-founder.

Each share of Series A Preferred will be automatically converted into 1.67 shares of common stock upon the earliest of (i) the closing of an underwritten public offering of the Company's common stock with a minimum per share price of $9.00 per share, and minimum aggregate proceeds of $30 million; (ii) the written consent of two-thirds of the holders of Series A Preferred; or (iii) when fewer than 300,000 shares of Series A Preferred remain outstanding. Each share of Series A Preferred is also convertible into 1.67 shares of common stock at the option of the holder. The Company has reserved 2,500,000 shares of common stock to permit the conversion of the Series A Preferred.

Holders of Series A Preferred are entitled to one vote for each share of common stock into which such shares of Series A Preferred may be converted except with respect to election of directors, whereby the holders, voting separately as a class, shall be entitled to elect one director (to be

increased to two directors if the authorized number of total directors is increased to greater than five members). Each share of Series A Preferred entitles the holder to receive noncumulative dividends, if and when declared by the Board of Directors, prior to any dividend paid on the common stock. Dividends, if any, on Series A Preferred shall be declared at an annual rate of $0.80 per share. As of December 31, 1996, no dividends have been declared.

In the event of liquidation, the Series A Preferred has preference over the common stock in the amount of $10.00 per share, plus declared but unpaid dividends.

b. Common Stock

Auto-By-Tel LLC (ABT), a California limited liability company, was organized in January 1995 and began operations in March 1995. ABT Acceptance Company LLC (ABTAC), an affiliated Company under common control, was formed in February 1996. ABT and ABTAC (the LLC's) were reorganized as of May 31, 1996 pursuant to the terms of a Contribution Agreement and Plan of Organization (the Agreement) entered into by all of the members of the LLC's. Under the terms of the Agreement, the interests of the members were transferred to Auto-By-Tel Corporation, a Delaware corporation, in a tax-free transaction. As the LLC's were under common control, the reorganization was accounted for in a manner similar to a pooling-of-interests whereby the assets and liabilities of ABT and ABTAC were transferred to the Company at their historical cost. In consideration for their respective ownership interests, the members of ABT and ABTAC received 12,374,991 shares of common stock of the Company.

c. Stock Split and Increase of Authorized Shares

On November 24, 1996, the Board of Directors authorized a 5-for-3 stock split (the Stock Split) of the Company's Common Stock. All references in the financial statements to number of shares, per share amounts and market prices of the Company's common stock have been retroactively restated to reflect the effect of the Stock Split. The Board of Directors has also approved, effective upon the completion of the IPO, a recapitalization that would increase the total of authorized shares of Common Stock to 50,000,000 and an increase in the total number of authorized shares of preferred stock to 7,467,915.

(6) COMMITMENTS

a. Operating Leases

The Company has an operating lease for its corporate office facilities which expires in 2001. At December 31 , 1996, future minimum lease payments under this noncancelable, five year operating lease are as follows:

YEAR ENDING DECEMBER 31,	
1997	$142,000
1998	184,000
1999	204,000
2000	218,000
2001	150,000
	$898,000

Rent expense was $22,000 and $92,000 for the period from inception (January 31, 1995) to December 31, 1995 and the year ended December 31, 1996, respectively.

b. Marketing Agreements

The Company has multi-year agreements with automotive information providers that make available to consumers vehicle research data over the Internet. Such agreements are generally for a term of three to five years and require that the Company pay fees to these companies based on the volume of information received by the Company from these services. The minimum annual commitments under these agreements aggregate to $120,000.

c. Letter of Credit

In connection with the Company's lease of its principal offices, the Company's Chairman co-signed a letter of credit and pledged a personal certificate of deposit as collateral. The Company's chairman has also personally guaranteed the Company's Merchant Card Agreement, and has provided a personal guarantee to the financial institution that issued the Company's corporate credit cards, guaranteeing the payment of all outstanding indebtedness under these credit facilities.

As of December 31, 1996, the Company had total outstanding letters of credit of approximately $1.0 million collateralized by restricted cash balances of approximately $985,000.

d. Advertisement Purchase Commitment

In November 1996, the Company entered into a commitment to purchase approximately $1.0 million in a television advertisement to be aired during the Super Bowl in January 1997. Such costs will be expensed in the first quarter of 1997, when the advertisement appears.

(7) STOCK PLANS

1996 Stock Option Plan. The Company's 1996 Stock Option Plan (the Option Plan) was approved by the Board of Directors and the stockholders on May 18, 1996. The Option Plan provides 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 grant to employees, consultants and directors of nonstatutory stock options.

Under the Option Plan, the exercise price of all incentive stock options granted under the Option Plan cannot be lower than the fair market value of the Common Stock 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 the Company, 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 1996 Option Plan may be up to 10 years. On October 23, 1996, the Board of Directors terminated the Option Plan and no further options may be granted thereunder. Upon termination, options to purchase an aggregate of 1,305,833 shares of Common Stock at an exercise price of $0.60 per share were outstanding under the Option Plan.

1996 Stock Incentive Plan. The Company's 1996 Stock Incentive Plan (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 (SPRs). The Incentive Plan was approved by the Board of Directors on October 23, 1996, amended by the Board of Directors on November 24, 1996 and approved by the stockholders on January 16, 1997. A total of 2,268,333 shares of Common Stock are currently reserved for issuance under the Incentive Plan. Shares available for future grant under the Incentive Plan will be increased as of the first day of each new fiscal year during the term of the Incentive Plan by the number of shares issuable upon exercise of options granted thereunder in the previous fiscal year, net of returns.

Non-employee directors are entitled to participate in the Company's Incentive Plan. The Incentive Plan provides for an automatic grant of an option to purchase 16,666 shares of Common Stock to each non-employee director on the date on which the Incentive Plan becomes effective or, if later, on the

date on which the person first becomes a non-employee director. In each successive year the non-employee director shall automatically be granted an option to purchase 4,166 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 shall have a term of ten years. Such options vest at various rates over 36 months and the exercise price per share shall be 100% of the fair market value of the Company's Common Stock on the date of the grant of the option.

1996 Employee Stock Purchase Plan. The Company's 1996 Employee Stock Purchase Plan (the Purchase Plan) was adopted by the Board of Directors on November 18, 1996 and approved by the stockholders on January 16, 1997. The Company has reserved a total of 666,666 shares of Common Stock for issuance under the Purchase Plan. Shares available for future issuance under the Purchase Plan will be increased as of the first day of each new fiscal year during the term of the Purchase Plan by the number of shares issued thereunder in the prior fiscal year. The Purchase Plan, which is intended to qualify under Section 423 of the Code, as amended, permits eligible employees of the Company 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.

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 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 the Company. Rights granted under the Purchase Plan are not transferable by a participant other than by will, the laws of descent and distribution, or as otherwise provided under the plan.

During the year ended December 31, 1996, the Company granted options under the aforementioned plans to purchase an aggregate of 2,352,066 shares of Common Stock at various exercise prices ranging from $0.60 to $7.50 per share. During the year ended December 31, 1996, the Company has recorded, based upon an

independent appraisal obtained by the Company's Board of Directors, $87,000 of deferred compensation expense relating to certain options. This amount will be amortized over the vesting periods of the options, which is generally one to three years. Amortization of deferred compensation for the year ended December 31, 1996 was $61,000.

A summary of the status of the Company's stock options as of December 31, 1996 and changes during the period is presented below:

	OPTIONS	WEIGHTED-AVERAGE EXERCISE PRICE
Outstanding at December 31, 1995	--	--
Granted	2,352,066	$ 2.16
Exercised	(42,222)	0.60
Canceled	(29,029)	0.60
Outstanding at December 31, 1996	2,280,815	$ 2.21
Options exercisable at December 31, 1996	586,111	$ 0.60
Options available for future grant	1,250,000	
Weighted-average fair value of options granted during the year whose exercise price is less than the market		

price of the stock on the grant date (254,167 options)	$ 1.63	$ 0.60
Weighted-average fair value of options granted during the year whose exercise price exceeds the market price of the stock on the grant date (2,097,899 options)	$ 0.77	$ 2.35

The fair value of each option granted during 1996 is estimated using the Black-Scholes option-pricing model on the date of grant using the following assumptions: (i) no dividend yield, (ii) volatility of effectively zero (required for public companies only), (iii) weighted-average risk-free interest rate of approximately 6.70%, and (iv) expected life of 6 years.

The following table summarizes information about stock options outstanding at December 31, 1996:

OPTIONS OUTSTANDING			OPTIONS EXERCISABLE	
EXERCISE PRICE	NUMBER OUTSTANDING	WEIGHTED-AVERAGE CONTRACTUAL LIFE	NUMBER EXERCISABLE	EXERCISE PRICE
$0.60	1,262,482	9.5 years	586,111	$0.60
$3.00	741,667	9.8 years	--	--
$6.00	12,500	9.9 years	--	--
$7.50	264,166	9.9 years	--	--

Had compensation cost for the Company's 1996 grants for its stock-based compensation plan been determined consistent with SFAS No. 123, the Company's net loss, and net loss per common share for the year ended December 31, 1996 would approximate the pro forma amounts below:

	AS REPORTED	PRO FORMA
Net loss	$(6,035,000)	$(6,270,000)
Net loss per common share	$ (0.38)	$ (0.40)

The effects of applying SFAS 123 in this pro forma disclosure are not indicative of future amounts.

(8) SUBSEQUENT EVENTS AND PRO FORMA PRESENTATION

a. Series B Convertible Preferred Stock Sale

On January 24, 1997, the Board of Directors of the Company authorized 967,915 shares of Series B Convertible Preferred Stock (Series B Preferred). On January 30, 1997, the Company completed the sale of 967,915 shares of Series B Preferred at $9.35 per share through a private placement offering.

Each share of Series B Preferred will be automatically converted into one share of common stock upon the earliest of (i) the closing of an underwritten public offering of the Company's common stock with a minimum per share price of $9.00 per share, and minimum aggregate proceeds of $30 million; (ii) the

written consent of two-thirds of the holders of Series B Preferred; or (iii) when fewer than 300,000 shares of Series B Preferred remain outstanding. Each share of Series B Preferred is also convertible into one share of common stock at the option of the holder. The Company has reserved 1,309,686 shares of common stock to permit the conversion of the Series B Preferred.

Holders of Series B Preferred are entitled to one vote for each share of common stock into which such shares of Series B Preferred may be converted except with respect to election of directors, whereby the holders, voting separately as a class, shall be entitled to elect one director (to be increased to two directors if the authorized number of total directors is increased to greater than five members). Each share of Series B Preferred entitles the holder to receive noncumulative dividends, if and when declared by the Board of Directors, prior to any dividend paid on the common stock. Dividends, if any, on Series B Preferred shall be declared at an annual rate of $0.75 per share. No dividends have been declared.

In the event of liquidation, the Series B Preferred has preference over the common stock in the amount of $9.35 per share, plus declared but unpaid dividends.

b. Stock Option Grants

On January 24, 1997 the Company granted options to various employees to purchase 124,750 shares of common stock at an exercise price of $8.80 per share, the estimated fair market value as determined by the Board of Directors.

c. Unaudited Pro Forma Presentation

On January 24, 1997, the Board of Directors authorized the filing of a registration statement with the Securities and Exchange Commission permitting the Company to sell shares of its common stock in connection with an IPO. If the offering is consummated under the terms presently anticipated, each share of Series A and Series B Convertible Preferred Stock outstanding at January 30, 1997 will automatically convert to 1.67 and 1.0 shares, respectively, of common stock upon closing of the IPO. The effect of the sale of the Series B Preferred discussed above and the conversion of Series A Preferred outstanding at December 31, 1996 (See Note 5.a) has been reflected in the accompanying unaudited pro forma balance sheet as of December 31, 1996.

No dealer, salesperson or other person has been authorized to give any information or to make any representations in connection with this offering other than those contained in this Prospectus, and if given or made, such information or representations must not be relied upon as having been authorized by the Company or any of the Underwriters. This Prospectus does not constitute an offer to sell or a solicitation of an offer to buy any securities other than the shares of Common Stock to which it relates or an offer to, or a solicitation of, any person in any jurisdiction where such an offer or solicitation would be unlawful. Neither the delivery of this Prospectus nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the Company or that the information contained herein is correct as of any time subsequent to the date hereof.

TABLE OF CONTENTS

	Page
Prospectus Summary	3

Risk Factors	6
Use of Proceeds	17
Dividend Policy	17
Capitalization	18
Dilution	19
Selected Consolidated Financial Data	20
Management's Discussion and Analysis of Financial Condition and Results of Operations	21
Business	28
Management	44
Certain Transactions	53
Principal and Selling Stockholders	55
Description of Capital Stock	56
Shares Eligible for Future Sale	58
Underwriting	60
Legal Matters	62
Experts	62
Additional Information	62
Index to Consolidated Financial Statements	F-1

Until , 1997 (25 days after the date of this Prospectus) all dealers effecting transactions in the registration securities, whether or not participating in this distribution, may be required to deliver a Prospectus. This is in addition to the obligation of dealers to deliver a Prospectus when acting as underwriters and with respect to their unsold allotments or subscriptions.

4,000,000 SHARES

[LOGO OF AUTO-BY-TEL APPEARS HERE]

COMMON STOCK

PROSPECTUS

MONTGOMERY SECURITIES

COWEN & COMPANY

ROBERTSON, STEPHENS & COMPANY

, 1997

PART II

INFORMATION NOT REQUIRED IN PROSPECTUS

ITEM 13. OTHER EXPENSES OF ISSUANCE AND DISTRIBUTION

The following table sets forth all expenses, other than underwriting discounts and commissions, payable by the Company in connection with the sale of the Common Shares being registered. All of the amounts shown are estimates except for the SEC registration fee and the NASD filing fee.

