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

FORM 10-K

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

(Mark One)

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

For the fiscal year ended December 31, 2002

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

For the transition period from to .

Commission File Number 0-22239

Autobytel Inc.
(Exact Name of Registrant as Specified in Its Charter)

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

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

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

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

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

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

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

Based on the closing sale price of $3.05 for our common stock on the Nasdaq National Market System on June 28, 2002, the aggregate market value of outstanding shares of common stock held by non-affiliates was approximately $89.5 million.

As of March 17, 2003, 31,251,382 shares of our common stock were outstanding.

Documents incorporated by reference. Portions of our Definitive Proxy Statement for the 2003 Annual Meeting, expected to be filed within 120 days of our fiscal year end, are incorporated by reference into Part III of this Form 10-K.

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

Autobytel Inc.

ANNUAL REPORT ON FORM 10-K
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2002

PART I

Item 1. *Business*

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

Overview

We are an automotive marketing services company that helps dealers sell cars and manufacturers build brands through efficient marketing, advertising and customer relationship management (CRM) tools and programs primarily through the Internet. We own and operate the car buying Web sites—Autobytel.com®, Autoweb.com® and CarSmart.com℠—and an automotive research Web site, AutoSite.com. We are also a leading provider of automotive marketing data and technology through our Automotive Information Center (AIC) division. We believe we generated over one billion dollars a month in vehicle sales in 2002 for dealers using our services.

We provide tools and programs to automotive dealers and manufacturers to help them increase market share and reduce customer acquisition costs. Our intent is to garner an increasing share of the approximately $21 billion spent annually by dealers and manufacturers on marketing and advertising services.

We are among the largest syndicated car buying content networks and reach millions of Internet unique visitors as they make their vehicle buying decisions. As of February 28, 2003, we had a total of 20,108 dealer relationships representing every major domestic and imported make of vehicle and light truck sold in the United States. Our total dealer relationships included 5,203 relationships with program dealers that participate in our online car buying referral network programs. Of these program dealer relationships, 2,994 relationships were with the Autobytel.com brand, 1,676 relationships were with the Autoweb.com brand and 433 relationships were with the CarSmart.com brand. The Autobytel.com, Autoweb.com and CarSmart.com brands have low audience overlap. As of February 28, 2003, 692 program dealers had more than one dealer relationship with us. Also included in our total dealer relationships as of February 28, 2003, were 14,716 enterprise relationships with major dealer groups and automotive manufacturers or their automotive buying service affiliates through our enterprise sales initiatives and 189 relationships with dealers using our Retention Performance Marketing℠ (RPM℠) product. As of February 28, 2003, there were 100 suspended dealer relationships. The delivery of purchase requests to these dealers has been suspended until past due amounts on account are resolved. Program dealer relationships consist of subscriptions to our new car marketing programs and our Used Vehicle CyberStore program.

Dealers participate in our branded networks by entering into contracts with us directly or through a major dealer group or an automotive manufacturer or its automotive buying service affiliate. In turn, we direct consumers to dealers in their local area based on the consumers' vehicle preference. We expect our dealers to promptly provide consumers a haggle-free, competitive offer. We believe that dealers who immediately respond to consumer inquiries, have readily available inventory and provide up-front competitive pricing benefit the most from our marketing services. Program fees paid by participating dealers constituted approximately 72% of our revenues in 2002 compared to 74% of revenues in 2001.

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

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

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

In 2002 and 2003 we introduced the following dealer centric customer relationship management products and programs and consumer features:

In February 2002, we launched a new version of iManager℠ that improves the dealers' process of managing and distributing leads. iManager is a multi-functional online lead management system. The iManager system provides dealers with purchase request information for new and used vehicles, the ability to track multiple customers and purchase requests from us and competitors, customer retention programs, automatic uploading of new and used vehicle inventory into our database, reporting systems, including transaction status, customer information and dealer Internet department performance, and other features.

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

In September 2002, we launched a new multi-level program developed to further qualify consumers we send to the dealers using our services. The Autobytel Quality Verification System℠ (QVS℠) uses filters and validation processes to identify consumers with strong purchase intent. In 2002, we also began to offer dealers a consumer call center to make sales appointments and begin the buying process on behalf of the dealership.

In 2002, we also introduced new consumer features such as Estimated Market Price℠ (EMP℠) and AutoEspanol™. Estimated Market Price is our new vehicle pricing guide. The EMP data provides the average selling price for hundreds of popular new makes, models and trim levels. In June 2002, AIC launched

AutoEspanol, the first integrated suite of Spanish-language vehicle research and shopping tools for the Internet. In November 2002, AIC significantly expanded AutoEspanol with expert auto information and Spanish versions of leading vehicle research and comparison tools developed by AIC.

In February 2003, we announced a customized program for training dealers. The program teaches dealers to incorporate Internet sales, marketing, management and customer service techniques throughout the dealership. The program is designed to help the overall organization to sell more effectively to consumers who have first visited the Internet—consumers that now represent nearly two out of three new car buyers.

In August 2001, we acquired Autoweb.com, Inc. (Autoweb), owner and operator of one of the leading online car buying Web sites for new and used vehicles, for 10,504,792 shares of our common stock. Autoweb® continues to operate as a separate brand. As part of the acquisition, we acquired AIC, a division of Autoweb. AIC provides comprehensive automotive information to dealers and manufacturers, major web portals and consumers through its research Web site, AutoSite.com, and data and technology tools.

Following our acquisition of Autoweb, we formed an advertising media sales organization to focus on connecting automotive marketers with the millions of unique car shoppers visiting our four branded Web sites (Autobytel.com, Autoweb.com, CarSmart.com and AutoSite.com) each month. In December 2002, we launched dynamic marketing programs that allow manufacturers to interact with Internet car shoppers as they make their car buying decisions. Dynamic Content Placement℠ (DCP℠) allows manufacturers to automatically present specific comparative information relevant to the vehicle that is being researched to car shoppers using our Web sites. Supported by data and technology provided by AIC, DCP targets consumers deep into the research and decision-making process as they compare various vehicles online. In 2002, we also introduced a customizable advertising product, the Featured Model Showcase, that offers manufacturers the opportunity to present detailed, enhanced information about a specific vehicle model to millions of online car shoppers on our Web sites. Each Featured Model Showcase is a collaborative effort with the advertiser to meet specific campaign objectives. Features can include purchase request functionality, image galleries, brochure requests and video.

In late 2001, we realigned our organization to focus our resources on providing marketing services to automotive dealers and manufacturers. In so doing, we redirected resources from certain consumer related products, including insurance, credit unions and warranties. We are de-emphasizing these consumer products. In March 2002, Autobytel.Europe LLC completed its restructuring which reduced our ownership to 49%. As a result, we no longer consolidate Autobytel.Europe in our financial statements. We do not expect to devote substantial resources to international operations, but may continue to explore additional licensing business as opportunities arise.

We are a Delaware corporation incorporated on May 17, 1996. We were previously formed in Delaware in January 1995 as a limited liability company under the name Auto-By-Tel LLC. Our principal corporate offices are located in Irvine, California. We completed our initial public offering in March 1999 and our common stock is listed on the Nasdaq National Market under the symbol ABTL. Our corporate Web site is located at *www.autobytel.com*. At or through the Investor Relations section of such Web site we make available free of charge our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and all amendments to these reports as soon as practicable after such material is electronically filed with or furnished to the Securities and Exchange Commission.

Background

Online Commerce Opportunities. Consumers have rapidly adopted the Internet into their car shopping and purchasing process and are expected to continue to do so in the future. In 1998, 25% of all new car buyers used the Internet during their car purchasing process. According to J.D. Power and Associates, that number rose to 60% in 2002. According to Jupiter Media Metrix, by 2007, 37% of all new car sales will be the direct result of a specific purchase decision made online. Studies from major third party research companies indicate that consumers overwhelmingly prefer independent, multi-brand Web sites over manufacturer and dealer Web sites.

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

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

The ongoing rapid adoption of the Internet by consumers during their vehicle purchasing process has resulted, in part, from the fact that consumers have traditionally entered into the highly negotiated sales process with relatively little information regarding manufacturer's costs, leasing costs, financing costs, relative specifications and other important information. In addition, the ongoing growth of new vehicle sales generated online is in part an outgrowth of the high pressure sales tactics consumers associate with the traditional vehicle buying experience. Buying a vehicle is considered to be one of the most significant purchases a United States consumer makes. According to Manheim Auctions, approximately $747 billion and $736 billion was spent on purchasing new and used vehicles in the United States in 2002 and 2001, respectively.

The Autobytel Solution

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

Benefits to Dealers. We believe we benefit dealers by reducing the dealers' incremental marketing costs and increasing sales volume. Franchised new car dealers spend an average of $477 in traditional marketing costs on each vehicle sold. We believe dealers' personnel costs could be reduced because we provide dealers access to potential purchasers who have completed their research and should be ready to buy or lease a vehicle. As a result, reaching these consumers and selling or leasing them vehicles costs the dealer little or no additional overhead expense other than the fees paid to us and the personnel costs of a dedicated manager. We believe franchised new car dealers spend an average of $128 in marketing costs on each vehicle sold by using our new car marketing services. Through our iManager system, we provide dealers with on-site technology to better track sales, inventory, customer solicitations, responses and other communications.

We direct consumers to dealers in their local area based on the consumers' vehicle preference. We believe this provides dealers access to a larger number of well informed, ready-to-buy consumers which allows dealers to compete more effectively. As of February 28, 2003, we had 19,919 referral dealer relationships in the United States, representing every major domestic and imported make of vehicle and light truck. Of these referral dealer relationships, 5,203 were program dealer relationships and 14,716 were enterprise dealer relationships.

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

Benefits to Manufacturers. Research shows that of all new car buyers, 60% use the Internet while shopping. Manufacturers can influence car buyers' decisions by targeting them during their research, consideration and decision process, in particular, by using our newly introduced Dynamic Content Placement product. In addition, manufacturers can use our AIC data and technology tools to power their own Web sites allowing consumers to configure and compare cars.

Benefits to Consumers. Because Web sites can be continually updated and provide a large quantity of quality information and because consumers have shown a preference for third party Web sites and a preference for using the Internet during their car shopping experience, we believe the Internet offers the most efficient medium for consumers to learn about and shop for vehicles. A study released in 2001 by researchers at the University of California, Berkeley and Yale University found that on average consumers using the Autobytel.com Web site in 1999 saved $500 on the purchase of a new car. Our Web sites provide consumers free of charge up-to-date specifications and pricing information on vehicles. In addition, our consumers gain easy access to valuable automotive information, such as dealer invoice pricing and tools consisting of a lease calculator, a loan calculator to determine monthly payments and a lease or buy decision assistant. Our database of articles allows consumers to perform online library research by accessing documents such as consumer and professional reviews. Various automotive information service providers, such as Kelley Blue Book, Intelliprice and NADA, are also available on our Web sites to assist consumers with specific vehicle and related automotive decisions. Armed with such information, the consumer should be more confident and capable of making an informed and intelligent vehicle buying decision.

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

Strategy

We are an automotive marketing services company that helps retailers sell cars and manufacturers build brands through efficient marketing, advertising and CRM tools and programs primarily through the Internet. We intend to garner an increasing share of the approximately $21 billion spent annually by manufacturers and dealers on marketing and advertising services. We intend to achieve this objective through the following principal strategies:

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

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

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

As of February 28, 2003, we had 5,203 program dealer relationships. As of February 28, 2003, 692 program dealers had more than one dealer relationship with us. For example, a dealer who subscribes to the Autobytel.com new car program, Used Vehicle Cyberstore program and the Autoweb.com new car program accounts for three dealer relationships.

Strengthen the Advertising Component of our Business Model. Our advertising sales effort is primarily targeted to vehicle manufacturers and automotive-related mass market consumer vendors. Using the targeted nature of Internet advertising, manufacturers can advertise their brand image effectively to specific subsets of our consumers. Vehicle manufacturers can target advertisements to consumers who are researching vehicles, thereby increasing the likelihood of influencing their purchase decisions. In December 2002, we launched dynamic marketing programs that allow manufacturers to interact with Internet car shoppers as they make their car buying decisions. Dynamic Content Placement (DCP) allows manufacturers to automatically present specific comparative information relevant to the vehicle that is being researched to car shoppers using our Web sites. Supported by data and technology provided by AIC, DCP targets consumers deep into the research and decision-making process as they compare various vehicles online. For example, a consumer who is researching a sport utility vehicle can be automatically presented with factual information indicating the advantages of a competing sport utility vehicle model. DCP message advantage statements correlate to thousands of model trim data points and are delivered dynamically as the car buyer compares vehicles on our Web sites. This provides substantial efficiency benefit for advertisers, who are not required to craft thousands of individual messages. In 2002, we also introduced a customizable advertising product, the Featured Model Showcase, that offers manufacturers the opportunity to present detailed, enhanced information about a specific vehicle model to millions of online car shoppers on our Web sites. Each Featured Model Showcase is a collaborative effort with the advertiser to meet specific campaign objectives. Features can include purchase request functionality, image galleries, brochure requests and video. Campaign specifications are typically negotiated with the advertising agency or directly with the manufacturer or automotive-related vendor.

Increase Enterprise Sales to Major Dealer Groups and Automotive Manufacturers. We believe that strengthening the size and quality of our relationships with major dealer groups and automotive manufacturers is important to the success and growth of our business. Our strategy is to provide major dealer groups and automotive manufacturers such as General Motors, Ford and AutoNation with access to a large number of purchase-minded consumers from an attractive demographic base. Major dealer groups are dealer groups with more than 25 dealerships with which we have a single agreement. We have existing relationships with the majority of automotive manufacturers who use our data and technology tools and have an opportunity to expand these relationships into our other marketing services. As of February 28, 2003, we had 14,716 enterprise dealer relationships.

Enter into Acquisitions and Strategic Alliances. We intend to grow and advance our business, in part, through acquisitions and strategic alliances. We believe that acquisitions and strategic alliances can allow us to increase market share, benefit from advancements in technology and strengthen our business operations by enhancing our offering of products and services. We may acquire businesses that increase our market share in the lead referral and automotive information content businesses. In addition, to complement our core business, we may also acquire businesses primarily focused on automotive customer relations management solutions and services, database marketing services and/or Web site management.

Invest in Other Core Product Initiatives Designed to Improve Lead Quality and Dealer Profitability. We believe that expanding our products and services offered to both manufacturers and dealers is critical to establishing ourselves as the premier provider of online automotive marketing services. In 2002, we introduced a new CRM product, RPM, that is designed to deliver a more efficient method for automotive manufacturers and dealers to retain their car buying and service customers. As of February 28, 2003, we had 189 dealers using RPM. In 2002, we also launched a new multi-level program developed to further qualify consumers we send to the dealers using our services. The Autobytel Quality Verification System (QVS) uses filters and validation processes to identify consumers with strong purchase intent. As a result of the implementation of QVS, purchase request quality increased. High quality purchase requests are those that result in high closing ratios. Closing ratio is the ratio of the number of vehicles purchased at a dealer generated from purchase requests to the total number of purchase requests sent to that dealer. We anticipate that improved purchase request quality will help us increase closing ratios and further reduce customer credits, reduce dealer turnover and increase revenues in the future. In 2002, we also began to offer dealers a consumer call center to make sales appointments and begin the buying process on behalf of the dealership. In February 2003, we announced a customized program for training dealers. The program teaches dealers to incorporate Internet sales, marketing, management and customer service techniques throughout the dealership. The program is designed to help the overall organization to sell more effectively to consumers who have first visited the Internet—consumers that now represent nearly two out of three new car buyers.

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

Ensure the Highest Quality Consumer Experience On Our Web Sites. We believe that consumer satisfaction and loyalty is heavily influenced by the consumer's experience with our Web sites and with our dealers. In order to enhance our appeal to consumers, we intend to continue developing our Web sites by enhancing vehicle information and personalization. We also plan to continue compiling high quality content from third party sources on our Web sites. We believe that consumer satisfaction with the vehicle purchasing experience is also essential to our success and the differentiation of our services from those of our competitors. We intend to continue to invest in our dealer training and support services to ensure a consistent, high-quality alternative to the traditional vehicle buying process.

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

Programs, Products and Services

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

Used Vehicle CyberStore. We launched our CyberStore program in April 1997. The CyberStore allows consumers to search for a certified or non-certified used vehicle according to specific search parameters such as the price, make, model, mileage, year and location of the vehicle. Currently, the CyberStore is available to consumers on all three of our car buying Web sites—Autobytel.com, Autoweb.com and CarSmart.com. CyberStore locates and displays the description, location and, if available, actual digital photograph of vehicles that satisfy the search parameters. The consumer can then submit a purchase request for a specific vehicle and is contacted by the dealer to conclude the sale. To be listed as a certified vehicle in the CyberStore, a used vehicle must pass an extensive inspection and be covered by a 72-hour money-back guarantee or exchange and a three-month, 3,000-mile warranty. During 2002, our Cyberstore program had over 1 million dealer vehicle listings on our Web sites. As of February 28, 2003, our CyberStore program had approximately 115,400 dealer vehicle listings on our Web sites. We charge each vehicle dealer that participates in the CyberStore program a separate additional monthly fee. The CyberStore program uses the iManager system to provide participating dealers online purchase requests shortly after submission by consumers, as well as the ability to track their inventory on a real-time basis.

As part of our used car program, we also offer consumers the ability to list used vehicles through our classified advertising service. As of February 28, 2003, our CyberStore had approximately 4,900 consumer vehicle listings. We charge consumers a fee for each classified vehicle listing.

As of February 28, 2003, we had a total of 19,919 referral dealer relationships representing every major domestic and imported make of vehicle and light truck sold in the United States. Our total dealer relationships included 5,203 relationships with program dealers that participate in our online car buying referral network programs. Of these program dealer relationships, 2,994 relationships were with the Autobytel.com brand, 1,676 relationships were with the Autoweb.com brand and 433 relationships were with the CarSmart.com brand. The Autobytel.com, Autoweb.com and CarSmart.com brands have low audience overlap. As of February 28, 2003, 692 program dealers had more than one dealer relationship with us. Also included in our total referral dealer relationships as of February 28, 2003 were 14,716 enterprise relationships with major dealer groups and automotive manufacturers or their automotive buying service affiliates. As of February 28, 2003, there were 100 suspended dealer relationships. The delivery of purchase requests to these dealers has been suspended until past due amounts on account are resolved. Program dealer relationships consist of subscriptions to our new car marketing programs and our Used Vehicle CyberStore program.

The iManager System. In January 2001, we launched iManager, a multi-functional online dealership lead management system and an upgrade of our previous system, Dealer Real Time. In February 2002, we launched a new version of iManager that improves the dealers' process of managing and distributing leads. iManager is a multi-functional online lead management system. The iManager system provides dealers with purchase request information for new and used vehicles, the ability to track multiple customers and purchase requests from us and competitors, customer retention programs, automatic uploading of new and used vehicle inventory into our database, reporting systems, including transaction status, customer information and dealer Internet department performance, and other features.

RPM. In April 2002, we launched Retention Performance Marketing (RPM), a product that is designed to deliver a more efficient method for dealers and manufacturers to retain their car buying and service customers. The product purifies the data in customer records, verifying contact information from within the dealership management system, then automatically outputs welcome letters or e-mails for new car buying and service customers. Service reminders and campaigns can then be sent out on a regular basis based on each customer's specific driving habits. The product also offers clients a range of reporting and analysis capabilities. Each month, the dealership receives an executive summary that allows the dealership to measure results by showing return on investment, gross revenue generated per active customer name and response rate. As of February 28, 2003, we had 189 dealers using our RPM product.

Training. In February 2003, we announced a customized program for training dealers. The program teaches dealers to incorporate Internet sales, marketing, management and customer service techniques throughout the dealership. The program is designed to help the overall organization to sell more effectively to consumers who have first visited the Internet—consumers that now represent nearly two out of three new car buyers.