SEC Registration Fee	$ 19,068
NASD Filing Fee	6,710

Nasdaq National Market Listing Fee	49,000
Blue Sky Qualification Fees and Expenses	5,000
Printing and Engraving Expenses	150,000
Legal Fees and Expenses	400,000
Accounting Fees and Expenses	350,000
Transfer Agent and Registrar Fees	7,500
Directors' and Officers' Insurance	250,000
Miscellaneous	62,722
Total	$1,300,000

ITEM 14. INDEMNIFICATION OF DIRECTORS AND OFFICERS

The Underwriters have agreed to indemnify the Company, its directors and each person who controls it within the meaning of Section 15 of the Securities Act with respect to any statement in or omission from the Registration Statement or the Prospectus or any amendment or supplement thereto if such statement or omission was made in reliance upon information furnished in writing to the Company by the Underwriters specifically for or in connection with the preparation of the Registration Statement, the Prospectus, or any such amendment or supplement thereto.

Section 145 of the Delaware General Corporation Law empowers a corporation to indemnify its directors and officers and to purchase insurance with respect to liability arising out of their capacity or status as directors and officers provided that this provision shall not eliminate or limit the liability of a director: (i) for any breach of the director's duty of loyalty to the corporation or its stockholders; (ii) for acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law; (iii) arising under Section 174 of the Delaware General Corporation Law; or (iv) for any transaction from which the director derived an improper personal benefit.

The Delaware General Corporation Law provides further that the indemnification permitted thereunder shall not be deemed exclusive of any other rights to which the directors and officers may be entitled under the corporation's bylaws, any agreement, vote of stockholders or otherwise. Article IX of the Company's Amended and Restated Certificate of Incorporation eliminates the personal liability of directors and officers to the fullest extent permitted by the laws of the state of Delaware.

The effect of the foregoing is to require the Company to indemnify the officers and directors of the Company for any claim arising against any such person in their official capacities if such person acted in good faith and in a manner that he reasonably believed to be in or not opposed to the best interests of the corporation, and, with respect to any criminal action or proceeding, had no reasonable cause to believe his conduct was unlawful.

ITEM 15. RECENT SALES OF UNREGISTERED SECURITIES

Since the Company's inception, the Company has made the following sales of securities that were not registered under the Securities Act:

1. On May 31, 1996, the Company issued and sold 12,374,999 shares of Common Stock in exchange for membership interests in Auto-By-Tel LLC and Auto-By-Tel Acceptance Corporation LLC, in reliance on the exemption from registration provided by Section 4(2) of the Securities Act.

2. During the period from July 3, 1996 through January 30, 1997, the Company issued options to purchase an aggregate of 2,476,816 shares of Common Stock pursuant to the Option Plan in reliance on Rule 701 promulgated under the Securities Act.

3. On August 26, 1996, the Company issued and sold 1,500,000 shares of Series A Preferred Stock in a private placement for an aggregate consideration of $15.0 million in cash and cancellation of indebtedness. In connection with such financing, the Company issued (i) 200,000 shares to ContiTrade Services L.L.C. in exchange for $2,000,000 in cash, (ii) 400,000 shares to National Union Fire Insurance Company of Pittsburgh in exchange for $4,000,000 in cash, (iii) 800,000 shares to General Electric Capital Corporation in exchange for $8,000,000 in cash, and (iv) 100,000 Michael

Fuchs in exchange for $1,000,000 in cash and cancellation of indebtedness. Sales of Series A Preferred Stock were made in reliance on the exemption from registration provided by Section 4(2) of the Securities Act.

4. On August 27, 1996, the Company issued and sold 6,000 shares to a consultant of the Company in reliance on Rule 701 promulgated under the Securities Act.

5. On January 30, 1997, the Company issued and sold 967,915 shares of Series B Preferred Stock in a private placement for an aggregate consideration of $9.05 million in cash. In connection with such financing, the Company issued (i) 133,690 shares to ContiTrade Services L.L.C. in exchange for $1.25 million in cash, (ii) 267,380 shares to National Union Fire Insurance Company of Pittsburgh in exchange for $2,500,003 million in cash, (iii) 534,760 shares to General Electric Capital Corporation in exchange for $5.0 million in cash, and (iv) 32,085 shares to Michael Fuchs in exchange for $300,000 in cash. Sales of Series B Preferred Stock were made in reliance on the exemption from registration provided by Section 4(2) of the Securities Act.

ITEM 16. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) EXHIBITS

1.1+	Form of Underwriting Agreement (draft of January 24, 1997)
3.1+	Restated Certificate of Incorporation of the Company certified by the Secretary of State of the State of Delaware
3.2+	Restated Bylaws of Auto-By-Tel Corporation adopted October 23, 1996
4.1+	Form of Stock Certificate
4.2+	Amended and Restated Investors' Rights Agreement dated January 30, 1997 among Registrant and the Investors named in Exhibit A thereto
5.1+	Opinion and Consent of Wilson Sonsini Goodrich & Rosati
10.1+	Form of Indemnification Agreement between the Company and its directors and officers
10.2+	Employment Offer Letter dated October 24, 1996 from Registrant to Mark W. Lorimer
10.3+	Employment Offer Letter dated December 16, 1996 from Registrant to John M. Markovich

10.4+	Employment Offer Letter dated October 20, 1996 from Registrant to Michael Lowell
10.5+	1996 Stock Option Plan and related agreements
10.6+	1996 Stock Incentive Plan and related agreements
10.7+	1996 Employee Stock Purchase Plan
10.8*	Marketing Agreement dated July 22, 1996 among Auto-By-Tel Acceptance Corporation, a subsidiary of the Registrant ("ABTAC"), the Registrant, as guarantor of the obligations of ABTAC, and AIU Insurance Company, American International South Insurance Company, American Home Assurance Company, American International Insurance Company, American International Insurance Company of California, Inc., Illinois National Insurance Company, Minnesota Insurance Company, National Union Fire Insurance Company of Pittsburgh, PA and the Insurance Company of the State of Pennsylvania
10.9*+	Marketing Agreement dated March 27, 1996 between Registrant and Microsoft Corporation
10.10*	Advertising Agreement dated October 15, 1996 between Registrant and Digital City Inc.
10.11*+	Marketing Agreement dated February 8, 1996 between Registrant and Edmund Publications Corporation
10.12*+	Referral Agreement dated September 6, 1996 between Registrant and Automotive Information Center
10.13(a)-(h)+	Forms of Dealership Subscription Agreements
10.14+	Lease Agreement dated June 1996 between Registrant and McDonnell Douglas Realty Company
10.15+	Sublease Agreement dated October 31, 1996 between Registrant and

	Silicon Valley Bank
10.16*+	Financing Inquiry Referral Agreement dated October 25, 1996 among Registrant, as obligor, Auto-By-Tel Acceptance Corporation and Chase Manhattan Automotive Financial Corporation
10.17*+	Service Agreement dated as of February 1, 1997 between Registrant and Integrated Warranty Services, Inc.
10.18*+	Marketing and Application Processing Agreement dated February 1, 1997 between General Electric Capital Auto Financial Services, Inc., Auto-By-Tel Acceptance Corporation ("ABTAC") and Registrant, as guarantor of the obligations of ABTAC
11.1+	Statement Regarding Computation of Per Share Earnings
21.1+	Subsidiaries of the Company
23.1	Consent of Arthur Andersen LLP, Independent Public Accountants
23.2+	Consent of Wilson Sonsini Goodrich & Rosati (included in Exhibit 5.1)
23.3+	Consent of J.D. Power and Associates
24.1+	Power of Attorney (see Page II-6)
27.1+	Financial Data Schedule

- --------

+ Previously filed.

* Confidential treatment has been requested for certain portions which have been blacked out in the copy of the exhibit filed with the Commission. The omitted information has been filed separately with the Commission pursuant to the application for confidential treatment.

(b) FINANCIAL STATEMENT SCHEDULES

Schedule II--Valuation and Qualifying Accounts

ITEM 17. UNDERTAKINGS

(a) The undersigned Registrant hereby undertakes to provide to the underwriter at the closing specified in the underwriting agreement certificates in such denominations and registered in such names as required by the underwriter to permit prompt delivery to each purchaser.

(b) Insofar as indemnification for liabilities arising under the Securities Act may be permitted to directors, officers and controlling persons of the Registrant pursuant to the foregoing provisions, or otherwise, the Registrant has been advised that in the opinion of the Commission such indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the Registrant of expenses incurred or paid by a director, officer or controlling person of the Registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the Registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Securities Act and will be governed by the final adjudication of such issue.

(c) The undersigned Registrant hereby undertakes that:

(i) For purposes of determining any liability under the Securities Act, the information omitted from the form of prospectus filed as part of this Registration Statement in reliance upon Rule 430A and contained in a form of prospectus filed by the Company pursuant to Rule 424(b)(1) or (4) or 497(h) under the Securities Act shall be deemed to be part of this Registration Statement as of the time it was declared effective; and

(ii) For the purpose of determining any liability under the Securities Act, each post-effective amendment that contains a form of prospectus shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at the time shall be deemed to be the initial bona fide offering thereof.

SIGNATURES

PURSUANT TO THE REQUIREMENTS OF THE SECURITIES ACT OF 1933, THE REGISTRANT HAS DULY CAUSED THIS AMENDMENT TO THE REGISTRATION STATEMENT ON FORM S-1 TO BE SIGNED ON ITS BEHALF BY THE UNDERSIGNED, THEREUNTO DULY AUTHORIZED, IN THE CITY OF IRVINE, STATE OF CALIFORNIA, ON THE 31ST DAY OF MARCH, 1997.

Auto-by-Tel Corporation

By: /s/ Mark W. Lorimer
MARK W. LORIMER
VICE PRESIDENT, GENERAL COUNSEL AND SECRETARY

PURSUANT TO THE REQUIREMENTS OF THE SECURITIES ACT OF 1933, THIS AMENDMENT TO THE REGISTRATION STATEMENT HAS BEEN SIGNED BY THE FOLLOWING PERSONS IN THE CAPACITIES AND ON THE DATES INDICATED.

SIGNATURE	TITLE	DATE
Peter R. Ellis* PETER R. ELLIS	President Chief Executive Officer (Principal Executive Officer) and Director	March 31, 1997
John C. Bedrosian* JOHN C. BEDROSIAN	Chairman of the Board	March 31, 1997
John M. Markovich* JOHN M. MARKOVICH	Chief Financial Officer (Principal Financial and Accounting Officer)	March 31, 1997
Robert S. Grimes* ROBERT S. GRIMES	Executive Vice President and Director	March 31, 1997
Jeffrey H. Coats* JEFFREY H. COATS	Director	March 31, 1997
Michael Fuchs* MICHAEL FUCHS	Director	March 31, 1997

*By: /s/ Mark W. Lorimer
Mark W. Lorimer,
Attorney-in-Fact

EXHIBIT INDEX

EXHIBIT NO.	DESCRIPTION
1.1+	Form of Underwriting Agreement (draft of January 24, 1997)
3.1+	Restated Certificate of Incorporation of the Company certified by the Secretary of State of the State of Delaware
3.2+	Restated Bylaws of Auto-By-Tel Corporation adopted October 23, 1996
4.1+	Form of Stock Certificate
4.2+	Amended and Restated Investors' Rights Agreement dated January 30, 1997 among Registrant and the Investors named in Exhibit A thereto
5.1+	Opinion and Consent of Wilson Sonsini Goodrich & Rosati
10.1+	Form of Indemnification Agreement between the Company and its directors and officers
10.2+	Employment Offer Letter dated October 24, 1996 from Registrant to Mark W. Lorimer
10.3+	Employment Offer Letter dated December 16, 1996 from Registrant to John M. Markovich
10.4+	Employment Offer Letter dated October 20, 1996 from Registrant to Michael Lowell
10.5+	1996 Stock Option Plan and related agreements
10.6+	1996 Stock Incentive Plan and related agreements
10.7+	1996 Employee Stock Purchase Plan
10.8*	Marketing Agreement dated July 22, 1996 among Auto-By-Tel Acceptance Corporation, a subsidiary of the Registrant ("ABTAC"), the Registrant, as guarantor of the obligations of ABTAC, and AIU Insurance Company, American International South Insurance Company, American Home Assurance Company, American International Insurance Company, American International Insurance Company of California, Inc., Illinois National Insurance Company, Minnesota Insurance Company, National Union Fire Insurance Company of Pittsburgh, PA and the Insurance Company of the State of Pennsylvania
10.9*+	Marketing Agreement dated March 27, 1996 between Registrant and Microsoft Corporation
10.10*	Advertising Agreement dated October 15, 1996 between Registrant and Digital City Inc.
10.11*+	Marketing Agreement dated February 8, 1996 between Registrant and Edmund Publications Corporation
10.12*+	Referral Agreement dated September 6, 1996 between Registrant and Automotive Information Center
10.13(a)-(h)+	Forms of Dealership Subscription Agreements
10.14+	Lease Agreement dated June 1996 between Registrant and McDonnell Douglas Realty Company
10.15+	Sublease Agreement dated October 31, 1996 between Registrant and Silicon Valley Bank
10.16*+	Financing Inquiry Referral Agreement dated October 25, 1996 among Registrant, as obligor, Auto-By-Tel Acceptance Corporation and Chase Manhattan Automotive Financial Corporation
10.17*+	Service Agreement dated as of February 1, 1997 between

Registrant and Integrated Warranty Services, Inc.

10.18*+	Marketing and Application Processing Agreement dated February 1, 1997 between General Electric Capital Auto Financial Services, Inc., Auto-By-Tel Acceptance Corporation ("ABTAC") and Registrant, as guarantor of the obligations of ABTAC
11.1+	Statement Regarding Computation of Per Share Earnings
21.1+	Subsidiaries of the Company

EXHIBIT NO.	DESCRIPTION
23.1	Consent of Arthur Andersen LLP, Independent Public Accountants
23.2+	Consent of Wilson Sonsini Goodrich & Rosati (included in Exhibit 5.1)
23.3+	Consent of J.D. Power and Associates
24.1+	Power of Attorney (see Page II-6)
27.1+	Financial Data Schedule

- --------

+ Previously filed.