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

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

Advertising Services. We now have four Web site properties to market media products to automotive manufacturers and related businesses. The Web sites offer an audience of car-shopping and car buying consumers that advertisers can target as they make their vehicle purchase decision. In December 2002, we launched dynamic marketing programs that allow manufacturers to interact with Internet car shoppers as they make their car buying decisions. Dynamic Content Placement (DCP) allows manufacturers to automatically present specific comparative information relevant to the vehicle that is being researched to car shoppers using our Web sites. Supported by data and technology provided by AIC, DCP targets consumers deep into the research and decision-making process as they compare various vehicles online. For example, a consumer who is researching a sport utility vehicle can be automatically presented with factual information indicating the advantages of a competing sport utility vehicle model. DCP message advantage statements correlate to thousands of model trim data points and are delivered dynamically as the car buyer compares vehicles on our Web sites. This provides substantial efficiency benefit for advertisers, who are not required to craft thousands of individual messages. In 2002, we also introduced a customizable advertising product, the Featured Model Showcase, that offers manufacturers the opportunity to present detailed, enhanced information about a specific vehicle model to millions of online car shoppers on our Web sites. Each Featured Model Showcase is a collaborative effort with the advertiser to meet specific campaign objectives. Features can include purchase request functionality, image galleries, brochure requests and video.

Consumer Products and Other Services. We offer related products and services that we market to consumers through our Web sites and the linked Web sites of participating third party providers. In line with our renewed focus on offering marketing services to dealers and automotive manufacturers, we have redirected resources away from these products, including insurance and warranties.

International. We do not expect to devote substantial resources to international operations, but may continue to explore additional licensing business as opportunities arise. In March 2002, Autobytel.Europe completed its restructuring which reduced our ownership to 49%. As a result, we no longer consolidate Autobytel.Europe in our financial statements. Revenues from our customers outside of the United States were less than 10% of total revenues for the years ended December 31, 2002 and 2001.

Sales and Marketing

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

As of December 31, 2002, the aggregate minimum future payments under our agreements with Internet portals were $1.6 million. Our Internet marketing and advertising costs, including annual, monthly and variable fees, were $31.1 million and $24.9 million in 2002 and 2001, respectively.

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

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

Intellectual Property

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

Dealer Relationships and Services

Dealer Networks. Since our inception we have invested heavily to build our dealer networks. We consider our dealer networks to be significant strategic assets where new services and products can be deployed.

Dealers participate in our networks by entering into contracts with us or through major dealer groups or automotive manufacturers or their automotive buying service affiliates with whom we have agreements. Autobytel referral contracts generally range from 90 days to one year and are terminable on 30 days' notice by either party. Autobytel's participating dealerships are located in most major metropolitan areas in the United States. As of February 28, 2003, 2,994 program dealer relationships were with the Autobytel.com brand. Dealerships pay monthly fees, and in certain instances, initiation fees to subscribe to the Autobytel.com online marketing program. Both the initial and monthly subscription fees are established in the contract and are based upon many business factors, including the type and location of the franchise. We reserve the right to adjust our fees to dealers upon 30 days notice at anytime during the term of the contract. We do not prevent dealers from entering into agreements with our competitors.

Autoweb dealer agreements are generally for a term of one-year, with automatic one-year renewals until cancelled by either party and are terminable after 90 days on 30 days notice by either party. As of February 28, 2003, 1,676 program dealer relationships were with the Autoweb.com brand. Autoweb dealers primarily pay transactional fees, and in certain instances, initiation fees.

CarSmart's dealer agreements generally continue until cancelled by either party and are terminable on 30 days' notice by either party. As of February 28, 2003, 433 program dealer relationships were with the CarSmart.com brand. CarSmart's dealers pay initiation and monthly subscription or transactional fees. CarSmart reserves the right to revise fees to dealers upon 30 days notice at anytime during the term of the contract.

In the first quarter of 2003 we began an effort to sign new Autobytel, Autoweb or CarSmart dealers to contracts with an initial term in excess of 30 days that are terminable on 30 days' notice by us and renew automatically unless either party elects not to renew.

As of February 28, 2003, 692 program dealers had more than one dealer relationship with us.

Customer Support. We actively monitor participating dealers through ongoing customer surveys and research conducted by our internal dealer support group. Generally, within 10 days after a consumer submits a purchase request through one of our Web sites, we contact the consumer by e-mail requesting completion of a quality assurance survey that allows us to evaluate the sales process at participating dealers. Dealerships that fail to abide by our program guidelines or who generate repeated consumer complaints are reviewed and, if appropriate, terminated. We try to assign dealers attractive territories in order to increase participation in our program.

Each dealer agreement obligates the dealers to adhere to our policy of providing prompt responses to customers within 24 hours, no haggle pricing and full disclosure regarding vehicle availability, add-ons and related matters. We require each dealer to have an employee whose principal responsibility is supervising its Internet business, similar to the way in which most dealers have a new vehicle sales manager, used vehicle sales manager and service and parts department managers who are responsible for those dealership functions. We reserve the right to define or adjust each dealer's assigned territory, although there can be no assurance that a dealer whose territory is changed will not contest such a change or terminate its subscription. We cannot be sure that dealers whose territories are changed by us will not pursue legal action against us in an effort to prevent the change or recover damages.

Training. We believe that dealers and their employees require specialized training to learn the skills necessary to serve the Internet user and take full advantage of our proprietary systems. Therefore, we have developed an extensive training program for our dealers. We believe that this training is critical to enhancing our brands and reputation. We require participating dealerships to have their representatives trained on our system. Training is conducted at our headquarters in Irvine, California, at regional training centers and at dealerships' premises. In training our dealers, we de-emphasize traditional vehicle selling techniques and emphasize our approach. To increase consumer satisfaction and reduce costs, we seek to discourage dealerships from using commissioned and multiple salespersons to interface with our customers. In February 2003, we announced a customized program for training dealers. The program teaches dealers to incorporate Internet sales, marketing, management and customer service techniques throughout the dealership. The program is designed to help the overall organization to sell more effectively to consumers who have first visited the Internet—consumers that now represent nearly two out of three of all new car buyers.

RPM. In April 2002, we enhanced our marketing services by launching Retention Performance Marketing, a product that is designed to deliver a more efficient method for dealers and manufacturers to retain their car buying and service customers. The product purifies the data in customer records, verifying contact information from within the dealership management system, then automatically outputs welcome letters or e-mails for new car buying and service customers. Service reminders and campaigns can then be sent out on a regular basis based on each customer's specific driving habits. The product also offers dealers a range of reporting and analysis capabilities. Each month, the dealership receives an executive summary that allows the dealership to measure results by showing return on investment, gross revenue generated per active customer name and response rate. As of February 28 2003, we had 189 dealers using RPM. RPM contracts have an initial term of 90 days and then renew in monthly increments until terminated by either party.

Competition

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

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

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

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

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

Operations and Technology

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

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

Government Regulation

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

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

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

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

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

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

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

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

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

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

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

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

Employees

As of February 28, 2003, we had a total of 253 employees. We also utilize independent contractors as required. None of our employees are represented by a labor union. We have not experienced any work stoppages and consider our employee relations to be good.

Risk Factors

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

We have a history of net losses and cannot assure that we will be profitable. If we continue to lose money, our operations will not be financially viable.

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

We have incurred losses every year and quarter since inception other than the fourth quarter of 2002. Having achieved profitability in the fourth quarter of 2002, we might fail to sustain or increase that profitability in the future. We cannot assure that we will be profitable. Autobytel, including Autoweb from the date of acquisition, had an accumulated deficit of $161.2 million as of December 31, 2002 and $140.5 million as of December 31, 2001.

Our potential for future profitability 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 emerging and rapidly evolving markets, such as the market for Internet commerce. We believe that to achieve profitability, we must, among other things:

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

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

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

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

Generally, our dealer agreements have a stated term ranging from 90 days to one year, but the dealer agreements are cancelable by the dealer upon 30 days notice. In the first quarter of 2003 we began an effort to sign new dealers to contracts with an initial term in excess of 30 days that are terminable on 30 days' notice by us and automatically renew unless either party elects not to renew. Participating dealers may terminate their relationship with us for any reason, including an unwillingness to accept our subscription terms or as a result of joining alternative marketing programs. We cannot assure that dealers will not terminate their agreements with us. Our business is dependent upon our ability to attract and retain qualified new and used vehicle dealers, major dealer groups and automotive manufacturers. During 2002, we added 2,191 program dealer relationships and 12,718 enterprise dealer relationships to our dealer networks and 3,401 program dealer relationships and 234 enterprise dealer relationships were terminated by dealers or us. Of the 12,718 enterprise dealer relationships, approximately 11,500 were added as part of a program with a major manufacturer. As of December 31, 2002, we had 20,095 dealer referral relationships, including approximately 11,500 dealer referral relationships added as part of a program with a major manufacturer. As of December 31, 2002, 618 program dealers had a relationship with more than one of our branded Web sites. Also, we had 148 suspended dealer relationships as of December 31, 2002. In order for us to grow or maintain our dealer networks, we need to reduce our dealer attrition. We cannot assure that we will be able to reduce the level of dealer attrition, and our failure to do so would materially and adversely affect our business, results of operations and financial condition.

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

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

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

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

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

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

We compete with other entities which maintain similar commercial Web sites including AutoVantage, Microsoft Corporation's MSN Autos, CarsDirect.com, Cars.com, eBayMotors.com and AutoTrader.com.

AutoNation, a large consolidator of dealers, has a Web site for marketing vehicles. We also compete indirectly against vehicle brokerage firms and affinity programs offered by several companies, including Costco Wholesale Corporation and Wal-Mart Stores, Inc. In addition, all major automotive manufacturers have their own Web sites and many have launched online buying services, such as General Motors Corporation's BuyPower and Ford Motor Company in its partnership with its dealers through FordDirect.com. Our recently announced customer relationship management product, RPM, competes with companies that provide marketing services to automotive manufacturers and dealers, including Reynolds and Reynolds, Automatic Data Processing, TVI Inc., Minacs, Online Administrators and Teletech. We also compete with vehicle dealers that are not part of our networks. Such companies may already maintain or may introduce Web sites which compete with ours.

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

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

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

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

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

- our ability to retain existing dealers, attract new dealers and maintain dealer and customer satisfaction,
- the announcement or introduction of new or enhanced sites, services and products by us or our competitors,
- general economic conditions and economic conditions specific to the Internet, online commerce or the automobile industry,
- a decline in the usage levels of online services and consumer acceptance of the Internet and commercial online services for the purchase of consumer products and services such as those offered by us,

- our ability to upgrade and develop our systems and infrastructure and to attract new personnel in a timely and effective manner,
- The level of traffic on our Web sites and other sites that refer traffic to our Web sites,
- technical difficulties, system downtime, Internet brownouts or electricity blackouts,
- the amount and timing of operating costs and capital expenditures relating to expansion of our business, operations and infrastructure,
- governmental regulation and
- unforeseen events affecting the industry.

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

We expect our business to experience seasonality as it matures. The seasonal patterns of Internet usage and vehicle purchasing do not completely overlap. Historically, Internet usage typically declines during summer and certain holiday periods, while vehicle purchasing in the United States is strongest in the spring and summer months. If seasonality occurs, investors may not be able to predict our annual operating results based on a quarter to quarter comparison of our operating results. Seasonality in the automotive industry, Internet and commercial online service usage and advertising expenditures is likely to cause fluctuations in our operating results and could have a material adverse effect on our business, results of operations and financial condition.

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

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

Zero percent financing offered by manufacturers in 2002 may negatively affect vehicle sales in 2003. Consumers may have shifted their planned vehicle purchases from 2003 to 2002. A decline in vehicle purchases may result in a decline in demand for our services which could adversely affect our business, financial condition and results of operations.

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

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

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

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

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

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

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

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

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

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

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

We must also:

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

We cannot assure that we can successfully achieve these objectives.

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

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

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

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

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

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

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

There are many risks associated with consummated and potential acquisitions.

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

Acquisitions involve numerous risks. For example:

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

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

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

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

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

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

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

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

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

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

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

As a result of a variety of factors, available electricity supply in California may not be sufficient to meet demand at all times in some areas, and these constraints may continue for several years. The supply constraints have been managed, and will likely continue to be managed, by a combination of obtaining additional supplies, requested conservation, interruption of certain customers whose rates include that possibility, and as a last resort, interruption of some or all customers in certain areas through "rolling blackouts." Relieving the supply constraints is likely to cause increases in the retail rates to be paid. Our main production systems are hosted in a secure facility with generators and other alternate power supplies in case of a power outage. However, our corporate offices, where we maintain our accounting, finance and contract management systems, are vulnerable to wide-scale power outages. To date, we have not been significantly affected by rolling black-outs or other interruptions in service related to the constraints on electricity supply. In the event we are affected by increased electricity rates or interruptions due to electricity supply constraints, our business, results of operations and financial condition could be materially and adversely affected.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

International activities may adversely affect our financial condition.

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

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

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

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

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

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

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

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

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

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

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

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

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

Litigation regarding intellectual property rights is common in the Internet and software industries. We expect that Internet technologies and software products and services may be increasingly subject to third-party infringement claims as the number of competitors in our industry segment grows and the functionality of products in different industry segments overlaps. Recently, a third-party has asserted that we infringe certain of its patents. We are currently reviewing the assertions. No claim for monetary damages has been made in connection with these assertions. There can be no assurance that our services do not infringe on the intellectual property rights of third parties.

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

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

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

From time to time, we are involved in other litigation matters arising from the normal course of our business activities. The actions filed against us and other litigation, even if not meritorious, could result in substantial costs and diversion of resources and management attention and an adverse outcome in litigation could materially adversely affect our business, results of operations and financial condition.

If we are unable to maintain our Nasdaq National Market listing, the liquidity of our common stock would be seriously limited.

We cannot assure that we will be able to comply with the minimum requirements for continued listing on the Nasdaq National Market. In the event our shares are delisted from the Nasdaq National Market, we anticipate that we would attempt to have our common stock traded on the NASD over-the counter Bulletin Board. If our common stock is delisted, it would seriously limit the liquidity of our common stock and limit our potential to raise future capital through the sale of our common stock, which could have a material adverse effect on our business.

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

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

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

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

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

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

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

Item 2. *Properties*

Our headquarters are located in a single office building in Irvine, California. We lease four floors, for a total of approximately 49,000 square feet. The lease expires in September 2004. AIC is located in a single office building in Westborough, Massachusetts and occupies approximately 18,000 square feet. The lease expires in May 2005. We plan to move AIC's operations to our Irvine office in 2003, and to attempt to sublet the AIC premises in Westborough or negotiate the termination of the lease with the landlord.

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

Item 3. *Legal Proceedings*

A.I.N. Corporation was sued on September 1, 1999 in a lawsuit entitled Robert Martins v. Michael J. Gorun, A.I.N., Inc., et al., in Los Angeles Superior Court. The complaint contained causes of action for breach of written and oral contracts, promissory estoppel, breach of fiduciary duty and fraud, and sought compensatory and punitive damages and equitable relief. The plaintiff contended he was entitled to a 49.9% ownership interest in A.I.N.'s CarSmart online business based on a purported agreement for the formation of a company called CarSmart On-Line Services. On December 14, 1999, A.I.N. filed a complaint for declaratory relief on the subject of Mr. Martin's lawsuit in Contra Costa County Superior court. The Los Angeles action was transferred to Contra Costa County and the two cases were consolidated. Autobytel was added and then dismissed as a cross defendant in such action after summary judgment in its favor. On December 14, 2001, the jury returned a unanimous verdict finding that A.I.N. and Mr. Gorun were not liable for beach of contract, breach of fiduciary duty or fraud and denying Martins any damages. Martins' equitable claims for promissory estoppel and constructive trust were submitted to the court for decision. On April 5, 2002, the court issued a decision denying any relief on those claims. Autobytel, A.I.N. and Martins entered into a settlement agreement in July 2002.

On June 7, 2002, Michael Gorun filed an action entitled Michael Gorun v. Autobytel, et al. in the Santa Clara Superior Court against Autobytel and A.I.N. asserting, among others, claims for declaratory relief under the escrow agreement, merger agreement and employment agreement, damages for breach of employment agreement, damages for interference with prospective advantage and damages for breach of merger agreement. In this action, Mr. Gorun disputes Autobytel and A.I.N.'s claims for indemnity arising from the Martins lawsuit, asserts his alleged rights of indemnity from the Martins lawsuit under various theories, and contends that Autobytel wrongfully asserted restrictions on the sale and registration of his shares of Autobytel stock. On December 19, 2002, Autobytel, A.I.N. and Mr. Gorun settled the matters described above.

On October 10, 2002, Morrison & Foerster LLP, a law firm that represented Autobytel, A.I.N. and Mr. Gorun at various points in the Martins litigation, filed an action entitled Morison & Foerster LLP v. Autobytel.com Inc. et al. in the Santa Clara Superior Court against Autobytel, A.I.N. and Mr. Gorun asserting claims for damages for beach of contract for failure to pay legal fees and expenses plus interest accrued thereon in the aggregate of approximately $660,000 as of August 31, 2002. Autobytel and A.I.N. dispute these allegations and intend to vigorously defend against the action. In addition, Autobytel and A.I.N. believe that they have meritorious claims against Morrison & Forester LLP.

In 2002, we recorded a legal settlement gain, net of loss contingencies, associated with the above legal matters totaling $0.1 million.

In August 2001, a purported class action lawsuit was filed in the United States District Court for the Southern District of New York against Autobytel and certain of Autobytel's current and former directors and officers (the "Autobytel Individual Defendants") and underwriters involved in Autobytel's initial public offering. The complaints against Autobytel have been consolidated with two other complaints that relate to its initial public offering but do not name it as a defendant, and a Consolidated Amended Complaint, which is now the operative complaint, was filed on April 19, 2002. This action purports to allege violations of the Securities Act of 1933 and the Securities Exchange Act of 1934. Plaintiffs allege that the underwriter defendants agreed to allocate stock in Autobytel's initial public offering to certain investors in exchange for excessive and undisclosed commissions and agreements by those investors to make additional purchases of stock in the aftermarket at pre-determined prices. Plaintiffs allege that the prospectus for Autobytel's initial public offering was false and misleading in violation of the securities laws because it did not disclose these arrangements. The action seeks damages in an unspecified amount. The action is being coordinated with approximately 300 other nearly identical actions filed against other companies. A motion to dismiss addressing issues common to the companies and individuals who have been sued in these actions was filed on July 15, 2002. On October 9, 2002, the Court dismissed the Autobytel Individual Defendants from the case without prejudice based upon Stipulations of Dismissal filed by the plaintiffs and the Autobytel Individual Defendants. On February 19, 2003, the Court denied the motion to dismiss the complaint against Autobytel. We believe that we have meritorious claims against the underwriters and intend to vigorously defend the action.

Between April and June 2001, eight separate purported class actions virtually identical to the one filed against Autobytel were filed against Autoweb, certain of Autoweb's current and former directors and officers (the "Autoweb Individual Defendants") and underwriters involved in Autoweb's initial public offering. The complaints against Autoweb have been consolidated into a single action, and a Consolidated Amended Complaint, which is now the operative complaint, was filed on April 19, 2002. The foregoing action purports to allege violations of the Securities Act of 1933 and the Securities Exchange Act of 1934. Plaintiffs allege that the underwriter defendants agreed to allocate stock in Autoweb's initial public offering to certain investors in exchange for excessive and undisclosed commissions and agreements by those investors to make additional purchases of stock in the aftermarket at pre-determined prices. Plaintiffs allege that the prospectus for Autoweb's initial public offering was false and misleading in violation of the securities laws because it did not disclose these arrangements. The action seeks damages in an unspecified amount. The action is being coordinated with approximately 300 other nearly identical actions filed against other companies. A motion to dismiss addressing issues common to the companies and individuals who have been sued in these actions was filed on July 15, 2002. On October 9, 2002, the Court dismissed the Autoweb Individual Defendants from the case without prejudice based upon Stipulations of Dismissal filed by the plaintiffs and the Autoweb Individual Defendants. On February 19, 2003, the Court dismissed the Section 10(b) claim without prejudice and with leave to replead but denied the motion to dismiss the claim under Section 11 of the Securities Act of 1933 against Autoweb. We believe that we have meritorious claims against the underwriters and intend to vigorously defend the action.