* Confidential treatment has been requested for certain portions which have been blacked out in the copy of the exhibit filed with the Commission. The omitted information has been filed separately with the Commission pursuant to the application for confidential treatment.

EXHIBIT 10.8

MARKETING AGREEMENT

between

AUTO-BY-TEL ACCEPTANCE CORPORATION

on the one hand,

and

AIU INSURANCE COMPANY
AMERICAN INTERNATIONAL SOUTH INSURANCE COMPANY
AMERICAN HOME ASSURANCE COMPANY
AMERICAN INTERNATIONAL INSURANCE COMPANY
AMERICAN INTERNATIONAL INSURANCE COMPANY OF CALIFORNIA, INC.
ILLINOIS NATIONAL INSURANCE COMPANY
MINNESOTA INSURANCE COMPANY
NATIONAL UNION FIRE INSURANCE COMPANY OF PITTSBURGH, PA
THE INSURANCE COMPANY OF THE STATE OF PENNSYLVANIA

and

AUTO-BY-TEL, INC.
as Guarantor of the obligations of
AUTO-BY-TEL ACCEPTANCE CORPORATION
hereunder

[*] Confidential Treatment has been requested for certain portions of this exhibit.

TABLE OF CONTENTS

			Page
1.	REPRESENTATIONS AND WARRANTIES		2
	Section 1.1	Representations and Warranties of ABTAC and ABT.	2
	Section 1.2	Representations and Warranties of AIC	2
2.	MARKETING ARRANGEMENT		3
	Section 2.1	Phases of Marketing Arrangement	3
	Section 2.2	Preparation of Marketing Materials	4
	Section 2.3	Ownership of Marketing Materials	4
	Section 2.4	Development Costs	4
3.	COVENANTS, DUTIES AND RIGHTS OF AIC		5
	Section 3.1	Regulatory Authorizations	5
	Section 3.2	Initial Product Offering	5
	Section 3.3	Low Cost Products	5
	Section 3.4	Reservation of Rights	5
	Section 3.5	Toll Free Number	5
	Section 3.6	Cross-Promotion	5

Section 3.7 Payment of Development Costs.................... 6
Section 3.8 Books and Records; Auditing.................... 6

4. COVENANTS, DUTIES AND RIGHTS OF ABTAC AND ABT.................... 6

Section 4.1 Insurance Marketing Materials.................... 6
Section 4.2 Relationships with ABT Friends.................... 6
Section 4.3 Hyperlink Development; Costs.................... 7
Section 4.4 Cross-Promotion.................... 7
Section 4.5 Guarantee.................... 7
Section 4.6 Additional Services.................... 7

5. [RESERVED].................... 7

6. EXCLUSIVITY.................... 7

Section 6.1 Exclusivity.................... 7
Section 6.2 Exception From Exclusivity.................... 8
Section 6.3 AIC Marks.................... 8
Section 6.4 ABT Marks.................... 8

7. FIRST REFUSAL.................... 8

Section 7.1 New Product.................... 8
Section 7.2 Right of First Refusal.................... 8

8. COMPENSATION.................... 8

9. POLICIES.................... 9

Section 9.1 Product Control.................... 9
Section 9.2 Underwriting and Administration.................... 9
Section 9.3 Policy and Quote Records.................... 9

Section 9.4 Billing.................... 9
Section 9.5 Authority as Insurance Provider.................... 9
Section 9.6 Privacy.................... 10
Section 9.7 Fair Credit Reporting.................... 10

10. CONFIDENTIALITY.................... 10

Section 10.1 Confidential Information.................... 10
Section 10.2 Return of Confidential Information.................... 10
Section 10.3 Survival of Confidentiality.................... 10

11. USE OF NAMES/TRADEMARKS.................... 11

Section 11.1 Limitation on Use of AIC Marks.................... 11
Section 11.2 Limitation on Use of ABT Marks.................... 11
Section 11.3 Low Cost Logo.................... 11
Section 11.4 Use of User Data.................... 11

12. INDEPENDENT CONTRACTOR.................... 11

Section 12.1 No Joint Venture.................... 11
Section 12.2 Limitations on Authority.................... 11

13. [RESERVED].................... 12

14. TERM AND TERMINATION.................... 12

Section 14.1 Renewal.................... 12
Section 14.2 Cure Period.................... 12
Section 14.3 Termination upon Insolvency.................... 12
Section 14.4 Termination Upon Use of Marks.................... 12
Section 14.5 Responsibilities Upon Termination.................... 12

15. INDEMNIFICATION.................... 13

16. NOTICES.. 13

Section 16.1 Legal and Regulatory Proceedings................ 13
Section 16.2 Addresses, etc................................ 13

17. MISCELLANEOUS.. 13

Section 17.1 Choice of Law, Venue, Jurisdiction.............. 13
Section 17.2 Assignment.................................... 13
Section 17.3 Modification; Waiver........................... 14
Section 17.4 Entire Agreement.............................. 14
Section 17.5 Remedies...................................... 14
Section 17.6 References and Section Headings................ 14
Section 17.7 Severability.................................. 14
Section 17.8 Signatures and Recording....................... 14

MARKETING AGREEMENT

THIS AGREEMENT is made as of July 22, 1996, between AUTO-BY-TEL ACCEPTANCE CORPORATION ("ABTAC") a Delaware corporation, having its offices at 2711 E. Coast Highway, Suite 203, Corona Del Mar, California 92625, on the one hand, and AIU INSURANCE COMPANY, AMERICAN INTERNATIONAL SOUTH INSURANCE COMPANY, AMERICAN HOME ASSURANCE COMPANY, AMERICAN INTERNATIONAL INSURANCE COMPANY, AMERICAN INTERNATIONAL INSURANCE COMPANY OF CALIFORNIA, INC., ILLINOIS NATIONAL INSURANCE COMPANY, MINNESOTA INSURANCE COMPANY, NATIONAL UNION FIRE INSURANCE COMPANY OF PITTSBURGH, PA and THE INSURANCE COMPANY OF THE STATE OF PENNSYLVANIA (collectively "AIC"), all member companies of American International Group, Inc. having offices at 505 Carr Road, Wilmington, Delaware 19809, on the other hand and AUTO-BY-TEL, INC. ("ABT") a Delaware corporation, having its offices at 2711 E. Coast Highway, Suite 203, Corona Del Mar, California 92625, in its capacity as Guarantor of ABTAC's obligations hereunder ("ABT").

W I T N E S S E T H:

WHEREAS, AIC underwrites private passenger automobile, homeowner/tenant/condo, and personal umbrella liability insurance ("Products"), as well as (directly or through its affiliates) the products ("Additional Products") enumerated on Schedule A hereto and has experience in providing direct response marketing; and

WHEREAS, AIC wishes to market Products, but primarily private passenger automobile insurance, to users of ABT's Internet Website and those Websites of its contractual partners which are approved by AIC from time to time ("Users"); and

WHEREAS, AIC and ABTAC share a common philosophy on delivering a low-cost, high-quality program to Users; and

WHEREAS, AIG Marketing, Inc. ("AIGM") acts as a marketing group for and on behalf of AIC and in such capacity has negotiated this Agreement on behalf of AIC and will provide such services and compensation as set forth herein; and

WHEREAS, ABT is engaged in the marketing of automobile pricing and automobile buying services to Users via the Internet and ABTAC is a wholly-owned subsidiary of ABT established to, among other things, enter into arrangements pursuant to which Users are afforded the opportunity to enter into transactions they may find beneficial; and

WHEREAS, ABT, through ABTAC, is desirous of authorizing and providing AIC access to its Internet Server ("Server"); and

WHEREAS, AIC is desirous of securing access to the Server for the publication, display and exhibition of AIC's direct response sales materials to ABT Users.

NOW THEREFORE, in consideration of the mutual covenants and agreements contained herein and other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, and intending to be legally bound hereby, ABT, ABTAC and AIC agree as follows:

[*] Confidential Treatment has been requested for certain portions of this exhibit.

REPRESENTATIONS AND WARRANTIES.

Section 1.1 Representations and Warranties of ABTAC and ABT. Each of ABTAC and ABT, as the case may be, hereby makes the following representations and warranties to AIC:

(a) Each of ABT and ABTAC has been duly organized and is validly existing as a corporation under the laws of the state of Delaware and each is duly licensed where required as a "Licensee" or is otherwise qualified in each state in which it transacts business and is not in default of such state's applicable laws, rules and regulations, except where the failure to so qualify or such default would not have a material adverse effect on its ability to conduct its business or to perform its obligations under this Agreement.

(b) Each of ABT and ABTAC has the requisite power and authority and legal right to execute and deliver this Agreement, engage in the transactions contemplated by this Agreement, and perform and observe those terms and conditions of this Agreement to be performed or observed by it hereunder. The person or persons signatory to this Agreement and any document executed pursuant to it on behalf of each of ABT and ABTAC have full power and authority to bind either ABT or ABTAC, as the case may be. The execution, delivery and performance of this Agreement, and the performance by each of ABT and ABTAC of all transactions contemplated herein and therein, have been duly authorized by all necessary and appropriate corporate action on the part of ABT and ABTAC, as the case may be.

(c) This Agreement has been duly authorized and executed by each of ABT and ABTAC and is valid, binding and enforceable against each of them in accordance with its terms, except that such enforcement may be subject to bankruptcy, insolvency, reorganization, moratorium or other similar laws (whether statutory, regulatory or decisional) now or hereafter in effect relating to creditors' rights generally, and the execution, delivery and performance by each of ABT and ABTAC of this Agreement do not conflict with any term or provision of (i) its certificates of incorporation or bylaws, (ii) any law, rule, regulation, order, judgment, writ, injunction or decree applicable to ABTAC of any court, regulatory body, administrative agency or governmental body having jurisdiction over either ABT or ABTAC or (iii) any agreement to which either ABT or ABTAC is a party or by which its property is bound.

(d) No consent, approval, authorization or order of, registration or filing with, or notice to any governmental authority or court is required under applicable law in connection with the execution, delivery and performance by either ABT or ABTAC of this Agreement.

(e) There is no action, proceeding or investigation pending or, to the best knowledge of both ABT and ABTAC, threatened against either of them before any court, administrative agency or other tribunal (i) asserting the invalidity of this Agreement, (ii) seeking to prevent the consummation of any of the transactions contemplated by this Agreement, or (iii) which could reasonably be expected to materially and adversely affect the performance by either of them of their respective obligations under, or the validity or enforceability of, this Agreement.

(f) ABTAC or ABT, as the case may be, has all regulatory approvals, authorizations, licenses, permits and other permissions, consents and authorities whatsoever, as needed to operate the ABT Website.

(g) ABTAC or ABT, as the case may be, warrants that it has the legal and valid right to use any registered or unregistered trademark, tradename, service mark, logo, emblem or other proprietary designation, or any variations, derivatives and modifications thereof, used by it in the Insurance Marketing Materials as defined hereafter (the "ABT Marks")

Section 1.2 Representations and Warranties of AIC. AIC hereby makes the following representations and warranties, to ABTAC:

(a) AIC is duly licensed where and as required in each state in which it transacts business and is not in default of such state's applicable laws, rules and regulations, except where such default would not have a material adverse

effect on the ability of AIC to conduct its business or to perform its obligations under this Agreement.

(b) AIC has the requisite power and authority and legal right to execute and deliver, engage in the transactions contemplated by, and perform and observe the terms and conditions of, this Agreement. The person or persons signatory to this Agreement and any document executed pursuant to it on behalf of AIC have full power and authority to bind AIC. The execution, delivery and performance of this Agreement, and the performance by AIC of all transactions contemplated herein and therein, have been duly authorized by all necessary and appropriate and corporate action on the part of AIC.

(c) This Agreement has been duly authorized and executed by AIC and is valid, binding and enforceable against AIC in accordance with its terms, except that such enforcement may be subject to bankruptcy, insolvency, reorganization, moratorium or other similar laws (whether statutory, regulatory or decisional) now or hereafter in effect relating to creditors' rights generally, and the execution, delivery and performance by AIC of this Agreement do not conflict with any term or provision of the certificate of incorporation or bylaws of AIC, or any law, rule, regulation, order, judgment, writ, injunction or decree applicable to AIC of any court, regulatory body, administrative agency or governmental body having jurisdiction over AIC.

(d) No consent, approval, authorization or order of, registration or filing with, or notice to any governmental authority or court is required under applicable law in connection with the execution, delivery and performance by AIC of this Agreement.

(e) There is no action, proceeding or investigation pending or, to the best knowledge of AIC, threatened against it before any court, administrative agency or other tribunal (i) asserting the invalidity of this Agreement, (ii) seeking to prevent the consummation of any of the transactions contemplated by this Agreement, or (iii) which could reasonably be expected to materially and adversely affect the performance by AIC of its obligations under, or the validity or enforceability of, this Agreement.

(f) AIC warrants that it has all regulatory approvals, authorizations, licenses, permits and other permissions, consents and authorities whatsoever, as needed (i) to offer and sell the Products in each of the states [*] (the "Excepted States"), territories and the District of Columbia of the United States (the "Territory") and to otherwise perform its obligations under this Agreement, and (ii) to use any Insurance Marketing Materials (as defined in Section 2.2 of this Agreement) developed by AIC, or provided for inclusion in any Insurance Marketing Materials developed jointly with ABTAC.

(g) AIC warrants that it has the legal and valid right to use any registered or unregistered trademark, tradename, service mark, logo, emblem or other proprietary designation, or any variations, derivatives and modifications thereof, used by it in the Insurance Marketing Materials as defined hereafter (the "AIC Marks").