On February 28, 2003, a purported class action lawsuit was filed in the United States District Court for the Southern District of Florida. Autoweb, the former Chief Executive Officer and the former Chief Financial Officer of Autoweb, and CSFB, the co-lead underwriter of Autoweb's initial public offering, are named as defendants in that action. The complaint alleges claims against Autoweb and such former officers for violations of the 1933 Act, 1934 Act, and Florida's Blue Sky laws and also alleges claims based on common law theories of fraud, negligent misrepresentation and respondeat superior. The complaint makes similar allegations against approximately 50 other companies for which CSFB was the lead or a co-lead underwriter. The complaint alleges that the defendants disseminated false and misleading information to the public which misrepresented the accuracy of Autoweb's initial public offering price, its financial condition and future revenue prospects. The complaint further alleges that the effect of the purported fraud was to manipulate Autoweb's stock price so that the defendants could profit from the manipulation. The action seeks damages in an unspecified amount. No date has been set for a response to this complaint. We intend to vigorously defend the action.

We have reviewed the above class action matters and have determined that a reserve for loss contingencies is not required at this time.

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

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

No matters were submitted to a vote of security holders during the fourth quarter of 2002.

PART II

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

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

Year	High	Low
2001		
First Quarter	$ 3.16	$ 1.50
Second Quarter	$ 1.75	$ 1.13
Third Quarter	$ 1.67	$ 0.70
Fourth Quarter	$ 2.29	$ 0.78
2002		
First Quarter	$ 3.94	$ 1.71
Second Quarter	$ 4.24	$ 2.33
Third Quarter	$ 3.00	$ 1.45
Fourth Quarter	$ 3.25	$ 1.77
2003		
First Quarter (through March 17, 2003)	$ 3.14	$ 2.45

As of March 17, 2003, there were 568 holders of record of our common stock. We have never declared or paid any cash dividends on our common stock. We intend to retain all of our future earnings, if any, for use in our business, and therefore we do not expect to pay any cash dividends on our common stock in the foreseeable future.

Item 6. ***Selected Consolidated Financial Data***

The following selected consolidated financial data should be read in conjunction with our consolidated financial statements and related notes and Part II. Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations" appearing elsewhere in this Annual Report on Form 10-K. Our consolidated financial statements and related notes and Part II Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations" provide detailed information regarding acquisitions, deconsolidation, impairment, restructuring and other charges which have impacted our results of operation and financial condition and affect the comparability of the financial data provided below. The statement of operations data for the years ended December 31, 2002, 2001, 2000, 1999 and 1998 and the balance sheet data as of December 31, 2002, 2001, 2000, 1999 and 1998 are derived from our audited consolidated financial statements.

	Years Ended December 31,				
	2002	2001	2000	1999	1998
	(In thousands, except per share data)				
Statement of Operations Data:					
Revenues	$ 80,855	$ 71,068	$ 66,532	$ 40,298	$ 23,826
Operating expenses:					
Sales and marketing	49,082	50,648	65,266	44,176	30,033
Product and technology development	22,695	20,410	22,847	14,262	8,528
General and administrative	9,876	14,973	13,797	8,595	5,908
Goodwill impairment	—	22,867	—	—	—
Autobytel.Europe restructuring, impairment and other international charges	15,015	7,229	—	—	—
Domestic restructuring and other charges	1,800	4,514	—	—	—
Total operating expenses	98,468	120,641	101,910	67,033	44,469
Loss from operations	(17,613)	(49,573)	(35,378)	(26,735)	(20,643)
Loss on sale of investment in Autobytel.Europe	(4,168)	—	—	—	—
Other income, net	207	3,264	6,017	3,468	1,280
Loss before minority interest and income taxes	(21,574)	(46,309)	(29,361)	(23,267)	(19,363)
Minority interest	866	1,485	369	—	—
Loss before income taxes	(20,708)	(44,824)	(28,992)	(23,267)	(19,363)
Provision for income taxes	6	27	42	53	35
Net loss	$ (20,714)	$ (44,851)	$ (29,034)	$ (23,320)	$ (19,398)
Basic and diluted net loss per share	$ (0.67)	$ (1.84)	$ (1.45)	$ (1.48)	$ (2.30)
Shares used in computing basic and diluted net loss per share	31,143	24,404	20,047	15,766	8,423

	December 31,				
	2002	2001	2000	1999	1998
Balance Sheet Data:					
Cash and cash equivalents	$ 27,571	$ 61,837	$ 81,945	$ 85,457	$ 27,984
Working capital	25,276	51,562	68,447	74,756	23,436
Total assets	55,224	90,781	123,618	93,582	34,207
Non-current liabilities	255	—	—	—	—
Accumulated deficit	(161,192)	(140,478)	(95,627)	(66,593)	(43,273)
Stockholders' equity	$ 42,422	$ 60,395	$ 91,806	$ 76,706	$ 25,868

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

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

Overview

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

We acquired Autoweb on August 14, 2001. The following summarized unaudited pro forma consolidated results of operations are presented as if the acquisition of Autoweb had occurred on January 1, 2000. The unaudited pro forma results are not necessarily indicative of future earnings or earnings that would have been reported had the acquisition been completed as presented.

	Years Ended December 31,	
	2001	2000
	(Amounts in thousands) (unaudited)	
Revenues	$ 94,794	$ 118,812
Net loss	(65,131)	(58,494)
Basic and diluted net loss per share	$ (2.11)	$ (1.91)

We have included Autoweb's financial position and results of operations, including revenues, expenses, cash flows and other relevant operating activity, from the date of acquisition in the discussion and analysis of our consolidated financial position and results of operations below.

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

In April 2002, we launched Retention Performance Marketing (RPM), a product that is designed to deliver a more efficient method for dealers and manufacturers to retain their car buying and service customers. The product purifies the data in customer records, verifying contact information from within the dealership management system, then automatically outputs welcome letters or e-mails for new car buying and service customers. Service reminders and campaigns can then be sent out on a regular basis based on each customer's specific driving habits.

In September 2002, we launched a new multi-level program developed to further qualify consumers we send to the dealers using our services. The Autobytel Quality Verification System (QVS) uses filters and validation processes to identify consumers with strong purchase intent. In 2002, we also began to offer dealers a consumer call center to make sales appointments and begin the buying process on behalf of the dealership.

In December 2002, we launched dynamic marketing programs that allow manufacturers to interact with Internet car shoppers as they make their car buying decisions. Dynamic Content Placement (DCP) allows manufacturers to automatically present specific comparative information—relevant to the vehicle that is being researched—to car shoppers using our Web sites. Supported by data and technology provided by AIC, DCP targets consumers deep into the research and decision-making process as they compare various vehicles online. In 2002, we also introduced a customizable advertising product, the Featured Model Showcase, that offers manufacturers the opportunity to present detailed, enhanced information about a specific vehicle model to millions of online car shoppers on our Web sites. Each Featured Model Showcase is a collaborative effort with the advertiser to meet specific campaign objectives. Features can include purchase request functionality, image galleries, brochure requests and video.

In February 2003, we announced a customized program for training dealers. The program teaches dealers to incorporate Internet sales, marketing, management and customer service techniques throughout the dealership. The program is designed to help the overall organization to sell more effectively to consumers who have first visited the Internet—consumers that now represent nearly two out of three new car buyers.

In May 2002, we continued the restructuring of our operations to reduce costs and enhance efficiency. The restructuring involved staff reductions affecting approximately 15% of our employees in sales, marketing and information technology. This staff reduction resulted in a charge of $0.2 million for severance costs and $0.5 million for our lease obligation on the vacant portion of AIC's office facilities.

In the first half of 2002, we used $9.6 million in cash and deconsolidated $28.8 million in cash as a result of a reduction in our ownership in Autobytel.Europe. In the second half of 2002, we generated $4.1 million in cash primarily due to reduced expenses and more aggressive collection efforts which included additional resources and the implementation of a dealer suspension policy for dealers that have past due amounts on account. In addition, cost reductions, which included the renegotiation of a major portal agreement, contributed to the generation of cash in the second half of 2002. Although there is no assurance, we anticipate that our cash from operations will increase in 2003.

Autobytel.Europe's results of operations are consolidated in our results of operations through March 28, 2002, including a non-cash charge of $4.0 million for terminated Autobytel.Europe contracts. On March 28, 2002, Autobytel.Europe completed a recapitalization which reduced our ownership of Autobytel.Europe from 76.5% to 49%. As a result of the reduction in our ownership, we recorded a non-cash charge of $4.2 million related to the partial disposition of our investment in Autobytel.Europe. We no longer consolidate Autobytel.Europe in our financial statements but account for our remaining investment in Autobytel.Europe under the equity method. At March 28, 2002, we reviewed our 49% investment in Autobytel.Europe and reduced the carrying amount to its estimated fair value. The impairment of the investment resulted in a non-cash charge of $11.0 million to us. As of December 31, 2002, we had an investment in Autobytel.Europe with a remaining balance of $4.7 million which we believe has not incurred a further decline in value. We do not anticipate contributing additional cash to Autobytel.Europe above the $5.0 million we initially contributed in January 2000.

We realigned our revenue classifications in the fourth quarter of 2001 in connection with our focus on providing marketing services to dealers and automotive manufacturers. We now classify revenues in four categories—program fees, enterprise sales, advertising and other products and services. Revenues for 2000 have been presented to conform to the 2001 and 2002 presentation.

Program fees consist of fees paid by program dealers who participate in our Autobytel.com, Autoweb.com and CarSmart.com online car buying referral networks. These fees are comprised of initial fees, monthly subscription and transaction fees for qualified consumer leads, or purchase requests, which are directed to participating program dealers. Autobytel.com program dealers using our services pay initial subscription fees, as well as ongoing monthly subscription fees based, among other things, on the size of territory, demographics and, indirectly, the transmittal of qualified purchase requests to them. Autoweb.com program dealers using our services primarily pay transaction fees based on the number of qualified purchase requests provided to them each month, and in certain instances, initial fees. CarSmart.com program dealers using our services pay initial subscription fees as well as ongoing monthly subscription fees or transaction fees based on the number of qualified purchase requests provided to them each month. Beginning in the second quarter of 2002, program fees also include fees for our new dealer call center and dealer training. We expect to be primarily dependent on our program dealers for revenues in the foreseeable future.

Our program dealer contract terms generally range from 90 days to one year and are terminable on 30 days' notice by either party. In the first quarter of 2003 we began an effort to sign new dealers to contracts with an initial term in excess of 30 days that are terminable on 30 days' notice by us and automatically renew unless either party elects not to renew. The initial subscription fee from a program dealer is recognized ratably over the term of the dealer's contract. The majority of our program fees consist of monthly fees which are recognized in the period service is provided. For the years ended December 31, 2002, 2001 and 2000, program fees were $58.0 million, $52.3 million and $53.8 million or 72%, 74% and 81% of total revenues, respectively. Average monthly program fees per dealer were $810, $721 and $763 in 2002, 2001 and 2000, respectively.

Enterprise sales include fees from major dealer groups and automotive manufacturers for purchase requests delivered to enterprise dealers and fees from manufacturers and other users for automotive marketing data and technology provided by AIC. Enterprise dealers consist of (i) dealers that are part of major dealer groups with more than 25 dealerships with which we have a single agreement and (ii) dealers that are eligible to receive purchase requests from us as part of a single agreement with an automotive manufacturer or its automotive buying service affiliate. Automotive manufacturers include manufacturers such as General Motors and Ford. We began recognizing revenues from enterprise sales in 2001 and intend to strengthen the size and quality of our relationships with major dealer groups and automotive manufacturers. Revenues from enterprise sales were $10.5 million and $6.6 million, or 13% and 9% of total revenues, in 2002 and 2001, respectively. Fees in 2001 include $4.0 million from General Motors Corporation for services related to an online locate-to-order vehicle test program.

Advertising revenues represent fees from automotive manufacturers and other advertisers who target car buyers during the research, consideration and decision making process on our Web sites. Using the targeted nature of Internet advertising, manufacturers can advertise their brand image effectively to automotive consumers on any of our four Web sites. Automotive manufacturers can target advertisements to consumers who are researching vehicles, thereby increasing the likelihood of influencing their purchase decisions. In particular, the Dynamic Content Placement product allows manufacturers to automatically present specific comparative information relevant to the vehicle that is being researched to car shoppers using our Web sites. Supported by data and technology provided by AIC, DCP targets consumers deep into the research and decision-making process as they compare various vehicles online. In 2002, we also introduced a customizable advertising product, the Featured Model Showcase, that offers manufacturers the opportunity to present detailed, enhanced information about a specific vehicle model to millions of online car shoppers on our Web sites. Each Featured Model Showcase is a collaborative effort with the advertiser to meet specific campaign objectives. Features can include purchase request functionality, image galleries, brochure requests and video. Campaign specifications are typically negotiated with the advertising agency or directly with the manufacturer or automotive-related vendor. Revenues from advertising were $7.9 million, $4.3 million and $2.1 million in 2002, 2001 and 2000, or 10%, 6% and 3% of total revenues, respectively.

Revenues from other products and services include fees for new products, continued products, legacy products and international licensing agreements. New products include RPM, our customer service reminder marketing program for dealerships and manufacturers. Continued products include products and services which we continue to offer such as database marketing and classified listings. Legacy products include consumer oriented products and services from which we have redirected resources, such as financing, insurance and warranties. International licensing agreements include agreements with international parties that are licensed to use our Autobytel brand name and, in most cases, technology in their respective countries. We may explore additional international business as opportunities arise. In 2002, 2001 and 2000, revenues from other products and services were $4.4 million, $7.8 million and $10.6 million, or 5%, 11% and 16% of total revenues, respectively.

Our Quality Verification System (QVS)℠ uses filters and validation processes to identify consumers with strong purchase intent. As a result of the implementation of QVS, purchase request quality increased. High quality purchase requests are those that result in high closing ratios. Closing ratio is the ratio of the number of vehicles purchased at a dealer generated from purchase requests to the total number of purchase requests sent to that dealer. We anticipate that improved purchase request quality will help us increase closing ratios and further reduce customer credits, reduce dealer turnover and increase revenues in the future.

We delivered approximately 3.6 million purchase requests through our online systems to program and enterprise dealers in both 2002 and 2001. Of these, approximately 3.1 million and 3.5 million were delivered to program dealers and approximately 0.5 million and 0.1 million were delivered to enterprise dealers in 2002 and 2001, respectively. We delivered approximately 2.9 million purchase requests in 2000, all of which were to program dealers as we did not begin delivering purchase requests to enterprise dealers until the third quarter of 2001. Purchase requests delivered to program dealers in 2002 decreased 0.4 million, or 11%, compared to 2001. The decrease was primarily a result of QVS as we rejected purchase requests that did not meet our qualification standards and a decline in our number of program dealer relationships due, in part, to our efforts to retain dealers that provide a reasonable profit to us. Our revenue per purchase request from program dealers was $18.61, $14.98 and $19.31 in 2002, 2001 and 2000, respectively. We expect the quantity of purchase requests we deliver to our program dealers to remain flat or decline and the quantity of purchase requests we deliver to our enterprise dealers to increase in 2003.

Our dealer relationships as of December 31, 2001, December 31, 2002 and February 28, 2003 were as follows:

	Dealer relationships as of		
	December 31,		
	2001	2002	February 28, 2003
Autobytel.com	4,061	3,042	2,994
Autoweb.com	1,996	1,699	1,676
CarSmart.com	764	473	433
Suspended dealer relationships(a)	—	148	100
Total program dealer relationships	6,821	5,362	5,203
Enterprise dealer relationships(b)	2,000	14,733	14,716
RPM dealer relationships	—	146	189
Total dealer relationships	8,821	20,241	20,108

(a) The delivery of purchase requests to these dealers has been suspended until past due amounts on account are resolved. We do not recognize revenue from dealers for periods that they are under suspension.

(b) A program with a major manufacturer increased enterprise dealer relationships by approximately 11,500 in the third quarter of 2002. The program automatically extends in one month increments until terminated by us or the manufacturer.

Program dealer relationships consist of subscriptions to our new car marketing programs and our Used Vehicle CyberStore program. A decline of 1,459 program dealer relationships from December 31, 2001 to December 31, 2002 was primarily a result of the termination of 3,401 program dealer relationships by the dealers or by us, the reclassification of 249 program dealer relationships to enterprise dealer relationships, offset by the addition of 2,191 program dealer relationships. In the third quarter of 2002, we began reporting suspended dealer relationships. Suspended dealer relationships are relationships with dealers to whom the delivery of purchase requests has been suspended until past due amounts on account are resolved. As of December 31, 2002, we had 148 suspended dealer relationships. We do not recognize revenue from dealers for periods that they are under suspension. As of December 31, 2002, 618 program dealers had a relationship with more than one of our branded Web sites.

An increase in enterprise dealer relationships in 2002 was a result of the addition of 12,718 enterprise dealer relationships and the reclassification of 249 program dealer relationships to enterprise dealer relationships by the dealers or by us offset by the addition of 239 program dealer relationships. As of February 28, 2003, 692 program dealers had a relationship with more than one of our branded Web sites.

A decline of 176 referral dealer relationships from December 31, 2002 to February 28, 2003 was primarily a result of the termination of 398 program dealer relationships and 17 enterprise dealer relationships by the dealers or by us offset by the addition of 239 program dealer relationships. As of February 28, 2003, 692 program dealers had a relationship with more than one of our branded Web sites.

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

Our relationship with dealers may terminate for various reasons including:

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

We cannot assure that we will be able to reduce our dealer turnover. Our inability or failure to reduce dealer turnover could have a material adverse effect on our business, results of operations and financial condition.

As of December 31, 2002 and February 28, 2003, we had 146 and 189 dealers, respectively, using RPM.

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

Sales and marketing costs consist primarily of:

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

The Internet portals and online automotive information providers generally charge a combination of annual, monthly and variable fees.

- Annual fees are amortized over the period to which they relate.
- Monthly fees are expensed in the month to which they relate.
- Variable fees are fees paid for purchase requests and are expensed in the period the purchase requests are received.

Our Internet marketing and advertising costs, including annual, monthly and variable fees, were $31.1 million, $24.9 million and $20.6 million in 2002, 2001 and 2000, respectively. Also included in sales and marketing expenses are the costs associated with traditional media, such as television, radio and print advertising and with signing up new dealers and their ongoing training and support. Sales and marketing costs are recorded as an expense in the period the service is provided. We expect sales and marketing expenses as a percentage of revenue to remain flat or slightly decline in 2003.

In July 2002, we renegotiated an agreement with a major Internet portal. Minimum future payments under the agreement were reduced from $5.1 million to $1.6 million as of December 31, 2002. As part of the renegotiation, the contracted number of impressions was reduced. The agreement expires in April 2004.

Critical Accounting Policies and Estimates

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

Accounts Receivable. We maintain allowances for doubtful accounts and customer credits. The allowance for doubtful accounts is our estimate of bad debt expense that could result from the inability or refusal of our customers to pay for our services. The estimated provision for doubtful accounts is charged to operating expenses. The allowance for customer credits is our estimate of fee accommodations to be extended to our customers. The estimated provision for customer credits is recorded as a reduction in revenue. Our estimates are based on our historical bad debt expense and customer credit experience.

In prior periods, significant increases in required allowances for doubtful accounts and customer credits have been recorded and may occur in the future. If there is a decline in the general economic environment that negatively affects the financial condition of our customers or an increase in the number of customers that are dissatisfied with our services, additional allowances for doubtful accounts and customer credits may be required and the impact on our business, results of operations or financial condition could be material. As of December 31, 2002, accounts receivable totaled $11.0 million offset by $4.2 million in allowances for doubtful accounts and customer credits resulting in net accounts receivable of $6.8 million.

Investment in Unconsolidated Subsidiary. We hold minority interests in unconsolidated subsidiaries. The subsidiaries are not publicly traded and, therefore, the value of our minority interest is difficult to determine. Adverse changes in market conditions or poor operating results of the subsidiary underlying each investment could result in losses or an inability to recover the carrying value of our investment. We use estimates and make assumptions to determine if our investment has experienced a decline in value that is other than temporary and to determine the fair value of the investment. In future periods, if the carrying value of our investments is determined to be in excess of the estimated fair value we will recognize a non-cash charge for the impairment of our investment. During 2002, we recognized an $11.0 million non-cash charge for the impairment of our investment in Autobytel.Europe. As of December 31, 2002 our investment in Autobytel.Europe was $4.7 million.

Capitalized Software. Changes in strategy and/or market conditions could significantly impact the estimated value of our capitalized software. We use estimates and make assumptions to determine the related estimated useful lives and the fair value of capitalized software. In future periods, if the carrying value of capitalized software is determined to be in excess of the estimated fair value, we will recognize a non-cash charge for the impairment of capitalized software. During 2002 and 2001, we recognized non-cash charges of $1.9 million and $1.4 million, respectively, for the impairment of capitalized software. As of December 31, 2002, we had capitalized software, net of amortization of $2.1 million.