2. MARKETING ARRANGEMENT.

Section 2.1 <u>Phases of Marketing Arrangement.</u> ABTAC and AIC shall cooperate to provide the means for Users interested in the Products to establish contact with AIC and purchase Products in three phases as follows:

(a) "'Phase 1' - Toll Free Telephone Marketing" Users accessing the ABT Website shall be able to click on an icon and access another page at the ABT Website containing information about the Products as well as a toll free telephone number. Users dialing the toll free number will be connected to AIC employees who shall provide further information about the Products and take User information in order to prepare a request for quote (an "RFQ"). AIC will evaluate the RFQs for which they have received sufficient User information (either on the first User call or after subsequent contact) and quote qualified Users prices for the requested Products. Phase 1 shall commence approximately [*] from the date of this Agreement and end when AIC and ABTAC agree that Phase 2 shall commence.

(b) "'Phase 2' - Electronic File Transfer" Users accessing the ABT Website shall be able to click on an icon and access another page at the ABT Website

containing information about the Products as well as an RFQ which the User can fill out and submit electronically. The ABT Website will forward the RFQ files electronically to AIC. Upon receipt of the RFQ files, AIC employees shall evaluate the RFQs for which they have received sufficient User information (either at first or after subsequent contact) and quote any qualified User prices for the requested Products. Phase 2 shall commence on such

[*] Confidential Treatment Requested

date as AIC and ABTAC agree (cooperatively and in good faith) which date is expected to be approximately 60 days from the date of the commencement of Phase 1 implementation. Phase 2 shall end when AIC and ABTAC agree that Phase 3 shall commence.

(c) "'Phase 3' - Internet Hyperlink" Users accessing the ABT Website shall be able to click on an icon and be hyperlinked to an AIC Website containing information about the Products as well as an insurance RFQ which the User can fill out and submit electronically. The AIC Website will evaluate the RFQ file in real time (subject to System capabilities) and, if satisfactory (either at first or after subsequent contact), will quote any qualified User prices for the requested Products. Phase 3 shall commence on such date as AIC and ABTAC agree (cooperatively and in good faith) which date is expected to be prior to June 1, 1997.

Section 2.2 Preparation of Marketing Materials. AIC and ABTAC shall cooperate to prepare and produce (in each Phase of development) the Web page or pages describing the Products on the ABT Website (the "Insurance Info Pages"), the Phase 2 ABT Website request for quote and electronic transfer mechanism, the Phase 3 hyperlink and AIC Website request for quote, and all other marketing materials (the "Collateral Materials") to be used to market and advertise the Products or the Insurance Info Pages (the Insurance Info Pages and the Other Materials, collectively, the "Insurance Marketing Materials").

(b) The content and form of the Insurance Marketing Materials must be approved in writing by both AIC and ABTAC prior to use. Any modification in any Insurance Marketing Materials shall be submitted by the party proposing the modification to the other party in writing for approval. Unless the requested modification is in any Insurance Marketing Material which is subject to any filing or notice requirement with any governmental entity, which materials are under the sole control of AIC, the party receiving such submission shall preliminarily respond to the submitting party within two (2) business days of receipt of such submission and shall deliver its final approval or disapproval within five (5) business days of receipt of such submission. Approval of requested modifications in Insurance Marketing Materials shall not be unreasonably withheld or delayed. ABTAC acknowledges that any change in any Insurance Marketing Materials subject to any filing or notice requirement with any governmental entity may take considerable time to secure the required approvals or to make the required filings. AIC acknowledges that the ABT Website may (and is likely to) change from time-to-time in response to, among other things, new display and/or hyperlink technologies, Internet server consolidation or congestion, and changes in Internet providers.

Section 2.3 Ownership of Marketing Materials. Insurance Marketing Materials shall be owned by ABT if provided by ABT, AIC if provided by AIC, and by AIC if jointly produced. Ownership rights with respect to the AIC Marks and the ABT Marks shall not be affected by this Section 2.3.

Section 2.4 Development Costs. AIC shall pay [*] for the development of the Insurance Marketing Materials; provided, however, that the parties hereto agree that AIC's obligations to pay for costs related to Phase 1 and Phase 2 shall not exceed in the aggregate [*]

3. COVENANTS, DUTIES AND RIGHTS OF AIC.

Section 3.1 Regulatory Authorizations. AIC shall, at its own cost and expense, secure and maintain all regulatory approvals, authorizations, licenses,

permits and other permissions, consents and authorities whatsoever, as needed to offer and sell the Products in the Territory ("Insurance Approval"). AIC shall use its best efforts to either (i) secure Insurance Approval as needed to offer and sell the Products in the Excepted States and the provinces of Canada, or (ii) to establish relationships with insurance producers or underwriters in the Excepted States and the provinces of Canada which will allow the offering and sale of Products in such jurisdictions in a manner which, as closely as possible, mirrors the offering and sale of Products in the Territory. AIC shall give ABTAC written notice promptly upon securing Insurance Approval in any Excepted State or province of Canada and thereafter for all purposes such jurisdiction shall be considered part of the Territory. AIC shall be responsible for all aspects of any relationship established pursuant to clause (ii) of the second sentence of this Section 3.1, and all Products sold pursuant to any such relationship shall, for all purposes of this Agreement, be considered Products sold within the Territory.

[*] Confidential Treatment Requested

Section 3.2 Initial Product Offering. AIC shall initially offer only automobile insurance, but shall use its best efforts to offer all Products by June, 1997. In addition, AIC will facilitate the development of plans to market those Additional Products through marketing on the ABT Website, either directly, or through relationships between ABTAC and AIC affiliates offering such products, which such relationships shall be facilitated and established in accordance with Section 3.6 of this Agreement.

Section 3.3 Low Cost Products. AIC shall offer low-cost, high-quality Products to qualified Users. AIC shall not offer insurance products similar to the Products at prices lower than those quoted for the Products to qualified Users except through distribution channels with lower distribution and/or acquisition costs to AIC. For purposes of this Section 3.3, the similarity of the Products shall be determined on the basis of the coverage terms, limitations and conditions and the price levels shall be determined on the basis of persons of like underwriting profiles seeking similar insurance products.

Section 3.4 Reservation of Rights. AIC reserves the right to suspend, restrict or modify the offer and sale of the Products to accommodate regulations; provided, however, that AIC shall use its best efforts to limit such suspension, restriction or modification to the smallest scope possible (in both qualitative and temporal terms) to enable ABTAC to realize the full expectancy of this Agreement.

(b) AIC reserves the right to use the services of AIGM for various marketing, servicing and administrative functions under this Agreement; provided, however, that AIC shall remain responsible at all times for its obligations under this Agreement.

Section 3.5 Toll Free Number. AIC shall secure and maintain at least one toll free telephone number for use in Phase 1. AIC shall (i) inform ABTAC of such number, (ii) use its best efforts not to change such number, and (iii) devote sufficient numbers of its trained employees to the answering of such number so that Users dialing the number have to wait, on average, no more than three minutes to be connected to an employee who will take the User's RFQ and provide any requested information. From the commencement of Phase 1, the toll free number shall be so staffed no less than [*] hours per day on weekdays and [*] hours per day on Saturdays. AIC acknowledges that ABTAC believes that the Internet is utilized most heavily during non-business hours and on weekends, and therefore agrees that it shall perform test marketing of expanded hours for the staffing of the toll free number.

Section 3.6 Cross-Promotion. AIC shall promote and advertise the ABT Website on the Website of AIGM, and shall use its best efforts to promote and advertise the ABT Website on the Websites of all AIC corporate affiliates and all AIC affinity partners (collectively, the "AIC Friends") and to promote

recognition and awareness of the ABT Website via ongoing public relations efforts. AIC shall use its best efforts to secure the cooperation of the AIC Friends in ABTAC's development and implementation of hyperlinks between the Websites of the AIC Friends, on the one hand, and the ABT Website, on the other. AIC agrees to facilitate the development of relationships between AIC's affiliates and ABTAC with respect to the marketing of Additional Products or any other personal or commercial insurance products to Users. Any compensation to be paid to ABTAC by the AIC affiliate offering such products shall be mutually agreed upon by ABTAC and the related AIC affiliate.

Section 3.7 Payment of Development Costs. AIC shall promptly, and in any event, within 30 business days, pay ABTAC for any reasonable out-of-pocket costs in connection with the development of the hyperlinks contemplated by Phase 3 and by Section 4.3 of this Agreement.

(b) AIC shall, subject to the reimbursement limit set forth in Section 2.4, promptly, and in any event, within 30 business days, pay ABTAC for 30 business days, in connection with the development of the electronic transmission mechanism contemplated by Phase 2.

Section 3.8 Books and Records; Auditing. AIC shall keep complete and accurate records of all of its activities under this Agreement at the address specified in Section 16.2 of this Agreement. AIC shall, no later than the 30th day of each month, deliver to ABTAC (i) the amounts to which ABTAC is entitled pursuant to Section 8 of this Agreement, and (ii) a report setting forth the amounts to be paid to ABTAC hereunder, accompanied by detail sufficient to permit ABTAC to determine the basis of the computation and the accuracy of the amount, together with a list of all Users of ABT's Website which have contacted AIC through the toll free number provided on ABT's Website and such other information as ABTAC shall reasonably request from time to time in order to monitor the performance of this Agreement. Subject to the

[*] Confidential Treatment Requested

provisions of the Insurance Information and Privacy Protection Model Act, as enacted in various states (as so enacted, the "Privacy Act"), all records maintained by AIC related to this Agreement shall be open to inspection and copying by ABTAC's employees, agents, attorneys, accountants or other authorized representatives at reasonable times during normal business hours.

(b) ABTAC may also appoint public accountants of its choice, and at its sole expense, for the purpose of auditing AIC's performance of its obligations under this Agreement and AIC agrees to grant such accountants access to all records necessary to determine the compliance of AIC with the compensation provisions of this Agreement. If the results of such audit reveal a discrepancy between the amounts paid by AIC hereunder and the amounts which should have been paid hereunder, then the appropriate payments shall be made (i) if to ABTAC, immediately, and (ii) if to AIC, by the withholding of [*] of such amount from the payments to be made to ABTAC over the succeeding twelve months. If the discrepancy is in ABTAC's favor and exceeds [*] then AIC shall reimburse ABTAC for the full cost of the audit.

4. COVENANTS, DUTIES AND RIGHTS OF ABTAC AND ABT.

Section 4.1 Insurance Marketing Materials. ABTAC shall maintain the Insurance Marketing Materials (as available) at the ABT Website.

Section 4.2 Relationships with ABT Friends. ABT and ABTAC shall use best efforts to establish and maintain relationships with major automobile-related products and service providers on the Internet (such entities with which ABT or ABTAC has established such relationships, the "ABT Friends") such as, among others, Edmund's, Microsoft, Auto-Site and Kelly Blue Book which relationships may include toll free "800" numbers and/or hyperlinks with the Websites of the ABT Friends to the ABT Website allowing users at ABT Friends' Websites to link to the ABT Website and view the Insurance Marketing Materials and/or hyperlinks between the Websites of those ABT Friends approved in advance by AIC with the Website of AIGM. If ABTAC proposes to establish a hyperlink between the Website

of AIGM and that of any ABT Friend, it shall submit such proposal to AIC in advance for approval. AIC shall preliminarily respond to ABTAC within two (2) business days of receipt of such submission and shall deliver its final approval or disapproval within five (5) business days of receipt of such submission. Approval of such proposed hyperlinks shall not be unreasonably withheld. AIC and ABTAC agree that (i) any compensation to be paid to any ABT Friends in connection with any relationship with respect to users at or originating at their Websites shall be solely the responsibility of ABTAC and (ii) any such users shall be considered Users for all purposes under this Agreement.

Section 4.3 Hyperlink Development; Costs. ABTAC shall use its best efforts to develop and implement the electronic transfer mechanism necessary for Phase 2 and the hyperlink necessary for Phase 3.

(b) ABTAC shall use its best efforts to develop and implement hyperlinks between the Websites of the AIC Friends and that of ABT to allow users of the Websites of the AIC Friends to link to the ABT Website.

(c) ABTAC shall, no less frequently than monthly and no more frequently than weekly (and in connection with the electronic transfer mechanism necessary for Phase 2, subject to the reimbursement limit set forth in Section 2.4), submit to AIC for reimbursement ABTAC's out-of-pocket expenses incurred in connection with this Section 4.3, such submission to be accompanied by detail sufficient to permit AIC to determine the basis of the computation and the accuracy of the amount claimed. Such reimbursement shall be made by AIC within 30 days of receipt of the related request.

Section 4.4 Cross-Promotion. ABTAC shall promote and advertise the ABT Website through Internet search engines and other public mass media and to promote recognition and awareness of the ABT Website via ongoing public relations efforts.

Section 4.5 Guarantee. ABT hereby unconditionally and irrevocably guarantees to AIC, its successors, endorsees and assigns, the performance when due of all present and future obligations and liabilities of all kinds of ABTAC arising out of or in connection with this Agreement, whether due or to become due, secured or unsecured, absolute or contingent, joint or several ("Obligations"). The Guarantor agrees that AIC and ABTAC may mutually agree to modify the Obligations or any agreement between AIC and ABTAC without in any way impairing or affecting this Guarantee.

[*] Confidential Treatment Requested

Section 4.6 Additional Services. ABTAC hereby agrees that it shall provide AIC, upon request of AIC, the following additional services:

(a) Consulting services concerning marketing of automobile insurance to ABT Users;

(b) Data concerning persons requesting the Phase 1 toll free number directly from ABT corporate offices;

(c) E-Mail monitoring and consulting service in respect of and during Phase 3;

(d) Hyperlink monitoring and consulting service in respect of and during Phase 3;

(e) Access to officers of ABT for Internet marketing trend updates; and

(f) Icon design consulting services for AIGM Website.

5. [RESERVED]

6. EXCLUSIVITY.

Section 6.1 Exclusivity. The parties hereto shall have an exclusive arrangement for the first 18 months of the Initial Term (as defined in Section 14.1 of this Agreement) (such first 18 months, the "Initial Exclusivity Period") whereby ABT and ABTAC, separately or together, shall not provide Website access to any other underwriter of Products and whereby AIC shall not market Products with any other Internet automobile buying program, automobile purchase assistance or financing program, automobile pricing service, vehicle information service or on-line service including, among others both existing and to be created or initiated, America On-Line, Microsoft, Prodigy, CompuServe and NetCom (collectively, "Internet Auto Providers"). The exclusivity of this Agreement shall automatically continue for a 12 month period beyond the Initial Exclusivity Period, and thereafter for successive 12 month periods, unless one party shall give the other party written notice not less than 60 days prior to the end of the Initial Exclusivity Period or the then current 12 month exclusivity period, as the case may be, that the exclusivity shall end at the end of the Initial Exclusivity Period or the then current 12 month exclusivity period, as the case may be.

(b) After the termination of the exclusivity of this Agreement, if either party uses the "Prohibited Marketing Term" ascribed to it in this clause (b), the other party shall have the right, but not the obligation, to terminate this Agreement upon 30 days written notice. With respect to AIC, the Prohibited Marketing Term shall be "[x] Low Cost Auto Insurance [y]" where "x" is the name of any Internet Auto Provider, and "y" is the name of AIC or any affiliate thereof or any variation thereon which conveys or links "x," "y" and the term Low Cost within any logo, service mark, trademark or icon. With respect to ABTAC or ABT, the Prohibited Marketing Term shall be "ABT Low Cost Auto Insurance [y]" where "y" is the name of any underwriter of Products except AIC or any affiliate thereof which conveys or links ABT or any affiliate thereof to "y" and the term Low Cost within any logo, service mark, trademark or icon.

Section 6.2 Exception From Exclusivity. AIC's relationship with United Buying Services, Inc., as in effect on the date of this Agreement, is exempt from the provisions of Section 6.1 of this Agreement.

Section 6.3 AIC Marks. If, either in conjunction with a properly noticed termination of exclusivity or at any time after such notice is delivered, AIC intends to use any AIC Marks in conjunction with the offering or sale of Products through any Internet Auto Providers, then AIC must give ABTAC 30 days prior written notice thereof.

Section 6.4 ABT Marks. If, either in conjunction with a properly noticed termination of exclusivity or at any time after such notice is delivered, ABT or ABTAC intends to use any ABT Marks in conjunction with the marketing of any Products outside of the terms of this Agreement, then ABTAC must give AIC 30 days prior written notice thereof.

[*] Confidential Treatment Requested

7. FIRST REFUSAL.

Section 7.1 New Product. In the event that either (i) an insurer or entity other than AIC or any of its affiliates (a "Competing Insurer") proposes a program to offer on the ABT Website any personal or commercial insurance other than the Products offered pursuant to this Agreement (a "New Product") or (ii) ABTAC wishes to market a New Product through a Competing Insurer, then ABTAC shall immediately give AIC written notice of such New Product and the related terms (the "New Product Notice").

Section 7.2 Right of First Refusal. ABTAC hereby grants to AIC the right of first refusal to offer such New Product to ABT's Users on terms no less favorable to ABTAC or ABT's Users than those proposed by the Competing Insurer. AIC shall be obligated to respond with its intent to ABTAC within 10 business days after its receipt of the New Product Notice. If AIC does not respond within such period, ABTAC may market such New Product on terms no less favorable than those set forth in the related New Product Notice.

8. COMPENSATION.

During the term of this Agreement, for the services to be performed by ABTAC hereunder (except for those services under Section 4.6 hereof), ABTAC shall be paid compensation by AIC calculated in accordance with Schedule B attached hereto and made a part hereof. All payments due ABTAC hereunder shall be made within thirty (30) days after the end of the month they become due. For the services to be performed by ABTAC under Section 4.6 hereof, ABTAC shall be paid by AIC compensation for each year (or portion thereof) by August 31 of such year in an amount to be determined in good faith discussions to be held between AIC and ABTAC based on the value of such services.

9. POLICIES.

Section 9.1 Product Control. Subject to its obligations under Section 3.3 hereof to offer low-cost insurance products, AIC reserves the sole right and power, exercisable in good faith at any time, to change the terms, rates, conditions, or other provisions contained in the Products or to reject requests for quotes for the Products or to rescind or refuse to renew or cancel any policy issued hereunder, in accordance with AIC's underwriting standards, except as may be limited by the terms of the policies or by applicable law or regulation. AIC further reserves the sole right and power to change its underwriting standards for the Products in accordance with sound insurance practices consistent with AIC's normal business practices and subject to applicable insurance law and further to suspend, restrict or modify the offer and sale of the Products for regulatory reasons. AIC shall inform ABTAC in writing promptly upon its taking any action under this Section 9.1. In the event AIC suspends the offer and sale of Products (or so restricts or modifies such offer and sale so as to render the Products unavailable to the majority of Users previously qualified for such Products on the terms and conditions previously offered) in any jurisdiction or area within the Territory, it shall use its best efforts to make provision for the offer and sale by another underwriter of Products in such jurisdiction or area in a manner which minimizes the effect of such suspension upon the orderly marketing of the Products in such jurisdiction or area, and maximizes the expectancy of ABTAC under this Agreement. If AIC has not made such provision within 10 days of any such suspension, ABTAC shall be entitled to establish a relationship with another underwriter of Products in such jurisdiction or area, such relationship to be for a term not to exceed twelve months, and shall be entitled to make such agreements as necessary to secure such relationship, including the use of a Prohibited Marketing Term (in connection with the offering and sale of Products in such jurisdiction or area), and no aspect of such relationship or agreements shall give rise to any rights of AIC under this Agreement.

Section 9.2 Underwriting and Administration. AIC shall, at its expense, provide all underwriting, policy issuance services, policyholder services, premium disbursement and accounting services, premium collection, claims adjustment, and all other administrative services required for policies issued pursuant to this Agreement.

Section 9.3 Policy and Quote Records. All policy and quote records for the policies issued hereunder shall be the property of AIC. Policy records shall include but not be limited to all policy requests for quotes, policy declarations pages, policy underwriting files and policy claim files, or computer data files containing such information.

[*] Confidential Treatment Requested

Section 9.4 Billing. AIC shall be responsible for the billing and collection of insurance premiums from all Users who purchase insurance under this Agreement.

Section 9.5 Authority as Insurance Provider. Nothing in this Agreement shall be construed to mean that either ABT or ABTAC is a broker or an agent, and

in no event shall either ABT or ABTAC have any authority or represent itself as having authority other than as is specifically set forth in this Agreement. Without limiting the generality of the foregoing, neither ABT nor ABTAC shall do any of the following:

(a) Attempt to or make, waive, alter or change any term, rate or condition stated in any AIC policy, contract or AIC approved form; bind coverage; or discharge any contract in the name of AIC.

(b) Offer to pay or pay directly or indirectly any rebate of premiums or any other inducement not specified in the policy to any person.

(c) Transact business in contravention of the rules and regulations of an Insurance Department and/or other governmental authorities having jurisdiction of all subject matters embraced within this Agreement.

Section 9.6 Privacy. (a) ABTAC recognizes that, in the performance of its obligations under this Agreement, if permitted by the Privacy Act and other applicable laws, AIC may disclose personal or privileged information about individuals collected or received in connection with insurance transactions. Since the disclosure of such information is protected by law, ABTAC agrees that it will not redisclose any such privileged information of which ABTAC has actual notice without the individual's written authorization, unless such disclosure is permitted by law.

(b) ABT and ABTAC represents and warrants to AIC that neither ABT nor ABTAC shall use such information as is disclosed by AIC pursuant to Section 9.6(a) other than in connection with the marketing of a product or service.

Section 9.7 Fair Credit Reporting. Nothing herein shall be construed to require or imply that AIC is required to provide User information to ABT or ABTAC in contravention of the Fair Credit Reporting Act (the "FCRA"). AIC is not a "consumer reporting agency" as defined in the FCRA.

10. CONFIDENTIALITY.

Section 10.1 Confidential Information. In performing their obligations pursuant to this Agreement, the parties may be provided access to and receive disclosure of certain confidential and/or proprietary information about the other including but not limited to names of Users, information provided by Users to AIC for the purpose of obtaining an insurance quotation, names of policyholders, marketing philosophy and objectives, financial results, technological developments, computer system information (including information provided in connection with the development of the Phase 2 and Phase 3 applications and links), trade secrets, and other materials and information that such party considers confidential and/or proprietary ("Confidential Information"). Unless expressly provided otherwise in this Agreement, AIC, ABT and ABTAC agree not to give, sell, or in any way transfer, either directly or indirectly, Confidential Information to any person or organization for any purpose without the prior written approval of the other, except as may be required by law, rule or regulation (including any filings under any securities law) or court order. Notwithstanding anything to the contrary herein, AIC, ABT and ABTAC may use Confidential Information for market research purposes upon written consent from the other party, to the extent permissible by law. AIC, ABT and ABTAC promise to make best efforts to see that all parties including employees comply with this provision. These obligations as to confidentiality and nonuse shall survive the termination of this Agreement.

Section 10.2 Return of Confidential Information. Except as otherwise herein provided, all Confidential Information furnished by one party to the other in connection with this Agreement is the exclusive property of that party and shall be returned to that party upon request or upon termination of this Agreement.

Section 10.3 Survival of Confidentiality. All obligations and duties of the parties with respect to Confidential Information shall survive for five years after the termination of this Agreement. Confidential Information shall no longer be considered Confidential Information to the extent that such information (a) is developed by a party independently, without

reference to any Confidential Information of the other party's; (b) is obtained from a third party authorized to disclose it; (c) becomes a part of the public domain without the fault of the disclosing party; (d) is released by the disclosing party to third parties without similar restrictions; or (e) is released from such restrictions by prior written agreement.

11. USE OF NAMES/TRADEMARKS.

Section 11.1 Limitation on Use of AIC Marks. ABTAC agrees that neither it nor ABT shall use the AIC Marks without AIC's prior written consent.

(b) AIC hereby grants to ABT and ABTAC a limited license to use and reproduce any AIC Mark approved in accordance with Sections 2.2(b) and 11.1(a) of this Agreement, in connection with the marketing arrangements set forth in this Agreement and for no other purpose, and hereby agrees to provide ABT and ABTAC, for the sole purpose of marketing the Products, acceptable copies of the appropriate AIC Marks for purposes of reproduction.

(c) For so long as AIC or one of its affiliates has the right to use the mark "AIG," AIC shall permit ABTAC to use the term "Auto-By-Tel Low Cost Auto Insurance From AIG" in marketing the Products during the term of this Agreement; provided, however, that the permission granted hereby shall not diminish AIC's rights to approve the form and content of any Insurance Marketing Materials pursuant to Section 2.2(b) hereof.

Section 11.2 Limitation on Use of ABT Marks. (a) AIC agrees that it shall not use the ABT Marks without ABTAC's prior written consent.

(b) ABTAC hereby grants to AIC a limited license to use and reproduce any ABT Mark approved in accordance with Sections 2.2(b) and 11.2(a) of this Agreement, in connection with the marketing arrangements set forth in this Agreement and for no other purpose, and hereby agree to provide AIC, for the sole purpose of marketing the Products, acceptable copies of the appropriate ABT Marks for purposes of reproduction.

Section 11.3 Low Cost Logo. The "Auto-By-Tel; Low Cost Auto Insurance Through [NAME OF PROVIDER]" logo, and all variations and derivatives shall remain the exclusive property of ABTAC; provided, however, that such logo shall not refer to AIC after the termination of this Agreement.

Section 11.4 Use of User Data. Notwithstanding anything in this Agreement to the contrary, AIC shall give to ABT and ABTAC User information subject to Sections 9.6 and 9.7 which may be used by ABT and ABTAC in any lawful manner, including for solicitation of such Users for financial products marketed through the ABT Website, automobile pricing, purchasing, leasing and information services offered or marketed through the ABT Website and any affinity programs in which ABT or ABTAC may participate. The ownership interest in such User data shall be held by AIC. Neither ABT nor ABTAC is an agent for purposes of collection of insurance data.

12. INDEPENDENT CONTRACTOR.

Section 12.1 No Joint Venture. Nothing contained in this Agreement creates or is intended to create the relationship of a joint venture, partnership, agency or association between AIC and ABTAC. Nothing in this Agreement shall be construed to mean that either ABT or ABTAC is a broker or an agent, and in no event may ABTAC bind AIC to any contract of insurance or vary the terms of any such contract, nor may AIC bind ABT or ABTAC to any relationship or vary the terms of any agreement between ABT or ABTAC and any third party.

Section 12.2 Limitations on Authority. Each of AIC, ABT and ABTAC shall

have only those powers enumerated herein and none other shall be implied. Without limiting the generality of the foregoing, neither AIC, ABT nor ABTAC shall do any of the following:

(a) Make, accept or endorse notes, endorse checks payable to the other party, or otherwise incur any expense or liability on behalf of the other party.

(b) Waive a forfeiture.

(c) Extend the time for the payment of monies due the other party beyond the time agreed to by the other party.

(d) Collect money for the other party.

(e) Institute, prosecute, or maintain any legal proceedings in connection with any matter pertaining to the other party's business, unless otherwise approved in writing by the other party, nor accept legal process on behalf of the other party.

(f) Hold itself out as an authorized agent of the other party in order to deal with any regulatory authority or file any contract or policy on behalf of the other party or contact or discuss any matter with any regulatory authority on behalf of the other party without written approval of that party.