Goodwill. We analyze goodwill for impairment whenever an event occurs or circumstances change that would more likely than not reduce our fair value below carrying value, or at least on an annual basis. We use estimates and make assumptions to determine the fair value of goodwill, such as estimated fair values of recorded and unrecorded assets and liabilities. If estimates or assumptions change in the future, we may be required to record goodwill impairment charges. During 2001, we recorded a $22.9 million non-cash charge for the full impairment of goodwill related to our acquisition of A.I.N. Corporation. Based on our transitional and annual evaluations in 2002 of goodwill related to our acquisition of Autoweb, no impairment charge was recognized. In future periods, if goodwill is determined to be impaired we will recognize a non-cash charge equal to the excess of the carrying value over the determined fair value. There can be no assurance that future goodwill impairment tests will not result in a charge to earnings. As of December 31, 2002, the unamortized balance of goodwill related to the Autoweb acquisition was $8.4 million.

Restructuring. We have recorded reserves and write-offs in connection with the restructuring of our operations. These reserves were based on estimates related to employee separation costs, settlements of contractual obligations, investments and other related costs. Although we do not anticipate significant changes, the actual costs may differ from these estimates. During 2001, we recorded $5.8 million and $4.5 million in international and domestic restructuring charges, respectively. During 2002, we recorded $4.0 million and $0.7 million in international and domestic restructuring charges, respectively.

Contingencies. We are subject to proceedings, lawsuits and other claims. We are required to assess the likelihood of any adverse judgments or outcomes of these matters as well as potential ranges of probable losses. The amount of reserves required, if any, for these contingencies is determined after careful analysis of each individual case. The amount of reserves may change in the future if there are new developments in each matter.

Results of Operations

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

	Years Ended December 31,		
	2002	2001	2000
Revenues			
Program fees	72%	74%	81%
Enterprise sales	13	9	—
Advertising	10	6	3
Other products and services	5	11	16
Total revenues	100	100	100
Operating expenses:			
Sales and marketing	61	71	98
Product and technology development	28	29	34
General and administrative	12	21	21
Goodwill impairment	—	32	—
Autobytel.Europe restructuring, impairment and other international charges	19	10	—
Domestic restructuring and other charges	2	6	—
Total operating expenses	122	170	153
Loss from operations	(22)	(70)	(53)
Loss on recapitalization of Autobytel.Europe	(5)	—	—
Interest income, net	1	5	9
Foreign currency exchange gain (loss)	—	1	—
Losses in equity investees	(1)	(1)	—
Loss before minority interest and income taxes	(27)	(65)	(44)
Minority interest	1	2	1
Loss before income taxes	(26)	(63)	(44)
Provision for income taxes	—	—	—
Net loss	(26)%	(63)%	(44)%

2002 Compared to 2001

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

Program Fees. Program fees consist of fees paid by program dealers who participate in our Autobytel.com, Autoweb.com and CarSmart.com online car buying referral networks. These fees are comprised of initial fees and monthly subscription and transaction fees for qualified consumer leads, or purchase requests, which are directed to participating program dealers. Autobytel.com program dealers using our services pay initial subscription fees, as well as ongoing monthly subscription fees based, among other things, on the size of territory, demographics and, indirectly, the transmittal of qualified purchase requests to them. Autoweb.com program dealers using our services primarily pay transaction fees based on the number of qualified purchase requests provided to them each month, and in certain instances, initial fees. CarSmart.com program dealers using our services pay initial subscription fees as well as ongoing monthly subscription fees or transaction fees based on the number of qualified purchase requests provided to them each month. Beginning in the second quarter of 2002, program fees also include fees for our new dealer call center and dealer training. Program fees increased by $5.7 million, or 11%, to $58.0 million in 2002 compared to $52.3 million in 2001. The increase was primarily due to a $13.9 million increase as a result of our acquisition of Autoweb partially offset by an $8.2 million, or 18%, decrease in Autobytel and CarSmart program fees due to a decline in the number of paying dealers and the average fee paid per dealer. We intend to continue our efforts to send dealers only qualified purchase requests, improve dealer support and increase our prices per purchase request. However, we expect our program fee revenues to remain flat or decline in 2003 until we reduce our dealer turnover. We anticipate that our efforts will help us reduce customer credits, reduce program dealer turnover and increase program fee revenues in the future.

Enterprise Sales. Enterprise sales include fees from major dealer groups and automotive manufacturers for purchase requests delivered to enterprise dealers and fees from manufacturers and other users for automotive marketing data and technology provided by AIC. Enterprise dealers consist of (i) dealers that are part of major dealer groups with more than 25 dealerships with which we have a single agreement and (ii) dealers that are eligible to receive purchase requests from us as part of a single agreement with an automotive manufacturer or its automotive buying service affiliate. Automotive manufacturers include manufacturers such as General Motors and Ford. Enterprise sales increased by $3.9 million, or 59%, to $10.5 million in 2002 compared to $6.6 million in 2001. The increase was primarily related to a $5.2 million increase in sales to new enterprise customers as a result of the acquisition of Autoweb, a $2.7 million increase due to sending more purchase requests to existing customers and adding new enterprise customers, partially offset by a $4.0 million decrease in Autobytel enterprise sales due to the completion in November 2001 of a one-time online locate-to-order vehicle test program. We may add new enterprise customers and, therefore, revenues from enterprise sales may increase in 2003.

Advertising. Revenues from advertising represent fees received from automotive manufacturers and other advertisers who target car buyers during the research, consideration and decision making process on our Web sites. Advertising revenue increased by $3.6 million, or 83%, to $7.9 million in 2002 compared to $4.3 million in 2001. The increase was due to a $2.1 million increase as a result of our acquisition of Autoweb and an increase of $1.5 million, or 96%, in Autobytel and CarSmart advertising revenues. With the creation of our advertising sales organization, further selling of our available advertising inventory, an increase in internet advertising pricing and the introduction of our Dynamic Content Placement and Featured Model Showcase products, we expect our advertising revenues to increase in 2003.

Other Products and Services. Revenues from other products and services include fees for new products, continued products, legacy products and international licensing agreements. New products include RPM. Continued products include products and services which we continue to offer such as database marketing and classified listings. Legacy products include consumer oriented products and services which we have redirected resources away from, such as financing, insurance and warranties. International licensing agreements include agreements with international third parties that are licensed to use our Autobytel brand name and, in most cases, technology in their respective countries. Revenues from other products and services decreased by $3.4 million, or 43%, to $4.4 million in 2002 compared to $7.8 million in 2001. In 2002, revenue from our new product, RPM, was $0.7 million. Revenue from classified listings, database marketing and other continued products increased $0.6 million, or 73%. These revenues were offset by a $4.7 million, or 67%, decline in fees from legacy products, including insurance, financing, warranties and web site maintenance, and international licensing. We continue to focus our efforts on offering marketing services to dealers and automotive manufacturers such as RPM. We expect increases in revenues from new and continued products to be partially offset by declines in revenues from legacy products and international licensing in 2003.

Sales and Marketing. Sales and marketing expense primarily includes advertising and marketing expenses paid to our purchase request providers and for developing our brand equity, as well as personnel and other costs associated with dealer sales, training and support. Sales and marketing expense decreased by $1.5 million, or 3%, to $49.1 million in 2002 compared to $50.6 million in 2001. This represents 61% and 71% as a percent of total revenue for 2002 and 2001, respectively. The decrease was primarily due to a $6.2 million, or 79%, decrease in television, print, radio and other traditional advertising, a $1.6 million, or 9%, decrease in other sales and marketing expenses, partially offset by an increase in online advertising of $6.3 million, or 25%. The decline in offline advertising was a result of better efficiency of marketing spent on online advertising. The increase in online advertising expenses was due to the delivery of purchase requests to dealers added as a result of the acquisition of Autoweb. We expect our sales and marketing expenses as a percentage of revenues to remain flat or slightly decline in 2003.

Product and Technology Development. Product and technology development expense primarily includes personnel costs related to developing new products, enhancing the features, content and functionality of our Web sites, our Internet-based communications platform, costs associated with our telecommunications and computer infrastructure, costs related to data and technology development at AIC and amortization of software development costs. Product and technology development expense increased by $2.3 million, or 11%, to $22.7 million in 2002 compared to $20.4 million in 2001. This represents 28% and 29% of total revenue for 2002 and 2001, respectively. The increase was primarily due to a $2.2 million, or 22%, increase in personnel and related costs largely resulting from the acquisition of Autoweb, a $1.0 million, or 134%, increase in amortization of software development costs related to iManager and RPM, partially offset by a $0.5 million, or 100%, decrease in executive severance, and a $0.4 million, decrease in other product and technology development expenses. In addition, we capitalized $1.4 million of software development costs related to enhancements to RPM in 2002. Software development costs capitalized in 2001 were $3.1 million and were primarily related to the enhancement of software licensed to our international licensees. We expect our product and technology development expenses as a percentage of revenues to decrease in 2003, as we become more effective in introducing new products with limited resources.

General and Administrative. General and administrative expense primarily consists of executive, financial and legal personnel expenses and costs related to being a public company. General and administrative expense decreased by $5.1 million, or 34%, to $9.9 million in 2002 compared to $15.0 million in 2001. This represents 12% and 21% of total revenue for 2002 and 2001, respectively. The decrease was primarily due to a $2.9 million, or 81%, decrease in legal expenses due to resolution of litigation matters in 2001, a $1.0 million, or 100%, decrease in executive severance, a $0.9 million, or 100%, decrease in goodwill amortization as result of the adoption of the non-amortization provisions of SFAS No. 142 on January 1, 2002, and a $0.3 million, or 3%, decrease in other general corporate expenses. We expect our general and administrative expenses as a percentage of revenues to decrease in 2003.

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

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

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

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

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

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

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

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

Income Taxes. No provision for federal income taxes has been recorded as we incurred net operating losses through December 31, 2002. As of December 31, 2002, we had approximately $127.7 million of federal and $77.4 million of state net operating loss carryforwards available to offset future taxable income. Of the $127.7 million of federal and $77.4 million of state net operating loss carryforwards, $16.6 million and $16.6 million, respectively, relate to Autoweb activities prior to the acquisition. These net operating loss carryforwards expire in various years through 2022. Also, Autobytel has federal and state research tax credit carryforwards of

$0.2 million and $0.2 million, respectively. Utilization of the net operating losses may be subject to an annual limitation due to the ownership change limitations provided by the Internal Revenue Code and similar state provisions. The annual limitation may result in the expiration of net operating loss carryforwards before utilization. Additionally, the state of California has suspended the deduction for net operating loss carryovers for the tax years 2002 and 2003.

2001 Compared to 2000

Revenues. Our revenues increased $4.6 million, or 7%, to $71.1 million in 2001 compared to $66.5 million in 2000.

Program Fees. Program fees decreased by $1.5 million, or 3%, to $52.3 million in 2001 compared to $53.8 million in 2000. The decrease was primarily due to a $7.7 million, or 14%, decline in Autobytel and CarSmart program fees due to a decline in average program fees per dealer and our number of dealer relationships, partially offset by a $6.2 million increase due to our acquisition of Autoweb. Our average fees per dealer and number of dealer relationships declined due to increased competition.

Enterprise Sales. Enterprise sales of $6.6 million primarily includes fees of $4.0 million received from General Motors Corporation for services related to an online locate-to-order vehicle test program. The agreement commenced in February 2001 and expired in November 2001. Enterprise sales in 2001 also include $2.6 million from major dealer groups for purchase requests and from manufacturers for automotive marketing data and technology provided by AIC, a division of Autoweb.

Advertising. Advertising revenue increased by $2.2 million, or 110%, to $4.3 million in 2001 compared to $2.1 million in 2000. The increase was due to a $2.8 million increase as a result of our acquisition of Autoweb, partially offset by a decrease of $0.6 million, or 26%, in Autobytel and CarSmart advertising revenues.

Other Products and Services. Revenues from other products and services decreased by $2.8 million, or 26%, to $7.8 million in 2001 compared to $10.6 million in 2000. The decrease was primarily due to a $3.3 million decline in international licensing fees, insurance and financing, and database marketing, partially offset by an increase of $0.5 million as a result of our acquisition of Autoweb.

Sales and Marketing. Sales and marketing expense decreased by $14.7 million, or 22%, to $50.6 million in 2001 compared to $65.3 million in 2000. The decrease was primarily due to a $16.7 million, or 68%, decrease in television, print and radio advertising, and a $2.3 million, or 11%, decrease in other advertising and sales expenses, which were partially offset by an increase in online advertising of $4.3 million, or 21%. The increase in online advertising expenses was a result of $6.0 million in online advertising for Autoweb partially offset by a decrease of $1.7 million in online advertising for Autobytel.

Product and Technology Development. Product and technology development expense decreased by $2.4 million, or 11%, to $20.4 million in 2001 compared to $22.8 million in 2000. The decrease was primarily due to a $4.4 million, or 61%, decrease in software development costs, partially offset by a $0.8 million, or 5%, increase in personnel costs, Web site data content and licensing fees, and additional product and technology expenses due to the addition of the Autoweb operations to our business, $0.7 million in amortization of capitalized software and $0.5 million for an executive severance payment. In accordance with SFAS No. 86, we capitalized $3.1 million of software development costs in 2001 which were primarily related to the enhancement of our existing proprietary software for use by our international licensees.

General and Administrative. General and administrative expense was $15.0 million and $13.8 million for 2001 and 2000, respectively. General and administrative expense increased by $1.2 million, or 9%. The increase was primarily due to a $1.9 million, or 115%, increase in legal and professional fees for certain litigation, abandoned transaction costs and general corporate expenses and a $1.0 million charge related to severance for an executive. The increase was partially offset by a decrease of $0.7 million, or 44%, in financial consulting and public company infrastructure costs, $0.6 million, or 40%, in goodwill amortization as a result of the goodwill write-down in 2001 related to CarSmart, and $0.4 million, or 4%, in other general and administrative expenses. In accordance with SFAS No. 142, goodwill of $8.6 million recorded on our balance sheet in connection with our acquisition of Autoweb in August 2001 is not amortized. Instead, on at least an annual basis, we will assess the carrying value of goodwill for impairment.

Goodwill Impairment. During 2001, based on an analysis of undiscounted expected future cash flows, we determined that goodwill recorded on our balance sheet in connection with our acquisition of CarSmart was in excess of its current estimated fair value. Undiscounted expected future cash flows were unfavorably impacted due to a decline in the number of CarSmart dealers, primarily resulting from a reduction in sales and marketing resources allocated to the CarSmart.com brand. As a result, in accordance with SFAS No. 121, “Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of,” we recorded a non-cash charge of $22.9 million to reflect the write-off of goodwill related to the acquisition of CarSmart.

Autobytel.Europe restructuring, impairment and other international charges. Due to a decline in the general economic climate and the environment for Internet related activities in Europe in 2001, we recorded a charge of $7.2 million related to our international operations in 2001. The charge consists of $3.1 million related to the restructuring of Autobytel.Europe’s operations primarily for employee separation costs, facilities and contract termination costs, $1.4 million related to the write-off of obsolete international software, and $2.7 million related to the write-off of investments in certain European joint ventures largely due to our inability to obtain additional capital to support continued operations of the joint ventures.

Domestic restructuring and other charges. In 2001, we recorded $4.5 million for domestic restructuring and other charges. The charges primarily consist of $2.6 million in post acquisition compensation costs related to the integration of Autoweb into our business, $1.0 million related to the reorganization of our dealer operations, including personnel costs, the elimination of duplicate facilities and the write-down of fixed assets, and $0.9 million in contract termination costs related to online advertising and the aftermarket program on our Autobytel.com Web site as well as the write-off of previously capitalized software related to the aftermarket program.

Interest Income. For 2001, interest income decreased by $2.8 million, or 45%, to $3.3 million in 2001 compared to $6.1 million in 2000 due to lower average cash balances and declining interest rates.

Foreign Currency Exchange Gain, Net. Autobytel.Europe, our subsidiary, operates its business in the Euro, which is its functional currency. It enters into transactions which require the use of currencies other than the Euro. Due to foreign exchange rate fluctuations, a $0.5 million gain on transactions executed in currencies other than the Euro was realized in 2001.

Losses in equity investees. Equity loss in an unconsolidated subsidiary represents our share of the loss in our Australian venture in 2001. The loss recognized has been limited to the amount of our investment, or $0.5 million, in 2001.

Minority Interest Gain. Minority interest represents our majority-owned subsidiary’s net loss allocable to minority shareholders. A portion of the loss generated by our majority-owned subsidiary, Autobytel.Europe, was allocated to its minority interest shareholders resulting in a gain of $1.5 million in 2001.

Income Taxes. No provision for federal income taxes has been recorded as we incurred net operating losses through December 31, 2001. As of December 31, 2001, we had approximately $164.6 million of federal and $80.4 million of state net operating loss carryforwards available to offset future taxable income. Of the $164.6 million of federal and $80.4 million of state net operating loss carryforward, $71.2 million and $33.4 million, respectively, relate to Autoweb activities prior to the acquisition. These net operating loss carryforwards expire in various years through 2021. Utilization of the net operating losses may be subject to an annual limitation due to the ownership change limitations provided by the Internal Revenue Code and similar state provisions. The annual limitation may result in the expiration of net operating loss carryforwards before utilization.

Stock-Based Compensation

In the first quarter of 1999, stock options were granted to employees and directors at exercise prices of $13.20 and $16 per share, which were below the fair market value at the date of grant. In relation to these grants, we recognized estimated compensation expense of $1.7 million ratably over the vesting terms of one to four years. Compensation expense of $20,000, $0.2 million, and $0.4 million was classified as general and administrative expense in 2002, 2001, and 2000, respectively. As of December 31, 2002, compensation expense related to these stock option grants was fully recognized.

Stock-Options Granted in 2002

In 2002, we granted stock options to purchase 1,959,020 shares of common stock, including options to purchase 747,355 shares of common stock granted pursuant to the option exchange offer described below, under our 1996 Incentive Stock Option Plan, 1998 Stock Option Plan, 1999 Stock Option Plan, 1999 Employee and Acquisition Related Stock Option Plan and 2000 Stock Option Plan. The stock options were granted at the fair market value on the date of grant. As of December 31, 2002, we had 5,220,506 outstanding stock options.

Option Exchange Offer

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

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

Liquidity and Capital Resources

Net cash used in operating activities was $3.2 million in 2002, $19.7 million in 2001 and $23.7 million in 2000. Net cash used in 2002 resulted primarily from the net loss for the year before non-cash charges, including non-cash charges related to Autobytel.Europe and the impairment of capitalized software, and a decrease in accounts payable, accrued expenses and deferred revenues. A $5.5 million decrease in accounts payable and $4.2 million decrease in accrued expenses was primarily due to:

- a reduction in marketing and advertising costs in 2002,
- the resolution of outstanding 2001 legal matters in 2002,
- the resolution of outstanding Autoweb liabilities in 2002 due to our acquisition of Autoweb on August 14, 2001,
- the deconsolidation of Autobytel.Europe in 2002,
- the renegotiation of payments under a major marketing agreement,

- a change in compensation and benefit plans in 2002 and
- a reduction in software development costs in 2002.

A $1.1 million decrease in deferred revenues was primarily related to a decrease in fees billed in advance in 2002 due to a decline in program dealer relationships and the average monthly program fee per dealer.

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

Net cash used in operating activities in 2000 resulted primarily from the net loss for the year before non-cash charges, including increased accounts receivable offset by increased accounts payable for sales and marketing, product and technology development and general and administrative expenditures.

Net cash used in investing activities was $30.9 million in 2002, $0.1 million in 2001 and $12.0 million in 2000. Cash used in investing in 2002 was primarily related to the deconsolidation of Autobytel.Europe. On March 28, 2002, Autobytel.Europe completed a recapitalization which reduced our ownership of Autobytel.Europe from 76.5% to 49%. As a result of the reduction in our ownership, we no longer consolidate Autobytel.Europe in our financial statements but account for our remaining investment in Autobytel.Europe under the equity method. Due to the deconsolidation of Autobytel.Europe, cash of $28.2 million is no longer included on our balance sheet. We do not anticipate contributing additional cash to Autobytel.Europe above the $5.0 million we initially contributed in January 2000. The remaining $2.7 million of cash used in investing activities in 2002 was primarily related to expenditures for capitalized software related to the development of our new customer service reminder product for dealerships and manufacturers called RPM, an investment in Autobytel Australia and the purchase of computer hardware and software. Cash used in investing in 2001 primarily was for expenditures for capitalized software and the purchase of computer hardware and software offset by cash acquired in the Autoweb transaction. Cash used in investing in 2000 was related to the acquisition of CarSmart, expenditures for capitalized software, investments in joint ventures in Spain, Sweden and France, notes receivable from the joint venture in France and the purchase of property and equipment.