13. [RESERVED]

14. TERM AND TERMINATION.

Section 14.1 Renewal. This Agreement shall remain in effect for a period of five (5) years from the effective date ("Initial Term"). This Agreement shall automatically renew for subsequent five-year terms ("Renewal Term") unless written notice is given by either party of its intention to terminate this Agreement at the expiration of the Initial Term or any Renewal Term, as the case may be, at least one hundred eighty (180) days prior to such expiration. This Agreement shall also terminate if required by governmental authority or court of law, but only insofar as this Agreement applies to such jurisdiction affected.

Section 14.2 Cure Period. If any party shall be in breach of any material obligation under this Agreement and such breach shall remain uncured for a period of thirty (30) days after written notice thereof from the other party (or, if such breach is curable and requires more than thirty (30) days to cure, if such cure is not commenced within thirty (30) days and thereafter diligently prosecuted), then the other party may, by written notice sent, cancel this Agreement upon 30 days after delivery of such notice. Non-payment of amounts due under this Agreement shall be deemed to be a breach of a material obligation hereunder, but institution of suit for payment of amounts due under this Agreement shall not be deemed to be a cancellation hereunder. This Section 14.2 shall not apply to termination pursuant to Section 14.3 or Section 14.4 of this Agreement.

Section 14.3 Termination Upon Insolvency. At any party's option, and upon written notice of exercise of the option, this Agreement terminates upon the voluntary or involuntary bankruptcy or insolvency of a party, the voluntary or involuntary dissolution or liquidation of a party, the admission in writing by a party of its inability to pay its debts as they mature, or the assignment by a party for the benefit of creditors.

Section 14.4 Termination Upon Use of Marks. If any party shall give notice to the other, under Section 6.1(b), then the Agreement shall terminate 30 days after receipt of such notice.

Section 14.5 Responsibilities Upon Termination. The termination of this Agreement shall not terminate, affect, or impair any rights, obligations, or other liabilities of any party hereto which may accrue prior to such termination or which, under the terms of this Agreement, continue after the termination.

After termination of this Agreement, coverage under the insurance policies issued hereunder shall continue pursuant to their terms. Ownership of all renewals written after termination of this Agreement shall at all times remain with AIC. Each party shall return all property and information rightfully belonging to the other party which is in its possession at the time of termination except as otherwise provided herein. The provisions of this Paragraph 14.5 shall survive termination of this Agreement.

[*] Confidential Treatment Requested

15. INDEMNIFICATION.

Each party shall hold the other (and its directors, officers, employees and authorized agents) harmless from and against any damages, liabilities, claims, charges, reasonable attorneys' fees, or other costs arising from or in connection with any claim, action, or proceeding relating to or arising from (a) any grossly negligent act or omission or any intentional misconduct relating to the subject matter of this Agreement or (b) the failure to comply with the terms of this Agreement. The provisions of this Section 15 shall survive the termination of this Agreement.

16. NOTICES.

Section 16.1 <u>Legal and Regulatory Proceedings</u>. Each party shall promptly notify the others of any legal or regulatory proceeding or threat of legal or regulatory proceeding with respect to any matters which are the subject of this Agreement, except AIC shall have no obligation to notify ABTAC of legal proceedings involving claims under the Products.

Section 16.2 <u>Addresses, etc</u>. All notices pursuant to this Agreement shall be by facsimile transmission, by personal delivery, or by registered or certified mail, return receipt requested, to the addresses of the parties listed below, or such other address as any party listed below shall specify in writing to the others in a notice conforming to this Section 16.2:

If to AIC:

AIG MARKETING, INC.
505 Carr Road
Wilmington, DE 19809
Attention: J. Ernest Hansen,
President,
or his successor

If to ABTAC:

AUTO-BY-TEL ACCEPTANCE CORPORATION
2711 E. Coast Highway, Suite 203
Corona Del Mar, CA 92625
Attention: Peter Ellis,
President,
or his successor

with copies to:

R.S. GRIMES & CO.
152 West 57th Street, 24th Floor
New York, NY 10019
Attention: Robert S. Grimes,
President,
or his successor

17. MISCELLANEOUS.

Section 17.1 <u>Choice of Law, Venue, Jurisdiction</u>. This Agreement shall be governed by the internal laws of the State of New York. The parties agree that any action in law or in equity brought under this Agreement shall be brought only in a state or federal court seated in New York County, New York, and each party hereto consents to the exclusive jurisdiction of such court and venue of such action.

Section 17.2 Assignment. Without the prior written consent of the other party, which consent shall not be unreasonably withheld, this Agreement may not be assigned in whole or in part by any party other than to an affiliate and subsidiary (provided (A) such affiliate or subsidiary (i) shall agree in writing to be bound by the terms of this Agreement and (ii) has a net worth immediately following the assignment equal to or greater than that of the assignor, and (B) the assignor gives written assurances that it will cause the assignee to perform as contained herein or the assignor will perform in the assignee's place). Notwithstanding the foregoing, ABTAC may assign this Agreement to ABT or any wholly owned subsidiary of ABT or ABTAC, provided, however, that the guarantee of ABT pursuant to Section 4.5 herein shall apply as to such subsidiary assignee in the same manner as it applied to ABTAC.

Section 17.3 Modification; Waiver. This Agreement may only be revised and/or modified in a writing which must be executed by each of the parties to this Agreement. No other change, modification, addition, or deletion to any portion of this Agreement will be valid or binding upon any of them.

Section 17.4 Entire Agreement. This Agreement constitutes the entire Agreement between the parties with respect to the subject matter contained herein and supersedes all oral or written negotiations of the parties.

Section 17.5 Remedies. All remedies of any party are cumulative. Waiver by any party of any obligation of any other party does not constitute waiver of any future or other obligation of said party.

Section 17.6 References and Section Headings. Any reference to the singular shall include reference to the plural and vice versa. Section headings are for description only and shall not be used to interpret this Agreement.

Section 17.7 Severability. If any part, term, or provision of this Agreement shall be held void, illegal, or unenforceable, the validity of the remaining portions or provisions shall not be affected thereby.

Section 17.8 Signatures and Recording. This Agreement shall not go into force until duly executed on behalf of ABTAC, ABT and AIC. Each party represents and warrants that each of the respective officers executing this Agreement on its behalf is duly authorized by its Board of Directors and is acting within the scope of his or her authority to bind said party under this Agreement.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement below through their duly authorized officers as of the date first above written.

AIU INSURANCE COMPANY
AMERICAN INTERNATIONAL SOUTH INSURANCE COMPANY
AMERICAN HOME ASSURANCE COMPANY
AMERICAN INTERNATIONAL INSURANCE COMPANY
AMERICAN INTERNATIONAL INSURANCE COMPANY OF CALIFORNIA, INC.
ILLINOIS NATIONAL INSURANCE COMPANY
MINNESOTA INSURANCE COMPANY
NATIONAL UNION FIRE INSURANCE COMPANY OF PITTSBURGH, PA
THE INSURANCE COMPANY OF THE STATE OF PENNSYLVANIA

By: /S/ JOHN G. COLOGNA
John G. Colona, Vice President

AUTO-BY-TEL ACCEPTANCE CORPORATION

By: /S/ PETER R. ELLIS

Peter Ellis, President

AUTO-BY-TEL, INC., as Guarantor

By: /S/ PETER R. ELLIS

Peter Ellis, President

SCHEDULE A
ADDITIONAL PRODUCTS

AIG Life Division

- Mega Term (High Limit Term Life)
- Graded Premium Life
- Senior Life
- Birthday Life
- Whole Life
- Universal Life
- Survivorship Universal Life
- Fixed Annuities
- Variable Annuities
- Variable Life

AIG A & H Division

- Hospital Indemnity
- Hospital Accident
- Cancer Coverage
- Accidental Death & Dismemberment (AD&D)

AIG Warranty Services

- Mechanical Breakdown
- Vehicle Service Agreement (VSA)
- GAP Coverage (stand alone or with above-mentioned products)
- Computer Warranty Coverage

AIG Capital Management Corp.

- AIG All Ages Funds

SCHEDULE B

Compensation due to ABTAC pursuant to this Agreement shall be based on a flat fee calculated on the basis of [*] after the commencement of Phase I. Calculations to adjust the compensation from a [*] to a [*] will occur in months [*] through [*], the resultant adjustments will be offset against the payments of future compensation in months [*] through [*]. For purposes of this Schedule B, [*] means the [*] for any new or renewal policy reduced only by those amounts not collected against the [*] amount. Illustrations of the compensation calculation are attached as pages Schedule B-2 through B-7.

Compensation for new and renewal automobile policies after month 12 shall be based on a [*] calculated on the basis of [*].

Compensation for homeowners and personal umbrella liability policies shall be based on a [*] calculated on the basis of [*].

All payments due ABTAC by AIC during the term of this Agreement shall be paid by AIC to ABTAC thirty (30) days after the end of each calendar month.

[*] Confidential Treatment Requested

EXAMPLE # 1

$600 6-Month Policy Written in Month One and
Collected Via Monthly Direct Bill for 1st and 2nd Term (12 Months)

Month	Premium	Compensation	Net Collected Premium	Net Collected Compensation
1	[*]		[*]	
2		[*]	[*]	[*]
3			[*]	[*]
4			[*]	[*]
5			[*]	[*]
6			[*]	[*]
7			[*]	[*]
8			[*]	[*]
9			[*]	[*]
10			[*]	[*]
11				[*]
12				
Total*	[*]	[*]	[*]	[*]

* No adjustments required

[*] Confidential Treatment Requested

EXAMPLE # 2

$600 6-Month Policy Written in Month One and
Collected Via Monthly Direct Bill for 1st and
Half of 2nd Term and Then Policy Lapses

Month	Premium	Compensation	Net Collected Premium	Net Collected Compensation
1	[*]		[*]	
2		[*]	[*]	[*]
3			[*]	[*]
4			[*]	[*]
5			[*]	[*]
6			[*]	[*]
7			[*]	[*]
8				[*]
9				
10				
11				
12				
Total*	[*]	[*]	[*]	[*]

* [*] compensation adjustment @ [*] per month ([*] -[*] /[*]) will occur in months 13 thru 24.

[*] Confidential Treatment Requested

EXAMPLE # 3

Same as #1 Except Policy Written in Month 7

Month	Premium	Compensation	Net Collected Premium	Net Collected Compensation
1				
2				
3				
4				
5				
6				
7	[*]		[*]	

Month	Premium	Compensation	Net Collected Premium	Net Collected Compensation
8		[*]	[*]	[*]
9			[*]	[*]
10			[*]	[*]
11			[*]	[*]
12			[*]	[*]
13			[*]	[*]
14			[*]	[*]
15			[*]	[*]
16			[*]	[*]
17				[*]
Total*	[*]	[*]	[*]	[*]

* No adjustment required

[*] Confidential Treatment Requested

EXAMPLE # 4

Same as #2 Except Policy Written in Month 7

Month	Premium	Compensation	Net Collected Premium	Net Collected Compensation
1				
2				
3				
4				
5				
6				
7	[*]		[*]	
8		[*]	[*]	[*]
9			[*]	[*]
10			[*]	[*]
11			[*]	[*]
12			[*]	[*]
13			[*]	[*]
14				[*]
15				
16				
17				
Total*	[*]	[*]	[*]	[*]

* [*] compensation adjustment @[*] per month ([*] -[*] / [*]) will occur in months 19 thru 30.

[*] Confidential Treatment Requested

EXAMPLE # 5

Same as #1 & #3 Except Policy Written in Month 12

Month	Premium	Compensation	Net Collected Premium	Net Collected Compensation
1				
2				
3				
4				
5				
6				
7				
8				
9				
10				
11				
12			[*]	
13		[*]	[*]	[*]
14			[*]	[*]
15			[*]	[*]
16			[*]	[*]
17			[*]	[*]
18			[*]	[*]
19			[*]	[*]
20			[*]	[*]
21			[*]	[*]
22				[*]
Total*	[*]	[*]	[*]	[*]

* No adjustment required

[*] Confidential Treatment Requested

EXAMPLE # 6

Same as #1 & #3 Except Policy Written in Month 12

Month	Premium	Compensation	Net Collected Premium	Net Collected Compensation
1				
2				
3				
4				
5				
6				
7				
8				
9				
10				
11				
12	[*]		[*]	
13		[*]	[*]	[*]
14			[*]	[*]
15			[*]	[*]
16			[*]	[*]
17			[*]	[*]
18			[*]	[*]
19				[*]
20				
21				
22				
23				
Total*	[*]	[*]	[*]	[*]

* [*] compensation adjustment @ [*] per month ([*] - [*] / [*]) will occur in months 24 thru 35.

[*] Confidential Treatment Requested

SCHEDULE C
AIGM COMPENSATION FROM AIC

In any calendar year in which collected premium with respect to all policies written based on referrals from AIGM in connection with the marketing arrangements it negotiates with Auto-By-Tel Acceptance Corporation exceeds five hundred thousand (500,000.00) dollars, and the adjusted loss ratio is less than or equal to the target loss ratio AIC shall pay AIGM a profit sharing contingency, as set forth below, based upon statutory profit as determined by "losses" and "loss ratio" as defined below.

Losses: that amount which with respect to claims with occurrence dates during any specified calendar year (hereinafter referred to as "Calendar Accident Year") is the total of:

1) all payments of such claims;

2) the amount of case reserves on such claims;

3) a reasonable (in light of AIC practices in its other similar portfolios) provision for future development of case reserves on such claims;

4) a reasonable (in light of AIC practices in its other similar portfolios) provision for payment of such claims incurred but not yet reported to the insurance company;

5) a reduction for salvage and subrogation payments, received or receivable, resulting from all claims;

6) the amount of loss adjustment expenses (the reasonable and customary costs associated with the defense and/or settlement of a claim, except for the claim payment itself) incurred or reasonably anticipated;

7) a residual market subsidy based on the proportional state-by-state distribution of the business in relation to residual market deficits;

8) a loss carryover provision which consists of the dollar amount by which the loss ratio percentage exceeds the target loss ratio in the preceding Calendar Accident Year calculation. This carryover will be restated each time the preceding Calendar Accident Year is adjusted in accordance with the payment cycle set forth below. Bad faith claim payments are specifically excluded from the definition of Losses.