Net cash provided by financing activities was $0.3 million in 2002, $2.1 million in 2001 and $32.3 million in 2000. Cash provided by financing activities in 2002 was due to proceeds received from the sale of common stock through stock option exercises and our employee stock purchase plan. Cash provided by financing activities in 2001 was from funding received from an investor for investment in Autobytel.Europe. Cash provided by financing activities in 2000 was primarily from funding received from strategic investors for investment in Autobytel.Europe.

As of December 31, 2002 and February 28, 2003, we had approximately $27.6 million and $28.3 million in cash and cash equivalents, respectively. Our cash requirements depend on several factors, including:

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

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

As of December 31, 2002, our contractual commitments were as follows:

	Years Ending December 31,			
	2003	2004	2005	Total
Operating leases	$ 1,196	$ 980	$ 120	$ 2,296
Online advertising	1,568	—	—	1,568
Hosting and communication	385	336	73	794
Data licensing	331	199	61	591
Total	$ 3,480	$ 1,515	$ 254	$ 5,249

With respect to years beyond fiscal 2003, we may be required to raise additional capital to meet our long term operating requirements. Since inception, we have experienced annual operating losses and have an accumulated deficit of $161.2 million as of December 31, 2002. Failure to generate sufficient revenues, raise additional capital or reduce discretionary spending could have a material adverse effect on our ability to achieve our intended business objectives. We expect to be able to fund our operations from internally generated funds in 2003. However, we cannot assure that we will be able to fund our operations from internally generated funds during such period or thereafter.

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

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

Recent Accounting Pronouncements

In June 2001, the FASB issued SFAS No. 141, “Business Combinations,” which requires the use of the purchase method of accounting for all business combinations initiated after June 30, 2001. It also requires recognition of intangible assets, other than goodwill, in business combinations completed after June 30, 2001 and all acquisitions accounted for using the purchase method of accounting. We acquired Autoweb after June 30, 2001 and accounted for the acquisition in accordance with SFAS No. 141.

In June 2001, the FASB issued SFAS No. 142, “Goodwill and Other Intangible Assets,” which addresses financial accounting and reporting for acquired goodwill and other intangible assets. We adopted SFAS No. 142 on January 1, 2002, except for goodwill and intangible assets acquired after June 30, 2001, for which it was immediately applicable. With the adoption of SFAS No. 142, goodwill is no longer subject to amortization over its estimated useful life. Instead, goodwill must be assessed on at least an annual basis.

In August 2001, the FASB issued SFAS No. 143, “Accounting for Asset Retirement Obligations.” SFAS No. 143 addresses financial accounting and reporting obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. SFAS No. 143 is effective for fiscal years beginning after June 15, 2002. We adopted SFAS No. 143 on January 1, 2003 and we do not expect it to have a material effect on our financial position or results of operations.

In October 2001, the FASB issued SFAS No. 144, " Accounting for the Impairment or Disposal of Long-Lived Assets." SFAS No. 144, which we adopted on January 1, 2002, establishes standards for performing certain tests of impairment on long-lived assets. The adoption of SFAS No. 144 did not have a material effect on our financial position or results of operations.

In June 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities." SFAS No. 146 addresses financial accounting and reporting for costs associated with exit or disposal activities. SFAS No. 146 is effective for exit or disposal activities initiated after December 31, 2002. We adopted SFAS No. 146 on January 1, 2003 and do not expect it to have a material effect on our financial position or results of operations.

In November 2002, the FASB issued FASB Interpretation No. (FIN) 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees and Indebtedness of Others." FIN 45 elaborates on the disclosures to be made by the guarantor in its interim and annual financial statements about its obligations under certain guarantees that it has issued. It also requires that a guarantor recognize, at the inception of a guarantee, a liability for the fair value of the obligation undertaken in issuing the guarantee. The initial recognition and measurement provisions of this interpretation are applicable on a prospective basis to guarantees issued or modified after December 31, 2002; while the provisions of the disclosure requirements are effective for financial statements of interim or annual reports ending after December 15, 2002. We did not have any obligations under guarantees required to be disclosed in accordance with FIN 45 as of December 31, 2002.

In December 2002, the FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation—Transition and Disclosure" which amends SFAS No. 123, "Accounting for Stock-Based Compensation." SFAS No. 148 provides alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. SFAS No. 148 also requires prominent disclosure about the method of accounting and the effect of the method used on reported results in both annual and interim financial statements. SFAS No. 148 is effective for fiscal years ending after December 15, 2002 and interim periods beginning after December 15, 2002. We adopted SFAS No. 148 on January 1, 2003 and have elected to continue to account for our stock-based compensation in accordance with the provisions of Accounting Principles Board Opinion (APB) No. 25, "Accounting for Stock Issued to Employees." Under APB 25, compensation expense is recognized over the vesting period based on the excess of the fair market value over the exercise price on the grant date.

In January 2003, the FASB issued FIN 46, "Consolidation of Variable Interest Entities," an Interpretation of Accounting Research Bulletin No. 51. FIN 46 requires certain variable interest entities to be consolidated by the primary beneficiary of the entity if the equity investors in the entity do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. FIN 46 is effective immediately for all new variable interest entities created or acquired after January 31, 2003. For variable interest entities created or acquired prior to February 1, 2003, the provisions of FIN 46 must be applied for the first interim or annual period beginning after June 15, 2003. We do not expect the adoption of FIN 46 to have a material effect on our financial position or results of operations.

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

None.

Item 8. ***Financial Statements And Supplementary Data***

Our Balance Sheets as of December 31, 2002 and 2001 and our Statements of Operations, Stockholders' Equity and Cash Flows for each of the years in the three-year period ended December 31, 2002, together with the reports of our independent accountants, begin on page F-1 of this Annual Report on Form 10-K and are incorporated herein by reference.

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

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

The reports of Arthur Andersen on our consolidated financial statements for each of 2001 and 2000 contained no adverse opinion or disclaimer of opinion and were not qualified or modified as to uncertainty, audit scope or accounting principle.

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

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

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

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

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

PART III

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

We will file the information called for in this item not later than 120 days after our fiscal year end (December 31, 2002) in our definitive Proxy Statement in connection with our 2003 Annual Meeting of Stockholders pursuant to Regulation 14A of the Securities Exchange Act of 1934, as amended, or in an amendment to this Annual Report on Form 10-K.

Item 11. ***Executive Compensation***

We will file the information called for in this item not later than 120 days after our fiscal year end (December 31, 2002) in our definitive Proxy Statement in connection with our 2003 Annual Meeting of Stockholders pursuant to Regulation 14A of the Securities Exchange Act of 1934, as amended, or in an amendment to this Annual Report on Form 10-K.

Item 12. ***Security Ownership Of Certain Beneficial Owners And Management and Related Stockholder Matters***

We will file the information called for in this item not later than 120 days after our fiscal year end (December 31, 2002) in our definitive Proxy Statement in connection with our 2003 Annual Meeting of Stockholders pursuant to Regulation 14A of the Securities Exchange Act of 1934, as amended, or in an amendment to this Annual Report on Form 10-K.

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

We will file the information called for in this item not later than 120 days after our fiscal year end (December 31, 2002) in our definitive Proxy Statement in connection with our 2003 Annual Meeting of Stockholders pursuant to Regulation 14A of the Securities Exchange Act of 1934, as amended, or in an amendment to this Annual Report on Form 10-K.

Item 14. ***Controls and Procedures***

Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of our disclosure controls and procedures, as such term is defined in Rule 13a-14(c) promulgated under the Securities Exchange Act of 1934, as amended, within 90 days of the filing date of this Annual Report on Form 10-K. Based on their evaluation, our principal executive officer and principal financial officer concluded that our disclosure controls and procedures are effective in timely alerting them to material information required to be included in our periodic reports filed with the Securities and Exchange Commission. It should be noted that the design of any system of controls is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions, regardless of how remote.

On a regular basis, we review and modify our internal controls and procedures. There have been no significant changes (including corrective actions with regard to significant deficiencies or material weaknesses) in our internal controls or in other factors that could significantly affect these controls subsequent to the date of their evaluation.

PART IV

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

(a) The following documents are filed as a part of this Annual Report:

(1) *Financial Statements:*

(2) *Financial Statement Schedules:*

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

(3) *Exhibits:*

The exhibits filed as part of this Annual Report are listed in the Index to Exhibits immediately preceding such exhibits, which Index to Exhibits is incorporated herein by reference.

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

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

On October 25, 2002, we filed a Form 8-K under Item 5 announcing our financial results for the third quarter of 2002.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on the 26th day of March 2003.

AUTOBYTEL INC.

By: /s/ JEFFREY A. SCHWARTZ

Jeffrey A. Schwartz
Chief Executive Officer, President and Director

POWER OF ATTORNEY

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

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

Signature	Title	Date
/s/ MICHAEL FUCHS Michael Fuchs	Chairman of the Board and Director	March 26, 2003
/s/ JEFFREY A. SCHWARTZ Jeffrey A. Schwartz	Chief Executive Officer, President and Director (Principal Executive Officer)	March 26, 2003
/s/ HOSHI PRINTER Hoshi Printer	Executive Vice President and Chief Financial Officer (Principal Financial Officer)	March 26, 2003
/s/ AMIT KOTHARI Amit Kothari	Vice President and Controller (Principal Accounting Officer)	March 26, 2003
/s/ JEFFREY H. COATS Jeffrey H. Coats	Director	March 26, 2003
/s/ ROBERT S. GRIMES Robert S. Grimes	Director	March 26, 2003
/s/ MARK N. KAPLAN Mark N. Kaplan	Director	March 26, 2003

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Signature	Title	Date
/s/ LAWRENCE W. LEPARD Lawrence W. Lepard	Director	March 26, 2003
/s/ KENNETH J. ORTON Kenneth J. Orton	Director	March 26, 2003
/s/ RICHARD A. POST Richard A. Post	Director	March 26, 2003
/s/ MARK R. ROSS Mark R. Ross	Director	March 26, 2003

CERTIFICATIONS

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

1. I have reviewed this annual report on Form 10-K of Autobytel Inc.;
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
   a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;
   b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and
   c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
   a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officer and I have indicated in this annual report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: March 26, 2003

/s/ JEFFREY A. SCHWARTZ

Jeffrey A. Schwartz,
President and Chief Executive Officer

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

1. I have reviewed this annual report on Form 10-K of Autobytel Inc.;
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
   a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;
   b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and
   c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
   a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officer and I have indicated in this annual report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: March 26, 2003

/s/ HOSHI PRINTER

Hoshi Printer,
Executive Vice President and
Chief Financial Officer

Autobytel Inc.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

REPORT OF INDEPENDENT ACCOUNTANTS

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

In our opinion, the consolidated financial statements listed in the index appearing under Item 15.(a)(1) on page 51 present fairly, in all material respects, the financial position of Autobytel Inc. and its subsidiaries at December 31, 2002, and the results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule listed in the index appearing under Item 15.(a)(2) on page 51 presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. These financial statements and the financial statement schedule are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements and the financial statement schedule based on our audit. We conducted our audit of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion. The financial statements and the financial statement schedule of the Company as of December 31, 2001, and for each of the two years in the period ended December 31, 2001, were audited by other independent accountants who have ceased operations. Those independent accountants expressed an unqualified opinion on those financial statements and the financial statement schedule in their report dated January 25, 2002.

As discussed above, the financial statements of Autobytel Inc. and its subsidiaries as of December 31, 2001, and for each of the two years in the period ended December 31, 2001, were audited by other independent accountants who have ceased operations. As described in Note 7., these financial statements have been revised to include the transitional disclosures required by Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets", which was adopted by the Company as of January 1, 2002. We audited the transitional disclosures described in Note 7. In our opinion, the transitional disclosures for 2001 and 2000 in Note 7. are appropriate. However, we were not engaged to audit, review, or apply any procedures to the 2001 or 2000 financial statements of the Company other than with respect to such disclosures and, accordingly, we do not express an opinion or any other form of assurance on the 2001 or 2000 financial statements taken as a whole.

/s/ PRICEWATERHOUSECOOPERS LLP

PricewaterhouseCoopers LLP
Orange County, California
January 24, 2003, except for Note 18, as to which the date is February 28, 2003

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

REPORT OF PREVIOUS INDEPENDENT PUBLIC ACCOUNTANTS

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

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

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

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

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

ARTHUR ANDERSEN LLP

Los Angeles, California
January 25, 2002

AUTOBYTEL INC.

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

	December 31, 2002	December 31, 2001
ASSETS		
Current assets:		
Domestic cash and cash equivalents	$ 27,543	$ 30,006
International cash and cash equivalents	—	28,784
Restricted cash	28	3,047
Accounts receivable, net of allowance for doubtful accounts and customer credits of $4,214 and $7,109, respectively	6,757	8,519
Prepaid expenses and other current assets	3,495	4,419
Total current assets	37,823	74,775
Property and equipment, net	2,088	2,889
Capitalized software, net	2,105	4,319
Investment in unconsolidated subsidiary	4,745	—
Goodwill	8,367	8,644
Other assets	96	154
Total assets	$ 55,224	$ 90,781
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 3,529	$ 9,108
Accrued expenses	5,018	9,005
Deferred revenues	3,575	4,708
Customer deposits	76	92
Other current liabilities	349	300
Total current liabilities	12,547	23,213
Accrued restructuring—non-current	255	—
Total liabilities	12,802	23,213
Commitments and contingencies (Note 8)		
Minority interest	—	7,173
Stockholders' equity:		
Preferred stock, $0.001 par value; 11,445,187 shares authorized; none outstanding	—	—
Common stock, $0.001 par value; 200,000,000 shares authorized; 31,195,681 and 30,969,377 shares issued and outstanding, respectively	31	31
Additional paid-in capital	203,623	203,280
Accumulated other comprehensive loss	(40)	(2,438)
Accumulated deficit	(161,192)	(140,478)
Total stockholders' equity	42,422	60,395
Total liabilities and stockholders' equity	$ 55,224	$ 90,781

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

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AUTOBYTEL INC.

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

	Years Ended December 31, 2002	2001	2000
Revenues:			
Program fees	$ 58,008	$ 52,306	$ 53,843
Enterprise sales	10,504	6,610	—
Advertising	7,914	4,321	2,062
Other products and services	4,429	7,831	10,627
Total revenues	80,855	71,068	66,532
Operating expenses:			
Sales and marketing	49,082	50,648	65,266
Product and technology development	22,695	20,410	22,847
General and administrative	9,876	14,973	13,797
Goodwill impairment	—	22,867	—
Autobytel.Europe restructuring, impairment and other international charges	15,015	7,229	—
Domestic restructuring and other charges	1,800	4,514	—
Total operating expenses	98,468	120,641	101,910
Loss from operations	(17,613)	(49,573)	(35,378)
Loss on recapitalization of Autobytel.Europe	(4,168)	—	—
Interest income	686	3,338	6,114
Foreign currency exchange gain (loss)	(2)	426	(106)
Losses in equity investees	(434)	(500)	—
Other income (expense)	(43)	—	9
Loss before minority interest and income taxes	(21,574)	(46,309)	(29,361)
Minority interest	866	1,485	369
Loss before income taxes	(20,708)	(44,824)	(28,992)
Provision for income taxes	6	27	42
Net loss	$ (20,714)	$ (44,851)	$ (29,034)
Basic and diluted net loss per share	$ (0.67)	$ (1.84)	$ (1.45)
Shares used in computing basic and diluted net loss per share	31,143,099	24,403,609	20,047,173
Comprehensive loss:			
Net loss	$ (20,714)	$ (44,851)	(29,034)
Translation adjustment	(512)	(2,422)	(8)
Comprehensive loss	$ (21,226)	$ (47,273)	$ (29,042)

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

AUTOBYTEL INC.

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

	Common Stock						
	Number of Shares	**Amount**	**Warrants**	**Additional Paid-In Capital**	**Accumulated Other Comprehensive Loss**	**Accum-ulated Deficit**	**Total**
Balance, December 31, 1999	18,234,613	18	1,332	141,957	(8)	(66,593)	76,706
Issuance of common stock upon acquisition of A.I.N. Corporation	1,800,000	2	—	19,690	—	—	19,692
Issuance of common stock upon exercise of stock options	280,000	—	—	646	—	—	646
Issuance of common stock under employee stock purchase plan	21,470	—	—	134	—	—	134
Amortization of deferred stock-based compensation	—	—	—	393	—	—	393
Net gain on sale of subsidiary stock .	—	—	—	23,277	—	—	23,277
Foreign currency translation adjustment	—	—	—	—	(8)	—	(8)
Net Loss	—	—	—	—	—	(29,034)	(29,034)
Balance, December 31, 2000	20,336,083	20	1,332	186,097	(16)	(95,627)	91,806
Issuance of common stock upon acquisition of Autoweb	10,504,803	11	—	14,320	—	—	14,331
Issuance of common stock upon exercise of stock options	6,667	—	—	5	—	—	5
Issuance of common stock under employee stock purchase plan	121,824	—	—	118	—	—	118
Expiration of warrants	—	—	(1,332)	1,332	—	—	—
Amortization of deferred stock-based compensation	—	—	—	242	—	—	242
Net gain on sale of subsidiary stock	—	—	—	1,166	—	—	1,166
Foreign currency translation adjustment	—	—	—	—	(2,422)	—	(2,422)
Net loss	—	—	—	—	—	(44,851)	(44,851)
Balance, December 31, 2001	30,969,377	31	—	203,280	(2,438)	(140,478)	60,395
Issuance of common stock upon exercise of stock options	98,295	—	—	163	—	—	163
Issuance of common stock under employee stock purchase plan	128,020	—	—	160	—	—	160
Adjustment for fractional shares on exchange of Autoweb shares for Autobytel shares	(11)	—	—	—	—	—	—
Amortization of deferred stock-based compensation	—	—	—	20	—	—	20
Deconsolidation of Autobytel.Europe	—	—	—	—	2,910	—	2,910
Foreign currency translation adjustment	—	—	—	—	(512)	—	(512)
Net loss	—	—	—	—	—	(20,714)	(20,714)
Balance, December 31, 2002	31,195,681	$ 31	$ —	$ 203,623	$ (40)	$ (161,192)	$ 42,422

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

AUTOBYTEL INC.

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

	Years Ended December 31,		
	2002	2001	2000
Cash flows from operating activities:			
Net loss	$ (20,714)	$ (44,851)	$ (29,034)
Adjustments to reconcile net loss to net cash used in operating activities			
Non-cash charges:			
Depreciation and amortization	3,366	3,092	2,752
Provision for bad debt and customer credits	1,220	3,356	1,409
Loss on disposal of property and equipment	41	561	30
Foreign currency exchange loss	—	—	132
Amortization of deferred stock-based compensation	20	242	393
Autobytel.Europe restructuring and impairment	15,015	—	—
Loss on recapitalization of Autobytel.Europe	4,168	—	—
Losses in equity investees	434	500	—
Minority interest	(866)	(1,485)	—
Impairment of goodwill	—	22,867	—
Impairment of capitalized software costs	1,937	1,434	—
Impairment of investments in foreign entities	—	2,142	—
Impairment of property and equipment	—	257	—
Changes in assets and liabilities:			
Accounts receivable	770	978	(3,387)
Prepaid expenses and other current assets	908	3,026	(670)
Other assets	58	3	289
Accounts payable	(5,541)	(1,781)	4,518
Accrued expenses	(3,123)	(4,858)	576
Accrued restructuring—current	(88)	(3,644)	—
Deferred revenues	(1,133)	(920)	463
Customer deposits	(16)	(84)	(531)
Other current liabilities	106	(71)	(613)
Accrued restructuring and other liabilities—non current	255	(482)	(69)
Net cash used in operating activities	(3,183)	(19,718)	(23,742)
Cash flows from investing activities:			
Deconsolidation of Autobytel.Europe	(28,163)	—	—
Acquisition of business, net of cash acquired	—	5,697	(4,374)
Restricted cash	(28)	—	—
Investment in foreign entities	—	(413)	(1,353)
Sale of investment in foreign entities	—	109	—
Investment in debt security of foreign entities	—	(88)	(830)
Investment in unconsolidated subsidiary	(400)	—	—
Notes receivable from foreign entity	—	(109)	(268)
Repayment of notes receivable from foreign entity	—	292	—
Purchases of property and equipment	(1,087)	(2,444)	(1,849)
Proceeds from sale of property and equipment	168	—	—
Capitalized software costs	(1,412)	(3,135)	(3,338)
Net cash used in investing activities	(30,922)	(91)	(12,012)
Cash flows from financing activities:			
Net proceeds from sale of common stock	323	123	780
Net proceeds from sale of subsidiary company stock	—	2,000	31,470
Net cash provided by financing activities	323	2,123	32,250
Effect of exchange rates on cash	(512)	(2,422)	(8)
Net decrease in cash and cash equivalents	(34,294)	(20,108)	(3,512)
Cash and cash equivalents, beginning of period	61,837	81,945	85,457
Cash and cash equivalents, end of period	$ 27,543	$ 61,837	$ 81,945
Supplemental disclosure of cash flow information:			
Cash paid during the period for income taxes	$ 6	$ 27	$ 42
Cash paid during the period for interest	$ 2	$ 5	$ 51

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

Supplemental disclosure of non-cash investing and financing activities:

- In February 2000, in conjunction with the acquisition of A.I.N. Corporation, assets of $950 were acquired, liabilities of $1,966 were assumed and 1,800,000 shares of common stock were issued. (See Note 3.)
- In August 2001, in conjunction with the acquisition of Autoweb.com, Inc., assets of $19,701 were acquired, liabilities of $12,819 were assumed and 10,504,792 shares of common stock were issued. (See Note 4.)
- In November 2001, warrants to purchase 150,000 shares of common stock valued at $270 expired. (See Note 10.)
- In December 2001, warrants to purchase 589,800 shares of common stock valued at $1,062 expired. (See Note 10.)
- In August 2002, due to a change in our original estimate of accounts receivable acquired in the Autoweb acquisition, we increased accounts receivable and decreased goodwill by $277. (See Note 4.)

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

AUTOBYTEL INC.

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

1. Organization and Operations of Autobytel

Autobytel Inc. (Autobytel) is an automotive marketing services company that helps dealers sell cars and manufacturers build brands through efficient marketing, advertising and customer relationship management tools and programs primarily through the Internet. Autobytel owns and operates the car buying Web sites—Autobytel.com, Autoweb.com and CarSmart.com and an automotive research Web site, AutoSite.com. Autobytel is also a leading provider of automotive marketing data and technology through its Automotive Information Center (AIC) division.

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

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

Since its inception in January 1995, Autobytel has experienced annual operating losses and has an accumulated deficit of $161,192 as of December 31, 2002. Autobytel believes current cash and cash equivalents are sufficient to meet anticipated cash needs for working capital and capital expenditures for at least the next 12 months. Failure to generate sufficient revenues, raise additional capital or reduce discretionary spending could have a material adverse effect on Autobytel's ability to achieve its intended business objectives.

2. Summary of Significant Accounting Policies

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of Autobytel and its wholly and majority owned direct and indirect subsidiaries. Autobytel's wholly and majority owned subsidiaries include: Autobytel Services Corporation, Autoweb.com, Inc., A.I.N. Corporation, Auto-By-Tel Acceptance Corporation, Auto-By-Tel Insurance Services, Inc., Autobytel.ca inc., Kre8.net inc., e-autosdirect.com inc., I-Net Training Technologies, LLC, Autobytel Information Services Inc., AutoVisions Communications, Inc., iBuy Inc. and Autobytel Acquisition Corp.

Autobytel.Europe LLC (Autobytel.Europe), Autobytel.Europe Investment B.V., Autobytel.Europe Holdings B.V., Autobytel France SA are included in Autobytel's consolidated financial statements as of December 31, 2001. As a result of a reduction in Autobytel's ownership in Autobytel.Europe in March 2002, Autobytel no longer consolidates these entities in its financial statements. (See Note 5.)

Investments in entities in which Autobytel has the ability to exercise significant influence, but not control, are accounted for using the equity method. Autobytel accounts for its investment in Autobytel.Europe (See Note 5.), Autobytel Japan and Autobytel Australia under the equity method. The application of the equity method with respect to Autobytel's investment of $126 in Autobytel Japan has been suspended, as this amount was fully expensed in 1999. Autobytel will resume application of the equity method when its share of net income equals its share of net losses unrecognized during the suspension period. Autobytel's investments of $500 and $400 in Autobytel Australia were fully expensed in 2001 and 2002, respectively. Autobytel Australia ceased operations in August 2002.

AUTOBYTEL INC.

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

All intercompany transactions and balances have been eliminated in consolidation.

Use of Estimates in the Preparation of Financial Statements

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

Cash, Cash Equivalents and Restricted Cash

Cash and cash equivalents as of December 31, 2002 and 2001 were as follows:

	2002			2001		
	Available	Restricted	Total	Available	Restricted	Total
Domestic	$ 27,543	$ 28	$ 27,571	$ 30,006	$ 2,994	$ 33,000
International	—	—	—	28,784	53	28,837
Total	$ 27,543	$ 28	$ 27,571	$ 58,790	$ 3,047	$ 61,837

For the purposes of the consolidated balance sheets and the consolidated statements of cash flows, Autobytel considers all highly liquid investments with an original maturity of three months or less at the date of purchase to be cash equivalents. Domestic cash and cash equivalents represent amounts held by Autobytel for use by Autobytel. As of December 31, 2002, $28 was held by financial institutions as collateral for business credit cards. As of December 31, 2001, $2,966 was held in a restricted interest bearing account to secure an appeal bond related to litigation and $28 was held by financial institutions as collateral for business credit cards.

International cash and cash equivalents represent amounts held by Autobytel.Europe for use as directed by Autobytel.Europe. These funds were not available to Autobytel. As a result of a reduction in Autobytel's ownership of Autobytel.Europe in March 2002 (see Note 5.), Autobytel no longer consolidates Autobytel.Europe in its financial statements. Therefore, international cash and cash equivalents are no longer reported on Autobytel's balance sheet. As of December 31, 2001, $53 was held by Autobytel.Europe's landlord as a security deposit.

Fair Value of Financial Instruments

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

Concentration of Credit Risk

Financial instruments that potentially subject Autobytel to concentrations of credit risk consist primarily of cash, cash equivalents and accounts receivable. Cash and cash equivalents are primarily maintained with three financial institutions in the United States. Deposits held by banks may exceed the amount of insurance provided for such deposits. Generally these deposits may be redeemed upon demand. Accounts receivable are primarily derived from fees billed to automotive dealers, automotive manufacturers and international licensees. Autobytel generally requires no collateral to support customer receivables and maintains an allowance for doubtful accounts for potential credit losses. Historically, such losses have been within Autobytel's expectations. As of December 31, 2002 and 2001, Autobytel had a balance of $1,912 and $3,958 in allowance for doubtful accounts, respectively.

Property and Equipment

Property and equipment are stated at cost less accumulated depreciation. Depreciation is provided using the straight-line method over the estimated useful lives of the respective assets, generally three years. Amortization of leasehold improvements is provided using the straight-line method over the shorter of the remaining lease term or the estimated useful lives of the improvements. In accordance with Financial Accounting Standards Board (FASB) Statement of Financial Accounting Standards (SFAS) No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of," Autobytel evaluated the carrying value of property and equipment and noted no impairment as of December 31, 2001.

Effective January 1, 2002, Autobytel adopted SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," which supersedes SFAS No. 121. For purposes of SFAS No. 144, impairment exists when the carrying value of a long-lived asset exceeds its fair value. An impairment loss is recognized only if the carrying value of a long-lived asset is not recoverable and exceeds its fair value. The carrying value of a long-lived asset is not recoverable if it exceeds the sum of the undiscounted cash flows expected to result from the use and eventual disposition of the asset. There were no such impairment losses during the year ended December 31, 2002.

Capitalized Software

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

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

In 2002, capitalized software development costs related to internal use software totaled $1,413. No software development costs related to external use software costs were capitalized in 2002. In 2001, capitalized software development costs related to external use software totaled $6,473. No software development costs related to internal use software were capitalized in 2001. Related amortization expense of $1,690 and impairment of $1,937 (see Note 13.) were recognized in 2002. Related amortization expense of $720 and impairment of $1,434 (see Note 13.) were recognized in 2001.

AUTOBYTEL INC.

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

Goodwill

Goodwill represents the excess of the purchase price for acquisitions over the fair value of identifiable assets and liabilities acquired. Autobytel uses estimates and makes assumptions to determine the fair value of acquired assets and liabilities. Goodwill acquired prior to June 30, 2001 was amortized on a straight-line basis over its estimated useful life of 15 years. Autobytel evaluated the carrying value of goodwill in accordance with SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of" through December 31, 2001. Under SFAS No. 121, Autobytel evaluated whether there was impairment whenever events or circumstances indicated that the carrying value might not be recoverable. In 2001, an estimate of undiscounted cash flows indicated impairment and an impairment loss equal to the excess of the carrying value over the fair value of goodwill was recognized. (See Note 7.)

Effective January 1, 2002, Autobytel adopted SFAS No. 142, "Goodwill and Other Intangible Assets," which requires Autobytel to record an impairment charge whenever an event occurs or circumstances change that would more likely than not reduce the fair value below carrying value, or at least annually. SFAS No. 142 uses a two-step process for evaluating whether goodwill has been impaired. Impairment is the condition that exists when the carrying amount of goodwill exceeds its fair value. The first step of the goodwill impairment test, used to identify potential impairment, compares the fair value of Autobytel with its carrying value, including goodwill. If the fair value exceeds its carrying amount, goodwill is not impaired. If the carrying value exceeds its fair value, Autobytel compares the fair value of goodwill with the carrying value of that goodwill. If the carrying value of goodwill exceeds the fair value of that goodwill, an impairment loss is recognized in an amount equal to that excess. Goodwill acquired subsequent to June 30, 2001 is not amortized.

Accrued Expenses

Autobytel accrues expenses that are likely to occur and can be reasonably estimated based on the facts and circumstances available. As of December 31, 2002 accrued compensation and related expenses, totaling $3,746, was the largest component of accrued expenses.

Stock-Based Compensation

As permitted under SFAS No. 148, "Accounting for Stock-Based Compensation-Transition and Disclosure," which amended SFAS No. 123, "Accounting for Stock-Based Compensation", Autobytel has elected to continue to account for its stock-based compensation in accordance with the provisions of Accounting Principles Board Opinion (APB) No. 25, "Accounting for Stock Issued to Employees." Under APB 25, compensation expense is recognized over the vesting period based on the excess of the fair market value over the exercise price on the grant date. (See Note 11.)

AUTOBYTEL INC.

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

Had the provisions of SFAS No. 123 been applied to Autobytel's stock option grants for its stock-based compensation plans, Autobytel's net loss and net loss per share for the years ended December 31, 2002, 2001 and 2000 would approximate the pro forma amounts below (See Note 11.):

	Years Ended December 31,		
	2002	2001	2000
Net loss, as reported	$ (20,714)	$ (44,851)	$ (29,034)
Stock based compensation, net of tax	(1,902)	(4,432)	(7,867)
Net loss, pro forma	$ (22,616)	$ (49,283)	$ (36,901)
Net loss per share, as reported	$ (0.67)	$ (1.84)	$ (1.45)
Net loss per share, pro forma	$ (0.73)	$ (2.02)	$ (1.84)

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

Revenue Recognition

Autobytel recognizes revenues from program fees, enterprise sales, advertising and other products and services when earned as defined by Staff Accounting Bulletin (SAB) No. 101. SAB No. 101 considers revenue realized after all four of the following criteria are met: (i) persuasive evidence of an arrangement exists, (ii) delivery has occurred or services have been rendered, (iii) the seller's price to the buyer is fixed or determinable and (iv) collectibility is reasonably assured.

Autobytel's revenues primarily consist of program fees paid by dealers located in the United States who participate in the Autobytel.com, Autoweb.com and CarSmart.com online car buying referral networks. These fees are comprised of an initial fee and a monthly subscription or transaction fee for consumer leads, or purchase requests, directed to them. The initial fee is recognized ratably over the service period of 12 months. Monthly fees are recognized in the period services are provided. Transaction fees are recognized in the period purchase requests are delivered to the program dealers.

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

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

AUTOBYTEL INC.

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

Autobytel revenues from other products and services, include revenues from license and service agreements with international licensees. These agreements grant the licensees the right to use Autobytel's brand, proprietary software, technology and other business procedures to market new and used vehicles in exchange for certain fees. These fees include: (i) orientation fees, which are recognized on the effective date of the license and service agreements, (ii) localization and development fees and minimum annual maintenance fees, which are recognized as services are provided, and (iii) minimum annual license fees, which are recognized ratably over a 12 month period beginning on the date the international Web site is launched. In 2002, Autobytel modified the licenses to provide for annual fees for the use of its brand. Other revenues, including fees received for classified listings, database marketing, financing, and Retention Performance Marketing, a customer service reminder program launched in April 2002, are recognized as services are provided.

Fees billed prior to Autobytel providing services are deferred, as they do not satisfy all of the revenue recognition criteria in SAB No. 101. Deferred revenues are recognized as revenue over the periods services are provided or purchase requests are delivered.

Risks Due to Concentration of Significant Customers and Export Sales

For all periods presented in the accompanying consolidated statements of operations, no dealer, major dealer group, manufacturer, international licensee or other customer accounted for greater than 10% of revenues.

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

Sales and Marketing

Sales and marketing expense primarily includes Internet marketing and advertising expenses, fees paid to purchase request providers, promotion and advertising expenses to develop brand equity and encourage potential customers to visit Autobytel's Web sites and personnel and other costs associated with sales, marketing, training and support of Autobytel's dealer networks. Sales and marketing costs are recorded as expenses as incurred. Online and traditional advertising costs were $32,762, $32,658 and $44,972 in 2002, 2001 and 2000, respectively.

Product and Technology Development

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

General and Administrative

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

AUTOBYTEL INC.

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

Foreign Currency Translation

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

Transaction gains and losses arising from exchange rate fluctuations on transactions denominated in a currency other than the functional currency, except those transactions which operate as a hedge of an identifiable foreign currency commitment, are included in other income (expense).

Income Taxes

Autobytel accounts for income taxes in accordance with SFAS No. 109, "Accounting for Income Taxes." Under SFAS No. 109, deferred income tax assets and liabilities are determined based on the differences between the book and tax basis of assets and liabilities and are measured using the currently enacted tax rates and laws.

Computation of Basic and Diluted Net Loss Per Share

Net loss per share has been calculated under SFAS No. 128, "Earnings per Share." SFAS No. 128 requires companies to compute earnings per share under two different methods (basic and diluted). Basic net loss per share is calculated by dividing the net loss by the weighted average shares of common stock outstanding during the period. For the years ended December 31, 2002, 2001 and 2000, diluted net loss per share is equal to basic net loss per share since potential common shares from the conversion of stock options and warrants are antidilutive. As of December 31, 2002, 782,688 potential common shares from the conversion of stock options are antidilutive.

New Accounting Pronouncements

In June 2001, the FASB issued SFAS No. 141, "Business Combinations," which requires the use of the purchase method of accounting for all business combinations initiated after June 30, 2001. It also requires recognition of intangible assets, other than goodwill, in business combinations completed after June 30, 2001 and all acquisitions accounted for using the purchase method of accounting. Autobytel acquired Autoweb.com, Inc. (Autoweb) after June 30, 2001 and accounted for the acquisition in accordance with SFAS No. 141.

In June 2001, the FASB issued SFAS No. 142, "Goodwill and Other Intangible Assets," which addresses financial accounting and reporting for acquired goodwill and other intangible assets. Autobytel adopted SFAS No. 142 on January 1, 2002, except for goodwill and intangible assets acquired after June 30, 2001, for which it was immediately adopted. With the adoption of SFAS No. 142, goodwill is no longer subject to amortization over its estimated useful life. Instead, goodwill must be assessed for impairment on at least an annual basis.

In August 2001, the FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations." SFAS No. 143 addresses financial accounting and reporting obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. SFAS No. 143 is effective for fiscal years beginning after June 15, 2002. Autobytel adopted SFAS No. 143 on January 1, 2003. Autobytel does not expect the adoption to have a material effect on its financial position or results of operations.

In October 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." SFAS No. 144, which Autobytel adopted on January 1, 2002, establishes standards for performing certain tests of impairment on long-lived assets. The adoption of SFAS No. 144 did not have a material effect on Autobytel's financial position or results of operations.

AUTOBYTEL INC.

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

In June 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities." SFAS No. 146 addresses financial accounting and reporting for costs associated with exit or disposal activities. SFAS No. 146 is effective for exit or disposal activities initiated after December 31, 2002. Autobytel adopted SFAS No. 146 on January 1, 2003. Autobytel does not expect the adoption to have a material effect on its financial position or results of operations.

In November 2002, the FASB issued FASB Interpretation No. (FIN) 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees and Indebtedness of Others." FIN 45 elaborates on the disclosures to be made by the guarantor in its interim and annual financial statements about its obligations under certain guarantees that it has issued. It also requires that a guarantor recognize, at the inception of a guarantee, a liability for the fair value of the obligation undertaken in issuing the guarantee. The initial recognition and measurement provisions of this interpretation are applicable on a prospective basis to guarantees issued or modified after December 31, 2002; while the provisions of the disclosure requirements are effective for financial statements of interim or annual reports ending after December 15, 2002. Autobytel did not have any obligations under guarantees required to be disclosed in accordance with FIN 45 as of December 31, 2002.

In December 2002, the FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation—Transition and Disclosure" which amends SFAS No. 123, "Accounting for Stock-Based Compensation." SFAS No. 148 provides alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. SFAS No. 148 also requires prominent disclosure about the method of accounting and the effect of the method used on reported results in both annual and interim financial statements. SFAS No. 148 is effective for fiscal years ending after December 15, 2002 and interim periods beginning after December 15, 2002. Autobytel adopted SFAS No. 148 on January 1, 2003 and has elected to continue to account for its stock-based compensation in accordance with the provisions of Accounting Principles Board Opinion (APB) No. 25, "Accounting for Stock Issued to Employees." Under APB 25, compensation expense is recognized over the vesting period based on the excess of the fair market value over the exercise price on the grant date. (See Note 11.).

In January 2003, the FASB issued FIN 46, "Consolidation of Variable Interest Entities," an Interpretation of Accounting Research Bulletin No. 51. FIN 46 requires certain variable interest entities to be consolidated by the primary beneficiary of the entity if the equity investors in the entity do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. FIN 46 is effective immediately for all new variable interest entities created or acquired after January 31, 2003. For variable interest entities created or acquired prior to February 1, 2003, the provisions of FIN 46 must be applied for the first interim or annual period beginning after June 15, 2003. Autobytel does not expect the adoption of FIN 46 to have a material effect on its financial position or results of operations.

3. Acquisition of A.I.N. Corporation

On February 15, 2000, Autobytel acquired all of the outstanding common stock of A.I.N. Corporation (A.I.N. or CarSmart), the owner of CarSmart.com, an online buying site for new and used vehicles.

A.I.N stockholders were issued 1,800,000 shares of Autobytel common stock and $3,000 in cash. The acquisition has been accounted for using the purchase method of accounting.

The aggregate purchase price was $24,144 and consisted of common stock valued at $19,692, cash of $3,000 and transaction costs of $1,452. The value of the stock was determined based on the average market price of Autobytel's common stock for the three days before and after the date the acquisition was announced. The purchase price has been allocated to the assets acquired and liabilities assumed on the basis of their respective estimated fair values on the acquisition date. The excess of the purchase price over the fair value of the assets acquired and liabilities assumed was recorded as goodwill in the amount of $25,226 and was initially amortized over a 15 year period. In 2001, as a result of a decrease in sales and marketing resources allocated to the CarSmart.com brand and a decline in the number of CarSmart dealers, Autobytel determined that the remaining unamortized goodwill related to A.I.N. was fully impaired and recorded a non-cash charge of $22,867 for the impairment of goodwill. (See Note 7.)