Loss Ratio: a fraction with the numerator being the sum of the losses, and the denominator being the corresponding earned premium with respect to the specified Calendar Accident Year, rounded to the nearest one tenth percent.

Target: a loss ratio calculated for each applicable Calendar Accident Year which is derived by weighing 81.0% with that year's private passenger automobile earned premium and 69.0% with that year's combined homeowners and personal umbrella liability earned premium. This calculation is rounded to the nearest percent.

PROFIT SHARING CONTINGENCY CHART

Loss Ratio*	Profit Sharing
Target and Higher	0%
(Target - 1.0%) to (Target - 0.1%)	.2551%
(Target - 2.0%) to (Target - 0.19%)	.5102%
(Target - 3.0%) to (Target - 2.1%)	.7653%
(Target - 4.0%) to (Target - 3.1%)	1.024%
(Target - 5.0%) to (Target - 4.1%)	1.2755%
(Target - 6.0%) to (Target - 5.1%)	1.5306%
(Target - 7.0%) to (Target - 6.1%)	1.7857%
(Target - 7.1%) and Lower	2.0408%

* The endpoints of each range are included in the range.

AIC shall, if appropriate, pay the profit sharing contingency to AIGM based on initial calculation and three subsequent adjustments for each Calendar Accident Year to reflect the ultimate development of losses and over-reserves, as applicable. The first Calendar Accident Year will begin on January 1, 1996 and end of December 31, 1996. Subsequent Calendar Accident Years will run similarly.

The initial calculation for each Calendar Accident Year will be made in the 18th month after the beginning of a Calendar Accident Year based on inception to date of evaluation losses for that Calendar Accident Year and the profit sharing contingency shall be paid in accordance with the Profit Sharing Contingency Chart, if appropriate, by August 31st of the year in which the calculation is made according to the Profit Sharing Contingency Chart. The first adjustment to the initial calculation for each Calendar Accident Year will be made in the 30th month after the beginning of such Calendar Accident Year based on inception to date of evaluation losses for such Calendar Accident Year. In the event the first adjustment indicates overpayment in the initial calculation of a Calendar Accident Year, the amount of overpayment will be deducted from Profit Sharing Contingencies due for other Calendar Accident Years and, if not sufficient, the remaining overpayment will be deducted from current commissions. In the event the first adjustment indicates underpayment in the initial calculation of a Calendar Accident Year, such payment shall be made by August 31st of the year in which the first adjustment is made.

The second and third adjustments for each Calendar Accident Year will be made in the 42nd month and 54th month, respectively, after the beginning of a Calendar Accident Year based on the same criteria as the first adjustment, and payments will be deducted or made in accordance with the procedure established for the first adjustment.

In the event this Agreement is terminated, all rights to payment from this Profit Sharing Plan shall terminate.

The compensation paid by AIC pursuant to this Schedule is for marketing access negotiated by AIGM and provided on the ABT Website by ABTAC.

AMERICAN INTERNATIONAL COMPANIES
c/o AIG Marketing, Inc.
505 Carr Road
Wilmington, Delaware 19809

July 23, 1996

Auto-By-Tel, Inc.
2711 East Coast Highway
Suite 203

Corona del Mar, California 92625

Attention: Mr. Peter Ellis, President

Re: Marketing Agreement between Auto-By-Tel Acceptance Corporation on the one hand, and AIU Insurance Company, American International South Insurance Company, American Home Assurance Company, American International Insurance Company, American International Insurance Company of California, Inc., Illinois National Insurance Company, Minnesota Insurance Company, National Union Fire Insurance Company of Pittsburgh, PA and The Insurance Company of the State of Pennsylvania on the other hand, and Auto-By-Tel, Inc. as Guarantor of the obligations of Auto-By-Tel Acceptance Corporation dated as of July 22, 1996 (the "Marketing Agreement")

Gentlemen:

Reference is made to Section 8 of the above-referenced Marketing Agreement. Capitalized terms used herein and in the attached Schedule A, and not defined herein or therein, shall have the meanings ascribed thereto in the Marketing Agreement. This will confirm our agreement that compensation to be paid for the services provided to AIC pursuant to Section 4.6 of the Marketing Agreement shall be calculated and paid in accordance with the attached Schedule A on or before August 31, 1997, and on each August 31st thereafter for as long as the Marketing Agreement is in effect. Please confirm that this represents our understanding with respect to the foregoing matter by executing a copy of this letter in the space provided below and returning to the undersigned.

Best regards.

Very truly yours,

AIU INSURANCE COMPANY
AMERICAN INTERNATIONAL SOUTH INSURANCE COMPANY
AMERICAN HOME ASSURANCE COMPANY
AMERICAN INTERNATIONAL INSURANCE COMPANY
AMERICAN INTERNATIONAL INSURANCE COMPANY OF CALIFORNIA, INC.
ILLINOIS NATIONAL INSURANCE COMPANY
MINNESOTA INSURANCE COMPANY
NATIONAL UNION FIRE INSURANCE COMPANY OF PITTSBURGH, PA
THE INSURANCE COMPANY OF THE STATE OF PENNSYLVANIA

By: /S/ JOHN G. COLONA

John G. Colona, Vice President

cc: Mr. Robert S. Grimes
Robert S. Grimes & Company
152 West 57th Street
24th Floor
New York, NY 10019

CONFIRMED AS OF JULY 24, 1996

AUTO-BY-TEL ACCEPTANCE CORP.

By: /S/ PETER R. ELLIS

Peter Ellis, President

SCHEDULE A

30. Schedule A-1

In any [*] in which collected premium with respect to all policies written in connection with the marketing arrangements exceeds [*] dollars, and [*] AIC shall pay ABTAC additional compensation, as set forth below, based upon statutory profit as determined by "losses" and "loss ratio" as defined below.

Losses: that amount which with respect to claims with occurrence dates during any specified calendar year (hereinafter referred to as [*] is the total of:

1. all payments of such claims;

2. the amount of case reserves on such claims;

3. a reasonable (in light of AIC practices in its other similar portfolios) provision for future development of case reserves on such claims;

4. a reasonable (in light of AIC practices in its other similar portfolios) provision for payment of such claims incurred but not yet reported to the insurance company;

5. a reduction for salvage and subrogation payments, received or receivable, resulting from all claims;

6. the amount of loss adjustment expenses (the reasonable and customary costs associated with the defense and/or settlement of a claim, except for the claim payment itself) incurred or reasonably anticipated;

7. a residual market subsidy based on the proportional state-by-state distribution of the business in relation to residual market deficits;

8. a loss carryover provision which consists of the dollar amount by which the loss ratio percentage exceeds the target loss ratio in the preceding Calendar Accident Year calculation. This carryover will be restated each time the preceding [*] is adjusted in accordance with the payment cycle set forth below. Bad faith claim payments are specifically excluded from the definition of Losses.

Loss Ratio: a fraction with the numerator being the sum of the losses, and the denominator being the corresponding earned premium with respect to the specified Calendar Accident Year, rounded to the nearest one tenth percent.

Target: a loss ratio calculated for each applicable [*] which is derived by [*]. This calculation is rounded to the nearest percent.

[*] Confidential Treatment Requested

31. Schedule A-2 (Additional Compensation Chart)

Loss Ratio*	Additional Compensation
Target and Higher	[*]
(Target - [*] to (Target - [*]	[*]
(Target - [*] to (Target - [*]	[*]
(Target - [*] to (Target - [*]	[*]
(Target - [*] to (Target - [*]	[*]
(Target - [*] to (Target - [*]	[*]
(Target - [*] to (Target - [*]	[*]
(Target - [*] to (Target - [*]	[*]
(Target - [*] and Lower	[*]

* The endpoints of each range are included in the range.

"AIC shall, if appropriate, pay the additional compensation to ABTAC based on an initial calculation and three subsequent adjustments for each [*] to reflect the ultimate development of losses and over-reserves, as applicable. The first [*] will begin on [*] and end on [*]. Subsequent [*] will run similarly.

The initial calculation for each [*] will be made in the 18th month after the beginning of a [*] based on inception to date of evaluation losses for that [*] and the additional compensation shall be paid in accordance with the Additional Compensation Chart, if appropriate, by [*] in which the calculation is made. The first adjustment to the initial calculation for each [*] will be made in the [*] after the beginning of such [*] based on inception to date of evaluation losses for such [*]. In the event the first adjustment indicates overpayment in the initial calculation of a [*], the amount of overpayment will be deducted from additional compensation due for other [*] and, if not sufficient, the remaining overpayment will be deducted from current compensation under the Marketing Agreement. In the event the first adjustment indicates underpayment in the initial calculation of a [*], such payment shall be made by [*] in which the first adjustment is made.

The second and third adjustments for each [*] will be made in the [*] and [*] respectively, after the beginning of a [*] based on the same criteria as the first adjustment, and payments will be deducted or made in accordance with the procedure established for the first adjustment.

In the event the Marketing Agreement is terminated, all rights to payments of additional compensation amounts shall terminate."

[*] Confidential Treatment Requested

ADDITIONAL COMPENSATION CHART

[*]

"AIC shall, if appropriate, pay the additional compensation to ABTAC based on an initial calculation and three subsequent adjustments for each Calendar Accident Year to reflect the ultimate development of losses and over-reserves, as applicable. The first Calendar Accident Year will begin on January 1, 1996 and end on December 31, 1996. Subsequent Calendar Accident Years will run similarly.

The initial calculation for each Calendar Accident Year will be made in the 18th month after the beginning of a Calendar Accident Year based on inception to date of evaluation losses for that Calendar Accident Year and the additional compensation shall be paid in accordance with the Additional Compensation Chart, if appropriate, by August 31st of the year in which the calculation is made. The first adjustment to the initial calculation for each Calendar Accident Year will be made in the 30th month after the beginning of such Calendar Accident Year based on inception to date of evaluation losses for such Calendar Accident Year. In the event the first adjustment indicates overpayment in the initial calculation of a Calendar Accident Year, the amount of overpayment will be deducted from additional compensation due for other Calendar Accident Years and, if not sufficient, the remaining overpayment will be deducted from current compensation under the Marketing Agreement. In the event the first adjustment indicates underpayment in the initial calculation of a Calendar Accident Year, such payment shall be made by August 31st of the year in which the first adjustment is made.

The second and third adjustments for each Calendar Accident Year will be made in the 42nd month and 54th month, respectively, after the beginning of a Calendar Accident Year based on the same criteria as the first adjustment, and payments will be deducted or made in accordance with the procedure established for the first adjustment.

In the event the Marketing Agreement is terminated, all rights to payments of additional compensation amounts shall terminate."

[*] Confidential Treatment Requested

EXHIBIT 10.10

ADVERTISING AGREEMENT

This Agreement, effective as of October 15, 1996, is made and entered into by Digital City, Inc. ("DCI"), a Delaware corporation with its principal offices at 8619 Westwood Center Drive, Vienna, VA 22182, and Auto-By-Tel ("Advertiser"), with its principal offices or address at 18872 MacArthur Blvd., Suite 200, Irvine, California 92612-1400.

INTRODUCTION

DCI is a subsidiary of America Online, Inc. that operates the Digital City(SM) brand service (the "DCI Service") which assembles, packages and markets local interactive consumer content and services for particular metropolitan or other local areas throughout the United States and the World through the America Online(R) Service ("AOL"), the World Wide Web and other distribution partners. Auto-By-Tel Inc. is an online marketing program that, among other things, assists consumers in buying or leasing new automobiles via electronic purchase requests on the Internet.

Advertiser wishes to include an advertising icon (the "Icon") consisting of logo identification and a prominent photo or graphic with caption on the Main screen, the Main Auto screen, and various other screens of the DCI Service markets listed in Exhibit C hereto (the "Markets") which, when activated, will provide access to an Advertiser site on the DCI Service (the "Advertising Site"). Advertiser's involvement with the Digital City web-site on the World Wide Web is not addressed in this contract and will be addressed at a later date when it becomes available.

TERMS

1. Duties of DCI.

1.1 During the Term, DCI shall create and display the Icon and the Advertising Site. Subscribers to the DCI Service may click on the Icon in order to activate a link to the Advertising Site. The design, contents, rotation, and placement of the Icon and Advertising site shall be as mutually agreed upon by DCI and Advertiser and are specified in Exhibit A hereto.

1.2 Exclusivity.

During the Term, DCI agrees that it will not sell advertising in any of the Markets to marketing programs where electronic new car lease or purchase requests are routed to a marketing company, to new car brokers or to automobile manufacturers. Exclusivity does not effect individual dealer or automobile manufacturer advertisements, used car sales, or classified sections of Digital City Markets. DCI subscribers may solicit price quotes by telephone or by email directly from automobile dealers and manufacturers provided that the advertising icon appearing on the DCI Service, if any, connected to such dealers and manufacturers does not directly invite DCI subscribers to receive a price quote. This Section 1.2 shall have no affect on advertising sold into the Markets prior to the commencement of this Agreement.

[*] Confidential Treatment has been requested for certain portions of this exhibit

EXHIBIT 10.10 ADVERTISING AGREEMENT DATED OCTOBER 15, 1996 BETWEEN REGISTRANT AND DIGITAL CITY, INC.