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

A.I.N. Corporation's results of operations from the date of acquisition on February 15, 2000 through December 31, 2002 have been included in the accompanying consolidated statements of operations.

The following summarized unaudited pro forma consolidated results of operations are presented as if the acquisition of A.I.N. Corporation had occurred on January 1, 2000. The unaudited pro forma results are not necessarily indicative of future earnings or earnings that would have been reported had the acquisition been completed as presented.

	Year Ended December 31, 2000
	(unaudited)
Revenue	$ 67,806
Net loss	(30,137)
Basic and diluted net loss per share	$ (1.50)

4. Acquisition of Autoweb.com, Inc.

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

Autoweb stockholders were issued 0.3553 shares of Autobytel common stock for each share of Autoweb common stock outstanding on the date of the acquisition for a total of 10,504,792 shares. The acquisition has been accounted for using the purchase method of accounting.

AUTOBYTEL INC.

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

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

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

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

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

Autoweb's financial position and results of operations from the date of acquisition on August 14, 2001 through December 31, 2002 have been included in the accompanying consolidated financial statements.

AUTOBYTEL INC.

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

The following summarized unaudited pro forma consolidated results of operations are presented as if the acquisition of Autoweb had occurred on January 1, 2000. The unaudited pro forma results are not necessarily indicative of future earnings or earnings that would have been reported had the acquisition been completed as presented.

	Years Ended December 31,	
	2001	2000
	(unaudited)	
Revenue	$ 94,794	$ 118,812
Net loss	(65,131)	(58,494)
Basic and diluted net loss per share	(2.11)	(1.91)

5. Autobytel.Europe LLC

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

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

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

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

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

Autobytel.Europe’s results of operations are consolidated in Autobytel’s results of operations through March 28, 2002, including a non-cash charge of $4,000 for terminated Autobytel.Europe contracts. On March 28, 2002, Autobytel.Europe completed a recapitalization which reduced Autobytel’s ownership of Autobytel.Europe from 76.5% to 49%. As a result of the reduction in Autobytel’s ownership interest, Autobytel recorded a non-cash charge of $4,168 related to the partial disposition of its investment in Autobytel.Europe. Autobytel no longer consolidates Autobytel.Europe in its financial statements but accounts for its remaining investment in Autobytel.Europe under the equity method. At March 28, 2002, Autobytel reviewed its 49% investment in Autobytel.Europe and reduced the carrying amount to its estimated fair value. The impairment of the investment resulted in a non-cash charge of $11,015 to Autobytel. As of December 31, 2002, Autobytel had an investment in Autobytel.Europe with a remaining balance of $4,745 which Autobytel believes has not incurred a further decline in value.

AUTOBYTEL INC.

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

6. Property and Equipment

Property and equipment consists of the following:

	As of December 31, 2002	As of December 31, 2001
Computer software and hardware	$ 6,877	$ 6,646
Furniture and equipment	1,274	1,341
Leasehold improvements	748	851
	8,899	8,838
Less—Accumulated depreciation and amortization	(6,811)	(5,949)
	$ 2,088	$ 2,889

Depreciation expense was $1,678, $1,483 and $1,271 in 2002, 2001 and 2000, respectively.

7. Goodwill and Goodwill Impairment

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

In accordance with SFAS No. 142, goodwill acquired in the Autoweb acquisition is not amortized, rather it is evaluated on at least an annual basis for impairment as the acquisition of Autoweb was completed subsequent to June 30, 2001. Autobytel performed transitional and annual impairment tests of goodwill in 2002 using a combination of the public company market multiple method, the price to revenue method and the price to book value method, and concluded that goodwill was not impaired. In future periods, if goodwill is determined to be impaired, Autobytel will recognize a non-cash charge equal to the excess of the carrying value over the fair value. There can be no assurance that future evaluations of goodwill will not result in impairment and a charge to earnings. In August 2002, the allocation of the Autoweb purchase price was adjusted due to an increase in the original estimate of accounts receivable resulting in a reduction in goodwill and increase in accounts receivable of $277.

Balance as of January 1, 2002	$	8,644
Goodwill adjustment		(277)
Balance as of December 31, 2002	$	8,367

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As of December 31, 2002, the unamortized balance of goodwill related to the Autoweb acquisition was $8,367.

During 2001, Autobytel recorded a $22,867 non-cash charge for the full impairment of goodwill and $888 in amortization expense related to A.I.N. Corporation (CarSmart or A.I.N.). Had SFAS No. 142 been in effect in 2001, Autobytel would not have recorded amortization expense of $888 and $1,481 for goodwill related to the acquisition of CarSmart in 2001 and 2000, respectively. The following summarizes net loss adjusted to exclude goodwill amortization expense:

	Years Ended December 31,		
	2002	2001	2000
Net loss as reported	$ (20,714)	$ (44,851)	$ (29,034)
Goodwill amortization	—	888	1,481
Net loss as adjusted	$ (20,714)	$ (43,963)	$ (27,553)
Basic & diluted loss per share as reported	$ (0.67)	$ (1.84)	$ (1.45)
Basic & diluted loss per share as adjusted	$ (0.67)	$ (1.80)	$ (1.37)

8. Commitments and Contingencies

Operating Leases

Autobytel leases its facilities and certain office equipment under operating leases which expire on various dates through 2005. As of December 31, 2002, future minimum lease payments on leases with non-cancelable terms in excess of one year were as follows:

Years Ending December 31,	
2003	$ 1,196
2004.	980
2005	120
	$ 2,296

Rent expense was $1,578, $1,911 and $1,202 for the years ended December 31, 2002, 2001, and 2000, respectively. In 2001, Autobytel leased cars for its Autobytel.Europe employees. The majority of these leases were terminated in 2001 as part of the restructuring of Autobytel.Europe. Approximately $210 and $35 related to the car leases has been included in rent expense for 2001 and 2000, respectively.

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Marketing and Advertising Agreements

Autobytel has agreements with search engines and Internet service and automotive information providers, including AOL, Edmund’s and Kelley Blue Book, that make available to consumers vehicle research data over the Internet. These agreements are generally for a term of one to three years and require that Autobytel pay a combination of set-up, initial, annual, monthly and variable fees based on the volume of purchase requests received by Autobytel. The set-up fees are expensed as incurred, the initial fees and annual fees are amortized over the period they relate to. The monthly fees are expensed in the month they relate to and variable fees are expensed in the period purchase requests are received. As of December 31, 2002, the future minimum commitments under these agreements were as follows:

Year Ending December 31,		
2003	$	1,568

For the years ended December 31, 2002, 2001, and 2000, Internet marketing and advertising costs were $31,145, $24,855 and $20,564, respectively.

Autobytel also enters into agreements with network and cable television stations under which it purchases television advertising. As of December 31, 2002, there were no minimum future commitments for television advertising. Amounts incurred for television advertising are expensed as advertisements are aired. For the years ended December 31, 2002, 2001, and 2000 television advertising expenses were $150, $1,821 and $10,720, respectively.

Employment Agreements

Autobytel has agreements with Jeffrey A. Schwarz, Chief Executive Officer, Hoshi Printer, Executive Vice President and Chief Financial Officer, Ariel Amir, Executive Vice President and General Counsel, and Andrew F. Donchak, Executive Vice President and Chief Marketing Officer. In the event of termination without cause, Mr. Schwartz and Mr. Donchak are entitled to a payment of two years and one year base salary, respectively, and Messrs. Printer and Amir are entitled to receive a lump sum severance payment equal to the greater of the base salary that would have been received by them over the remaining term of the agreement or for one year. Messrs. Schwartz, Printer, Donchak and Amir are also entitled to additional severance payments in the event of termination within a specified time period of a change of control. The terms of Messrs. Schwartz, Printer and Amir’s agreements are for two years with one year renewals. Messrs. Schwartz, Printer, Donchak and Amir’s agreements provide for a two year extension upon a change of control. In addition, their agreements provide for vesting of options upon a change of control.

Litigation

A.I.N. Corporation was sued on September 1, 1999 in a lawsuit entitled Robert Martins v. Michael J. Gorun, A.I.N., Inc., et al., in Los Angeles Superior Court. The complaint contained causes of action for breach of written and oral contracts, promissory estoppel, breach of fiduciary duty and fraud, and sought compensatory and punitive damages and equitable relief. The plaintiff contended he was entitled to a 49.9% ownership interest in A.I.N.’s CarSmart online business based on a purported agreement for the formation of a company called CarSmart On-Line Services. On December 14, 1999, A.I.N. filed a complaint for declaratory relief on the subject of Mr. Martin’s lawsuit in Contra Costa County Superior court. The Los Angeles action was transferred to Contra Costa County and the two cases were consolidated. Autobytel was added and then dismissed as a cross defendant in such action after summary judgment in its favor. On December 14, 2001, the jury returned a unanimous

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verdict finding that A.I.N. and Mr. Gorun were not liable for beach of contract, breach of fiduciary duty or fraud and denying Martins any damages. Martins' equitable claims for promissory estoppel and constructive trust were submitted to the court for decision. On April 5, 2002, the court issued a decision denying any relief on those claims. Autobytel, A.I.N. and Martins entered into a settlement agreement in July 2002.

On June 7, 2002, Michael Gorun filed an action entitled Michael Gorun v. Autobytel, et al. in the Santa Clara Superior Court against Autobytel and A.I.N. asserting, among others, claims for declaratory relief under the escrow agreement, merger agreement and employment agreement, damages for breach of employment agreement, damages for interference with prospective advantage and damages for breach of merger agreement. In this action, Mr. Gorun disputes Autobytel and A.I.N.'s claims for indemnity arising from the Martins lawsuit, asserts his alleged rights of indemnity from the Martins lawsuit under various theories, and contends that Autobytel wrongfully asserted restrictions on the sale and registration of his shares of Autobytel stock. On December 19, 2002, Autobytel, A.I.N. and Mr. Gorun settled the matters described above.

On October 10, 2002, Morrison & Foerster LLP, a law firm that represented Autobytel, A.I.N. and Mr. Gorun at various points in the Martins litigation, filed an action entitled Morison & Foerster LLP v. Autobytel.com Inc. et al. in the Santa Clara Superior Court against Autobytel, A.I.N. and Mr. Gorun asserting claims for damages for breach of contract for failure to pay legal fees and expenses plus interest accrued thereon in the aggregate of approximately $660,000 as of August 31, 2002. Autobytel and A.I.N. dispute these allegations and intend to vigorously defend against the action. In addition, Autobytel and A.I.N. believe that they have meritorious claims against Morrison & Forester LLP.

In 2002, we recorded a legal settlement gain, net of loss contingencies, associated with the above legal matters totaling $140.

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

Between April and June 2001, eight separate purported class actions virtually identical to the one filed against Autobytel were filed against Autoweb, certain of Autoweb's current and former directors and officers (the "Autoweb Individual Defendants") and underwriters involved in Autoweb's initial public offering. The complaints against Autoweb have been consolidated into a single action, and a Consolidated Amended Complaint, which is now the operative complaint, was filed on April 19, 2002. The foregoing action purports to allege violations of the Securities Act of 1933 and the Securities Exchange Act of 1934. Plaintiffs allege that the underwriter defendants agreed to allocate stock in Autoweb's initial public offering to certain investors in exchange for excessive and undisclosed commissions and agreements by those investors to make additional purchases of stock in the aftermarket at pre-determined prices. Plaintiffs allege that the prospectus for Autoweb's initial public offering was false and misleading in violation of the securities laws because it did not disclose these arrangements. The action seeks damages in an unspecified amount. The action is being coordinated with approximately 300 other nearly identical actions filed against other companies. A motion to dismiss addressing issues common to the companies and individuals who have been sued in these actions was filed on July 15, 2002. On October 9, 2002, the Court dismissed the Autoweb Individual Defendants from the case without prejudice based upon Stipulations of Dismissal filed by the plaintiffs and the Autoweb Individual Defendants. Autoweb believes that it has meritorious claims against the underwriters and intends to vigorously defend the action.

Autobytel has reviewed the above class action matters in accordance with SFAS 5, "Accounting for Contingencies," and has determined that a reserve for loss contingencies is not required at this time.

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

9. Retirement Savings Plan

Autobytel has a retirement savings plan which qualifies as a deferred salary arrangement under Section 401(k) of the Internal Revenue Code (the 401(k) Plan.) The 401(k) Plan covers all employees of Autobytel who are over 21 years of age and have worked for Autobytel for at least three months. Under the 401(k) Plan, participating employees are allowed to defer up to 50% of their pretax salaries up to a maximum of $11 in 2002. Employees over the age of 50 are allowed to contribute an additional $1 in 2002. Autobytel contributions to the 401(k) Plan are discretionary. In January 2000, Autobytel began to match employee contributions 50 cents per dollar up to a maximum of $3 per year in Autobytel common stock. In October 2002, Autobytel ceased matching employee contributions in Autobytel common stock and began matching in cash. During 2002, Autobytel matched employee contributions by contributing $390 or 137,150 shares of common stock at the current fair market value on the date the shares were purchased and by contributing cash of $44.

10. Stockholders' Equity

Preferred Stock

As of December 31, 2002, 11,445,187 shares of preferred stock with a $0.001 par value were authorized and undesignated. There were no shares of preferred stock issued or outstanding as of December 31, 2002.

Warrants

In November 1998, Autobytel issued a warrant to purchase 150,000 shares of common stock to Invision AG, an investor in its Series C convertible preferred stock (Series C Preferred), in exchange for its commitment to assist Autobytel with organizational and start-up activities related to a Pan-European entity in which Autobytel may invest with Invision AG. The warrant was exercisable at $13.20 per share and expired in November 2001.

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The warrant was valued at $270, which was expensed in 1998, as Invision AG had fulfilled its commitment and had no further obligation to Autobytel.

In December 1998, Autobytel issued warrants to purchase 289,800 shares of common stock to Aureus Private Equity AG (Aureus), an investor in its Series C Preferred, in exchange for its commitment to assist Autobytel with organizational and start-up activities related to a Pan-European entity in which Autobytel may invest with Aureus. The warrants were exercisable at $13.20 per share and expired in December 2001. The warrants were valued at $522, which was expensed in 1998, as Aureus had fulfilled its commitment and had no further obligation to Autobytel.

In December 1998, Autobytel issued a warrant to purchase 300,000 shares of common stock to MediaOne Interactive Services, Inc. in exchange for the right to participate in the development of broadband application technology. The warrant was exercisable at $13.20 per share and expired in December 2001. The warrant was valued at $540 and expensed in 1999.

The value of the unexercised warrants was reclassified from warrants to additional paid-in capital upon expiration in 2001.

The fair value of these warrants was estimated using the Black-Scholes option-pricing model and the following assumptions: (1) no dividend yield, (2) volatility of 0.10%, (3) risk-free interest rate of 4.90%, and (4) a contractual life of three years.

2001 Restricted Stock Plan

Autobytel's 2001 Restricted Stock Plan (the "Restricted Plan") was approved by the Board of Directors in June 2001 and the stockholders at the Annual Meeting held on August 14, 2001. The Plan allows for the granting of restricted stock and deferred share awards to selected directors, officers, employees, consultants or other service providers of Autobytel. Autobytel has reserved 1,500,000 shares under the Restricted Plan. The Board may grant restricted share awards that vest immediately or based on future conditions, and may include a purchase price if it so determines. The Board has the discretionary authority to impose, in agreements, such restrictions on shares of common stock issued pursuant to the Restricted Plan as it may deem appropriate or desirable, including but not limited to the authority to impose a right of first refusal or to establish repurchase rights or both of these restrictions. Upon a change of control, all awards become fully vested. Any repurchase right of Autobytel lapses on consummation of a change of control. As of December 31, 2002, there were no outstanding shares of common stock under the Restricted Plan.

11. Stock Option Plans

1996 Stock Option Plan

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

1996 Stock Incentive Plan

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

1998 Stock Option Plan

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

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

In December 2001, the Board of Directors granted Performance Options to purchase 200,000 shares of common stock to Jeffrey Schwartz, Autobytel's Chief Executive Officer, at an exercise price of $1.60 per share, which represents the fair market value on the date of grant. These options vest over a five-year period, but the vesting could be accelerated based on the performance of Autobytel's common stock. The accelerated vesting schedule provides that the grants will vest if the average trading price of the common stock for any 60 consecutive trading days is equal to or exceeds $5.00. As of December 31, 2002, none of these Performance Options were vested. All other stock options granted under the 1998 Option Plan vest according to vesting schedules determined by the Board of Directors.

The 1998 Option Plan provides that, unless otherwise provided in the stock option agreement, in the event of any merger, consolidation, or sale or transfer of all or any part of Autobytel's business or assets, all rights of

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the optionee with respect to the unexercised portion of any option will become immediately vested and may be exercised immediately, except to the extent that any agreement or undertaking of any party to any such merger, consolidation, or sale or transfer of assets makes specific provisions for the assumption of the obligations of Autobytel with respect to the 1998 Option Plan.

1999 Stock Option Plan

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

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

In August 2001, the Board of Directors granted Performance Options to purchase 250,000 shares of common stock to Mr. Schwartz at an exercise price of $0.90 per share, which represents the fair market value on the date of grant. These options vest over a seven year period, but the vesting could be accelerated based on the performance of Autobytel's common stock. The accelerated vesting schedule provides that the grants will vest in six installments, each of the first and second installments being for 40,000 shares and each of the remaining installments covering 42,500 shares. One installment vests on each six month anniversary period if pre-established average trading prices of the common stock are achieved. These installments will vest if the average trading price exceeds $1.80, $2.70, $3.60, $4.50, $5.40 and $6.30, respectively, in the applicable period after the date of grant. As of December 31, 2002, the first installment for 40,000 shares was vested. All other stock options granted under the 1999 Option Plan vest according to vesting schedules determined by the Board of Directors.

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

1999 Employee and Acquisition Related Stock Option Plan

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

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2000 Stock Option Plan

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

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

Stock Option Changes

A summary of the status of Autobytel's stock options as of December 31, 2000, 2001 and 2002 and changes during the years then ended is presented below:

	Number of Options	Average Exercise Price
Outstanding at December 31, 1999	3,918,561	12.12
Granted	4,653,244	7.08
Exercised	(280,000)	2.29
Forfeited	(1,612,025)	11.14
Outstanding at December 31, 2000	6,679,780	9.26
Assumption of Autoweb options on date of acquisition	1,296,089	8.07
Granted	1,564,664	1.32
Exercised	(6,667)	0.90
Forfeited	(3,235,496)	8.97
Outstanding at December 31, 2001	6,298,370	7.19
Granted	1,959,020	2.57
Exercised	(98,295)	1.66
Forfeited	(2,938,589)	9.19
Outstanding at December 31, 2002	5,220,506	$ 4.45
Exercisable at December 31, 2000	2,160,318	$ 10.89
Exercisable at December 31, 2001	3,645,267	$ 9.45
Exercisable at December 31, 2002	2,766,016	$ 6.37
Weighted-average fair value of options granted during 2000 (4,653,244 options)		$ 4.82
Weighted-average fair value of options granted during 2001 (1,564,664 options)		$ 1.02
Weighted-average fair value of options granted during 2002 (1,959,020 options)		$ 1.87

The fair value of each option granted through December 31, 2002 is estimated using the Black-Scholes option-pricing model on the date of grant using the following assumptions: (1) no dividend yield, (2) volatility of 92.73%, 92.63% and 102.71% for the years ended December 31, 2002, 2001, and 2000, respectively, (3) weighted-average risk-free interest rate of approximately 3.82%, 4.78% and 6.07% for the years ended December 31, 2002, 2001, and 2000, respectively, and (4) an expected life of four to seven years.