1.3 Advertiser will be given two keywords for promotion within the DCI Service. They are AUTOBYTEL and AUTO-BY-TEL.

1.4 Overhead Account. DCI shall grant one (1) account on AOL, for which the standard subscription and usage charges will be waived during the Term

("Overhead Accounts") for the exclusive purpose of enabling Advertiser and its agents to perform Advertiser's duties under this Agreement. Advertiser shall be responsible for the actions taken under or through its Overhead Accounts, which actions are subject to (i) DCI's applicable rules and policies; (ii) any surcharges, including, without limitation, all premium charges, transaction charges, and any applicable communication surcharges incurred by any Overhead Account issued to Advertiser; and (iii) the AOL Terms of Service. Upon the termination of this Agreement, such Overhead Account, related screen names and any associated usage credits or similar rights, shall automatically terminate. DCI shall have no liability for loss of any data or content related to the proper termination of any such Overhead Account.

1.5 Advertiser will be provided with a Plus Group to monitor the performance of the Advertising Site. A Plus Group is the traffic measurement system used to analyze online activity within the DCI Service. Nielsen audited traffic information will be provided as it becomes available.

1.6 DCI is obligated to provide Production of one Rainman page for Advertiser which provides the introduction of the product and links to the Advertiser web site.

1.7 DCI will provide Advertiser with up to two production changes in artwork for the Icon at no cost. Subsequently, Advertiser will be subject to negotiated rates for production.

2. Duties of Advertiser.

2.1 Advertiser is obligated to purchase each Market within one month from launch of such Market.

2.2 Advertiser shall respond promptly and professionally to questions, comments, complaints and other reasonable requests from DCI subscribers regarding the Advertising Site.

2.3 Advertiser will provide for the timely delivery of automotive price quotes to DCI consumers.

2.4 Advertiser agrees to pay DCI according to section 5 below, "Revenues To DCI".

3. Rights of DCI.

3.1 Advertiser agrees that (i) DCI has the right to market, display, transmit and promote the Advertising Site as provided above and (ii) subscribers to the DCI Service have the right

[*] Confidential Treatment Requested

to access and use the Advertising Site and the content and services contained therein (including any of the Advertiser's trademarks, trade names and service marks included within the Advertising Site).

3.2 Subject to Sections 1.2 and 1.3, DCI will retain the right to distribute automotive content of all types in the DCI automotive areas online.

4. Performance Clause.

4.1 The [*] of advertising will be given to Advertiser at [*]. The [*] will begin upon activation of the affinity button in each Market. The affinity button is a button on the welcome screen of America Online that links to local Digital City markets.

4.2 After the [*] provided in Section 4.1 above, there will be a [*] "start up" period.

4.3 In each Market, after the initial six month period set forth in Sections 4.1 and 4.2 above has ended, a measurement figure of per [*] "Purchase Request" will take effect for the remainder of the Term. If the average "Purchase Request" for a thirty (30) day period across all Markets in which the Icon is active exceeds [*] Advertiser may terminate this Agreement by written notice to DCI sixty days prior to the desired termination date. Advertiser will make verified "Purchase Request" figures available to DCI prior to any

termination by Advertiser pursuant to this Section 4.3. For purposes of this Agreement, "Purchase Request" shall mean that a user of the DCI Service has requested a price quote online from Advertiser.

5. Revenue to DCI.

5.1 Advertiser will pay to DCI according to the monthly and annual price breakdowns for each market as set forth in Exhibits B, C, and D.

5.2 Advertiser will make a [*] down payment of [*] for the first amounts due in respect of this Agreement upon execution of this Agreement.

5.3 Advertiser will be billed for new Digital City markets at the beginning of the [*] month after the market has been activated.

6. Confidential Information. Each Party acknowledges that all information disclosed pursuant to this Agreement, including the terms of this Agreement, shall be considered confidential (collectively, "Confidential Information"). Each Party agrees that it shall take reasonable steps, at least substantially equivalent to the steps it takes to protect its own proprietary information, during the term of this Agreement and for a period of three years following expiration or termination of this Agreement, to prevent the duplication or disclosure of Confidential Information. Notwithstanding the foregoing, Confidential Information shall not include materials or information that (i) are already, or

[*] Confidential Treatment Requested

otherwise become, generally known by third parties as a result of no act or omission of the disclosing party; (ii) subsequent to disclosure hereunder are lawfully received by the disclosing party from a third party having the right to disseminate the information and without restriction on disclosure; (iii) are generally furnished to others by any party without restriction on disclosure; (iv) were already known by the disclosing party and were not received from a third party in breach of that third party's obligations of confidentiality; (v) are required to be disclosed by applicable law, rule or regulation of any government or governmental agency or by court order; or (vi) are independently developed by the disclosing party without the use of Confidential Information.

7. Term. The initial term of this Agreement is for one (1) year from execution date of the Agreement (the "Initial Term") and shall be automatically extended for an additional period equal to the length of the Initial Term (the "Renewal Term") unless this Agreement has been terminated in accordance with Section 4.3 or unless Advertiser notifies DCI in writing of its election to have the Agreement expire at least thirty (30) days in advance of the Initial Term.

8. If Advertiser wishes to make any changes to the Icon, Advertiser must request such changes in writing. There will be one icon used for all Markets. Advertiser may change the Icon twice per month at no cost. Any changes must be approved by DCI.

9. Advertiser represents and warrants that neither the Icon nor the Advertising Site in any respect: (i) infringes on any copyright, trademark, U.S. patent or any other proprietary right of any third party; (ii) violates any applicable law or regulation; or (iii) violates the Terms of Service of AOL.

10. Each party shall promptly inform the other party of any event or circumstance, and shall provide such party with all relevant information, related to the Icon and/or Advertising Site which could reasonably lead to a claim, demand, or liability of or against such party/or its affiliates by any third party.

11. UNDER NO CIRCUMSTANCES SHALL EITHER PARTY BE LIABLE TO THE OTHER FOR INDIRECT, INCIDENTAL, CONSEQUENTIAL, SPECIAL OR EXEMPLARY DAMAGES (EVEN IF SUCH PARTY HAS BEEN ADVISED OF THE POSSIBILITY OF SUCH DAMAGES), ARISING FROM ANY ASPECT OF THE TRANSACTION DESCRIBED HEREIN. NEITHER PARTY SHALL IN ANY EVENT BE LIABLE TO THE OTHER FOR MORE THAN THE AMOUNTS PAID TO DCI BY ADVERTISER HEREUNDER.

12. NEITHER PARTY MAKES AND EACH PARTY HEREBY SPECIFICALLY DISCLAIMS ANY REPRESENTATIONS OR WARRANTIES, EXPRESS OR IMPLIED, REGARDING THE DCI SERVICE AND

AOL OR ANY PORTION THERETO, INCLUDING ANY IMPLIED WARRANTY OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE AND IMPLIED WARRANTIES ARISING FROM COURSE OF DEALING OR COURSE OF PERFORMANCE. WITHOUT LIMITING THE GENERALITY OF THE FOREGOING, DCI SPECIFICALLY DISCLAIMS ANY WARRANTY REGARDING (I) THE

[*] Confidential Treatment Requested

NUMBER OF PERSONS WHO WILL ACCESS THE ICON AND (II) ANY BENEFIT ADVERTISER MIGHT OBTAIN INCLUDING THE ICON WITHIN THE DCI SERVICE.

13. Each Party will defend, indemnify, save and hold harmless the other party and the officers, directors, agents, affiliates, distributors, franchisees and employees of the other party from any and all third party claims, demands, liabilities, costs or expenses, including reasonable outside and in-house attorneys' fees ("Liabilities"), resulting from the indemnifying party's breach of any material obligation, duty, representation or warranty of this Agreement, except where Liabilities result from the gross negligence or knowing and willful misconduct of the other Party.

14. Either party may terminate this Agreement at any time in the event of a material breach of this Agreement by the other party.

15. In addition, DCI shall have the right, at any time, to remove the Icon if DCI determines, in its sole discretion, that any part of the Icon or the Advertising Site violates the Terms of Service of AOL. In the event that DCI exercises its rights under this Section 15, DCI shall refund to Advertiser a pro rata portion of the fee which Advertiser has paid to DCI for display of the Icon.

16. The Parties to this Agreement are independent contractors. Neither Party is an agent, representative, or partner of the other Party. This Agreement shall not be interpreted or construed to create an association, agency, joint venture or partnership between the Parties or to impose any liability attributable to such a relationship upon either Party. The failure of either Party to insist upon or enforce strict performance by the other Party of any provision of this Agreement or to exercise any right under this Agreement shall not be construed as a waiver or relinquishment to any extent of such Party's right to assert or rely upon any such provision or right in that or any other instance. DCI reserves the right to review any press releases, advertising materials, etc, that mention DCI or include DCI's logo.

17. Sections 6, 10, 11, 12, 13 and 16 shall survive the completion, expiration, termination or cancellation of this Agreement.

18. This Agreement sets forth the entire agreement between the Parties, and supersedes any and all prior agreements of the Parties with respect to the transactions set forth herein. Neither Party shall be bound by, and each Party specifically objects to any term, condition or other provision which is different from or in addition to the provisions of this Agreement, unless such change, amendment or modification of any provision of this Agreement is set forth in a subsequent written instrument duly signed by both Parties. In the event that any provision of this Agreement conflicts with the law under which this Agreement is to be construed or if any such provision is held invalid by a court with jurisdiction over the Parties, such provision shall be deemed to be restated to reflect as nearly as possible the original intentions of the Parties in accordance with applicable law, and the remainder of this Agreement shall remain in full force and effect. This Agreement shall be interpreted, construed and enforced in all respects in accordance with the laws of the Commonwealth of Virginia except for its conflicts of laws principles.

19. This Agreement may be executed in counterparts, each of which shall be deemed an original and all of which together shall constitute one and the same document.

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

DIGITAL CITY, INC. AUTO-BY-TEL, INC.

By: /S/ RJ SMITH	By: /S/ PETER R. ELLIS
Print Name: RJ SMITH	Print Name: PETER R. ELLIS
Title: VICE-PRESIDENT/GENERAL MANAGER	Title: PRESIDENT

EXHIBIT A
ICON AND ADVERTISING SITE

1. The Icon.

The Icon may consist of the Advertiser logo or another marketing icon that is mutually agreed upon by DCI and Advertiser. The Icon must fit the dimensions consistent with DCI screen format.

Placement and Rotation

A. Digital City -Main Screens.

The Advertising Icon shall have placement on the Main screen of each Digital City Market for the equivalent of [*] of the front screen views for each Market.

B. Digital City- Auto Screens.

The Advertiser Icon will have permanent placement on the Front Auto screens of Digital City for the duration of this Agreement in each participating city.

C. Integrated Marketing.

The Advertiser Icon will be incorporated into a rotation that provides placement on a variety of other screens throughout the Digital City service in each participating city for the duration of this contract. This will include exposure in the different sections of Digital City, headline slots, and mentions on the Digital City welcome screens.

2. The Advertiser site on AOL.

When clicked, the Advertiser Icon will link to an Advertiser page developed for the America Online environment. The design of this page will be determined and mutually agreed upon by the Advertiser creative staff and Digital City. This page will be produced by Digital City and will be integrated with the Advertiser web-site on the Internet. Additional pages must be approved by DCI. Upon mutual agreement and under a separate contract Advertiser will also be able to incorporate third party automotive information into the Advertising Site subject to Advertiser paying the DCI negotiated rates for production. DCI retains all rights to review and approve of the third party material and to distribute it's own third party automotive content in the DCI automotive areas; provided that any material appearing on the Advertising Site on the execution date of this Agreement shall be deemed to be approved by DCI.

[*] Confidential Treatment Requested

EXHIBIT B

COST BREAKDOWN

Digital City Los Angeles will be used as the base rate market. The rest of the markets are based on the pricing in Los Angeles and are proportional depending on AOL membership in each cities DMA.

DIGITAL CITY	LOS ANGELES
Members in DMA as of June 96	443,497
Rotation on Main Screen	[*]
Integrated Marketing	[*]
Auto Section Placement	[*]
Total Without Exclusivity	[*]
[*]% Exclusivity Premium	[*]
Monthly Total with Exclusivity	[*]
First Year Total (Includes two free months)	[*]
Second Year Total with [*]% Increase	[*]

[*] Confidential Treatment Requested

EXHIBIT C

ROLL-OUT AND PRICING SCHEDULE

MARKET	LAUNCH DATE	AOL MEMBERS IN DMA	MONTHLY PRICE FIRST YEAR	EXCLUSIVITY AVAILABLE
Washington	September 1995	219,306	[*]	Yes
Boston	February 1996	229,519	[*]	Yes
Atlanta	August 1996	128,642	[*]	Yes
San Francisco	August 1996	307,317	[*]	Yes
Philadelphia	August 1996	217,200	[*]	Yes
Los Angeles	August 1996	443,497	[*]	Yes
Denver	October 1996	104,952	[*]	Yes
San Diego	October 1996	83,458	[*]	Yes
Dallas	November 1996	92,814	[*]	Yes
Seattle	December 1996	129,775	[*]	Yes
Detroit	December 1996	119,416	[*]	Yes
Houston	December 1996	102,657	[*]	Yes
Minneapolis	December 1996	94,521	[*]	Yes
Tampa	December 1996	85,723	[*]	Yes
Cleveland	January 1997	88,185	[*]	Yes

[*] Confidential Treatment Requested

EXHIBIT D

CONTRACT TOTALS

MARKET	ANNUAL PRICE FIRST YEAR (INCLUDES 2 FREE MONTHS)	SECOND YEAR INCLUDES [*] INCREASE	OFFICIAL START DATE (AFFINITY BUTTON TURNED ON)
Washington			
Boston			
Atlanta			
San Francisco			
Philadelphia			
Los Angeles			
Denver			
San Diego			
Dallas			
Seattle			
Detroit			

Houston
Minneapolis
Tampa
Cleveland
Total

[*] Confidential Treatment Requested

EXHIBIT 23.1

CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS

As independent public accountants, we hereby consent to the use of our reports (and to all references to our Firm) included in or made a part of this registration statement.

Arthur Andersen LLP

Orange County, California
March 31, 1997