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The following table summarizes information about stock options outstanding at December 31, 2002:

	Options Outstanding			Options Exercisable	
Range of Exercise Price	Number of Options	Weighted Average Remaining Life (in years)	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
$0.70 – $0.99	587,068	8.55	$ 0.89	205,317	$ 0.89
$1.23 – $1.52	391,369	8.44	1.27	202,460	1.29
$1.60	411,000	8.96	1.60	103,667	1.60
$1.69 – $1.96	175,000	9.66	1.95	2,333	1.83
$2.03 – $2.32	68,000	9.79	2.29	319	2.03
$2.35	828,163	9.55	2.35	376,563	2.35
$2.38 – $2.81	42,342	9.66	2.66	2,482	2.43
$2.86 – $2.88	540,000	8.81	2.86	75,003	2.88
$3.00 – $3.07	298,000	9.53	3.00	18,332	3.00
$3.45 – $3.90	27,000	9.27	3.73	694	3.69
$4.40 – $4.50	346,220	2.05	4.50	345,554	4.50
$5.25 – $5.63	155,000	7.66	5.26	121,665	5.27
$6.19 – $6.25	155,000	1.21	6.19	153,889	6.19
$6.50	448,538	3.34	6.50	434,988	6.50
$6.75 – $7.00	49,166	7.49	6.88	49,166	6.88
$8.44 – $9.37	38,590	7.34	9.11	34,552	9.12
$10.06 – $11.08	47,696	7.13	10.44	34,280	10.45
$13.20	517,581	2.68	13.20	517,581	13.20
$14.38 – $19.35	19,335	6.95	14.65	14,899	14.63
$24.28 – $28.67	74,017	6.80	24.58	71,000	24.53
$44.51	1,421	6.42	44.51	1,272	44.51
$.70 – $44.51	5,220,506	7.12	$ 4.45	2,766,016	$ 6.37

As of December 31, 2002, 2,831,759 stock options were available for grant under Autobytel's stock option plans.

Stock-Based Compensation

From January to March 1999, Autobytel granted stock options to purchase 388,236 shares of common stock under the 1999 Stock Option Plan. These stock options were granted to employees and directors at exercise prices of $13.20 and $16.00 per share which were below the fair market value at the date of grant. In relation to these grants, Autobytel recognized non-cash compensation expense of approximately $1,718 ratably over the vesting term of one to four years. Compensation expense of approximately $20, $242 and $393 was recognized as operating expense in 2002, 2001 and 2000, respectively.

Option Exchange Offer

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

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

12. Stock Purchase Plan

1996 Employee Stock Purchase Plan

Autobytel's 1996 Employee Stock Purchase Plan (the Purchase Plan) was adopted by the Board of Directors in November 1996. The Purchase Plan, which is intended to qualify under Section 423 of the Code, permits eligible employees of Autobytel to purchase shares of common stock through payroll deductions of up to ten percent of their compensation, up to a certain maximum amount for all purchase periods ending within any calendar year. Autobytel has reserved a total of 444,444 shares of common stock for issuance under the Purchase Plan. The price of common stock purchased under the Purchase Plan will be 85% of the lower of the fair market value of the common stock on the first or last day of each six month purchase period. Employees may end their participation in the Purchase Plan at any time during an offering period, and they will be paid their payroll deductions to date. Participation ends automatically upon termination of employment with Autobytel.

During the years ended December 31, 2002, 2001 and 2000, 128,020, 121,824 and 21,740 shares of common stock were issued under the Purchase Plan, respectively.

13. Accrued Liability for Restructuring and Other Charges

In 2001 and 2002, Autobytel recorded charges totaling $7,229 and $15,015, respectively, for international restructuring, impairment and related charges due to a decline in the general economic climate and the environment for Internet related activities in Europe. As a result of a reduction in Autobytel's ownership of Autobytel.Europe (see Note 5.), Autobytel no longer consolidates Autobytel.Europe in its financial statements. Therefore, the remaining accrued liability related to these charges is not reported on Autobytel's balance sheet as of December 31, 2002.

In 2001, Autobytel recorded a total of $4,514 for domestic restructuring and other charges. The charges were related to the reorganization of dealer operations, the elimination of duplicate facilities, the write-down of fixed assets, contract termination costs related to online advertising and the aftermarket program on the Autobytel.com Web site, the write-off of previously capitalized software related to the aftermarket program and the integration of Autoweb into Autobytel following the acquisition of Autoweb. In 2002, Autobytel recorded a total of $769 for charges related to the restructuring of Autobytel's operations to reduce costs and enhance efficiencies. The charges included severance costs affecting approximately 15% of Autobytel's employees in sales, marketing and information technology, and Autobytel's lease obligation on the vacant portion of AIC's office facilities. As of December 31, 2002, the remaining accrued liabilities related to the 2001 and 2002 charges were $34 and $444, respectively. Autobytel expects the remaining accrued charges to be paid by 2005.

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

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The remaining accrued liabilities related to the 2001 restructuring and other charges as of December 31, 2002 were as follows:

	International Restructuring and Related Charges	Domestic Restructuring and Other Charges	Total
Total charges	$ 7,229	$ 4,514	$ 11,743
Non-cash charges	(4,277)	(739)	(5,016)
Cash payments	(1,936)	(3,665)	(5,601)
December 31, 2001, accrued liability balance	1,016	110	1,126
Cash payments	(197)	(76)	(273)
Autobytel.Europe deconsolidation	(819)	—	(819)
December 31, 2002, accrued liability balance	$ —	$ 34	$ 34

The remaining accrued liabilities related to the 2002 restructuring charges as of December 31, 2002 were as follows:

	International			Domestic			
	Impairment of Investment in Autobytel. Europe	Release of Contractual Obligations	Total	Rent	Compensation	Total	International and Domestic Total
Total charges	$ 11,015	$ 4,000	$ 15,015	$ 552	$ 217	$ 769	$ 15,784
Cash payments	—	—	—	(108)	(217)	(325)	(325)
Autobytel.Europe deconsolidation	(11,015)	(4,000)	(15,015)	—	—	—	(15,015)
December 31, 2002, accrued liability balance	$ —	$ —	$ —	$ 444	$ —	$ 444	$ 444

14. Income Taxes

No provision for federal income taxes has been recorded as Autobytel incurred net operating losses through December 31, 2002. As of December 31, 2002, Autobytel had approximately $127,700 of federal and $77,400 of state net operating loss carryforwards available to offset future taxable income. Included in the net operating loss carryforwards are $16,600 of federal and $16,600 of state net operating losses which relate to Autoweb activities prior to the acquisition. In addition, Autobytel has federal and state research tax credit carryforwards as of December 31, 2002 of $213 and $224, respectively. These net operating loss and research tax credit carryforwards expire in various years through 2022. Utilization of the Autoweb net operating losses is subject to a limitation of approximately $858 per year. Utilization of the remaining net operating losses and research tax credits may also be subject to a separate annual limitation due to the ownership change limitations provided by the Internal Revenue Code and similar state provisions. The annual limitation may result in the expiration of net operating loss and research tax credit carryforwards before utilization.

Autobytel accounts for income taxes in accordance with SFAS No. 109, “Accounting for Income Taxes.” Under SFAS No. 109, deferred income tax assets and liabilities are determined based on the differences between the book and tax basis of assets and liabilities and are measured using the currently enacted tax rates and laws.

AUTOBYTEL INC.

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

Net deferred income tax assets, totaling approximately $53,450 and $47,900 as of December 31, 2002 and 2001, respectively, consist primarily of the tax effect of net operating loss carryforwards, reserves, accrued expenses, and research tax credit carryforwards, which are not yet deductible for tax purposes. Autobytel has provided a full valuation allowance on these deferred income tax assets because of uncertainty regarding their realization. Autobytel's valuation allowance increased $5,550 in 2002. Significant components of Autobytel's deferred tax assets are approximately as follows:

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

15. Related Party Transactions

Consulting Agreement

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

16. Business Segment

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

Autobytel.Europe, formerly a majority-owned subsidiary of Autobytel, operates to support Autobytel's Internet automotive marketing services with certain licensees in Europe. In June 2001, Autobytel announced the restructuring of Autobytel.Europe which significantly reduced Autobytel.Europe's business activities. On March 28, 2002, Autobytel.Europe completed a recapitalization which reduced Autobytel's ownership of Autobytel.Europe from 76.5% to 49%. As a result, Autobytel no longer consolidates Autobytel.Europe in its financial statements but accounts for its remaining investment in Autobytel.Europe under the equity method. Autobytel does not expect to devote substantial resources to Autobytel.Europe. (See Note 5.)

AUTOBYTEL INC.

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

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

	Years Ended December 31,	
	2001	2000
Revenues	$ 2,703	$ 2,471
Net loss	(6,677)	(2,010)
Total assets	28,997	38,571
Total liabilities	$ 1,401	$ 3,904

17. Quarterly Financial Data (Unaudited)

Summarized quarterly financial data for Autobytel, including Autoweb from the date of acquisition on August 14, 2001 is as follows:

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

	Three Months Ended			
	December 31, 2001	September 30, 2001	June 30, 2001	March 31, 2001
Revenues	$ 20,505	$ 18,182	$ 15,728	$ 16,653
Loss from operations	(924)	(3,952)	(39,420)	(5,277)
Net loss	(896)	(3,238)	(36,641)	(4,076)
Basic and diluted net loss per share	$ (0.03)	$ (0.13)	$ (1.80)	$ (0.20)

18. Subsequent Events

In the purported class action against Autobytel described in Note 8., on February 19, 2003, the Court denied the motion to dismiss the complaint against Autobytel. In the purported class action against Autoweb described in Note 8., on February 19, 2003, the Court dismissed the Section 10(b) claim without prejudice and with leave to replead but denied the motion to dismiss the claim under Section 11 of the Securities Act of 1933 against Autoweb.

On February 28, 2003, a purported class action lawsuit was filed in the United States District Court for the Southern District of Florida. Autoweb, the former Chief Executive Officer and the former Chief Financial Officer of Autoweb, and CSFB, the co-lead underwriter of Autoweb's initial public offering, are named as defendants in that action. The complaint alleges claims against Autoweb and such former officers for violations of the 1933 Act, 1934 Act, and Florida's Blue Sky laws and also alleges claims based on common law theories of fraud, negligent misrepresentation and respondeat superior. The complaint makes similar allegations against approximately 50 other companies for which CSFB was the lead or a co-lead underwriter. The complaint alleges that the defendants disseminated false and misleading information to the public which misrepresented the accuracy of Autoweb's initial public offering price, its financial condition and future revenue prospects. The complaint further alleges that the effect of the purported fraud was to manipulate Autoweb's stock price so that the defendants could profit from the manipulation. The action seeks damages in an unspecified amount. No date has been set for a response to this complaint. We intend to vigorously defend the action.

AUTOBYTEL INC.

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

	Year Ended December 31, 2002
Allowance for doubtful accounts:	
Beginning balance	$ 3,958
Autoweb goodwill adjustment	(278)
Deconsolidation of Autobytel.Europe	(1,334)
Additions	1,220
Write-offs	(1,654)
Ending balance	$ 1,912

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

	Years Ended December 31,	
	2001	2000
Allowance for doubtful accounts and customer credits:		
Beginning balance	$ 2,185	$ 1,380
Acquired on August 14, 2001 as part of the Autoweb acquisition	2,694	—
Additions	9,724	4,020
Write-offs	(7,494)	(3,215)
Ending balance	$ 7,109	$ 2,302

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EXHIBIT INDEX

Number	Description	Sequentially Numbered Page
2.1	Agreement and Plan of Merger dated October 14, 1999, entered into among Autobytel Inc. (formerly autobytel.com inc. (“Autobytel”)), Autobytel Acquisition II Corp., A.I.N. Corporation, and shareholders of A.I.N. Corporation is incorporated herein by reference to Exhibit 2.1 of the Form 8-K filed with the Securities and Exchange Commission (the “SEC”) on February 15, 2000 (the “February 2000 8-K”)	
2.2	Amendment to Agreement and Plan of Merger dated January 25, 2000, entered into among Autobytel, Autobytel Acquisition II Corp., A.I.N. Corporation, and shareholders of A.I.N. Corporation is incorporated herein by reference to Exhibit 2.2 of the February 2000 8-K.	
2.3	Amendment No. 2 to Agreement and Plan of Merger dated February 14, 2000, entered into among Autobytel, Autobytel Acquisition II Corp., A.I.N. Corporation, and shareholders of A.I.N. Corporation is incorporated herein by reference to Exhibit 2.3 of the February 2000 8-K.	
2.4	Composite Conformed Acquisition Agreement, dated as of April 11, 2001 by and among Autobytel, Autobytel Acquisition I Corp. and Autoweb.com, Inc. (“Autoweb”), is incorporated herein by reference from Annex A to the Proxy Statement/Prospectus included as a part of Amendment No. 1 (filed on July 17, 2001) to the Registration Statement on Form S-4. (File No. 333-60798) originally filed with the SEC on May 11, 2001 and declared effective (as amended) on July 18, 2001 (the “S-4 Registration Statement”)	
3.1	Amended and Restated Certificate of Incorporation of Autobytel certified by the Secretary of State of Delaware (filed December 14, 1998 and amended March 1, 1999) is incorporated herein by reference to Exhibit 3.1 of Amendment No. 2 (filed on March 5, 1999) to Autobytel’s Registration Statement on Form S-1 (File No. 333-70621) originally filed with the SEC on January 15, 1999 and declared effective (as amended) on March 25, 1999 (the “S-1 Registration Statement”)	
3.2	Second Certificate of Amendment of the Fifth Amended and Restated Certificate of Incorporation of Autobytel is incorporated herein by reference to Exhibit 3.1 of Form 10-Q for the Quarter Ended June 30, 1999 filed with the SEC on August 12, 1999.	
3.3	Third Certificate of Amendment of the Fifth Amended and Restated Certificate of Incorporation of Autobytel is incorporated herein by reference to Exhibit 3.3 of Form 10-K for the Year Ended December 31, 2001 filed with the SEC on March 22, 2002 (the “2001 10-K”).	
3.4	Amended and Restated Bylaws of Autobytel is incorporated herein by reference to Exhibit 3.1 of Form 10-Q for the Quarter Ended September 30, 2000 filed with the SEC on November 13, 2000	
3.5	Amendment No.1 to Amended and Restated Bylaws of Autobytel is incorporated herein by reference to Exhibit 3.1 of Form 10-Q for the Quarter Ended September 30, 2001 filed with the SEC on November 14, 2001 (the “September 2001 10-Q”)	
3.6	Amendment No. 2 to Amended and Restated Bylaws of Autobytel is incorporated herein by reference to Exhibit 3.1 of Form 10-Q for the Quarter Ended March 31, 2002 filed with the SEC on May 14, 2002 (the “March 2002 10-Q”)	
4.1	Form of Common Stock Certificate of Autobytel is incorporated herein by reference to Exhibit 4.1 of the September 2001 10-Q.	

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Number	Description	Sequentially Numbered Page
4.2	Amended and Restated Investors' Rights Agreement dated October 21, 1997 as amended from time to time, between Autobytel and the Investors named in Exhibit A thereto is incorporated herein by reference to Exhibit 4.2 of the S-1 Registration Statement.	
10.1	Form of Indemnification Agreement between Autobytel and its directors and officers is incorporated herein by reference to Exhibit 10.1 of the S-1 Registration Statement.	
10.2	Letter agreement dated July 28, 2000 between Autobytel and Andrew F. Donchak is incorporated herein by reference to Exhibit 10.4 of the Annual Report on Form 10-K for the Year Ended December 31, 2000 filed with the SEC on March 29, 2001 (the "2000 10-K")	
10.3	Employment Agreement, dated as of April 1, 2002 between Ariel Amir and Autobytel is incorporated herein by reference to Exhibit 10.6 of the March 2002 10-Q.	
10.4	1996 Employee Stock Purchase Plan is incorporated herein by reference to Exhibit 10.7 of Amendment No. 1 to the S-1 Registration Statement filed with the SEC on February 9, 1999 (the "S-1 Amendment")	
10.5	autobytel.com inc. 1998 Stock Option Plan is incorporated herein by reference to Exhibit 10.8 of the S-1 Amendment.	
10.6	autobytel.com inc. 1999 Stock Option Plan is incorporated herein by reference to Exhibit 10.30 of the S-1 Amendment.	
10.7	autobytel.com inc. 1999 Employee and Acquisition Related Stock Option Plan is incorporated herein by reference to Exhibit 10.1 of the Registration Statement filed on Form S-8 (File No. 333-90045) filed with the SEC on November 1, 1999.	
10.8	Amendment No. 1 to the autobytel.com inc. 1998 Stock Option Plan dated September 22, 1999 is incorporated herein by reference to Exhibit 10.2 of Form 10-Q for the Quarter Ended September 30, 1999 filed with the SEC on November 12, 1999.	
10.9	Amendment No. 1 to the autobytel.com inc. 1999 Stock Option Plan, dated September 22, 1999 is incorporated herein by reference to Exhibit 10.1 of Form 10-Q for the Quarter Ended September 30, 1999 filed with the SEC on November 12, 1999.	
10.10	Form of Autobytel Dealer Agreement, including Pre-Owned Cyberstore program is incorporated herein by reference to Exhibit 10.15 of the 2001 10-K .	
10.11†	Interactive Marketing Agreement dated June 30, 1999 between Autoweb.com and America Online, Inc. is incorporated herein by reference to Exhibit 10.16 of the 2001 10-K	
10.12†	Amendment No.1 to Interactive Marketing Agreement dated April 7, 2000 between Autoweb and America Online, Inc. is incorporated herein by reference to Exhibit 10.17 of the 2001 10-K	
10.13	Separation Agreement dated as of December 14, 2001 between Autobytel and Mark Lorimer is incorporated herein by reference to Exhibit 10.18 of the 2001 10-K.	
10.14	Separation Agreement dated as of January 17, 2002 between Autobytel and Dennis Benner is incorporated herein by reference to Exhibit 10.19 of the 2001 10-K.	
10.15	Form of Autoweb General Dealer Agreement is incorporated herein by reference to Exhibit 10.20 of the 2001 10-K.	
10.16	1996 Stock Option Plan and related agreements are incorporated herein by reference to Exhibit 10.5 of the S-1 Amendment.	
10.17	1996 Stock Incentive Plan and related agreements are incorporated herein by reference to Exhibit 10.6 of the S-1 Amendment.	

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Number	Description	Sequentially Numbered Page
10.18	Form of Autobytel Gold Term Services Agreement is incorporated herein by reference to Exhibit 10.35 of the form 10-K for the Year Ended December 31, 1999 filed with the SEC on March 23, 2000.	
10.19	Form of CarSmart Internet Marketing Agreement is incorporated herein by reference to Exhibit 10.26 of the 2001 10-K.	
10.20	autobytel.com inc. Retirement Savings Plan is incorporated herein by reference to Exhibit 99.1 of the Registration Statement filed on Form S-8 (File No. 333-33038) with the SEC on June 15, 2000.	
10.21	autobytel.com inc. 2000 Stock Option Plan is incorporated herein by reference to Exhibit 99.1 of the Registration Statement filed on Form S-8 (File No. 333-39396) with the SEC on June 15, 2000.	
10.22	Employment Agreement dated as of April 18, 2001 between Autobytel and Hoshi Printer incorporated herein by reference to Exhibit 10.9 of Amendment No. 1 to the S-4 Registration Statement filed with the SEC on July 17, 2001	
10.23	Employment Agreement dated August 30, 1999 between Autobytel and Amit Kothari is incorporated herein by reference to Exhibit 10.37 of the 2000 10-K.	
10.24	autobytel.com inc. 2001 Restricted Stock Plan is incorporated herein by reference to Exhibit 4.3 to the Registration Statement filed on Form S-8 (File No. 333-67692) with the SEC on August 16, 2001 (the “August 2001 S-8”)	
10.25	Amendment No. 1 to Employment Agreement dated as of January 30, 2002 between Autobytel and Amit Kothari is incorporated herein by reference to Exhibit 10.37 of the 2001 10-K.	
10.26	Autoweb 1997 Stock Option Plan is incorporated herein by reference to Exhibit 4.4 of the August 2001 S-8.	
10.27	Autoweb 1999 Equity Incentive Plan, as amended, is incorporated herein by reference to Exhibit 4.5 of the August 2001 S-8.	
10.28	Autoweb 1999 Directors Stock Option Plan is incorporated herein by reference to Exhibit 4.6 of the August 2001 S-8.	
10.29	Amendment No. 1 to the Auto-by-Tel Corporation 1996 Stock Incentive Plan is incorporated herein by reference to Exhibit (d)(2) of Schedule TO filed with the SEC on December 14, 2001 (the “Schedule TO”)	
10.30	Amendment No. 2 to the autobytel.com inc. 1998 Stock Option Plan is incorporated herein by reference to Exhibit (d)(5) of the Schedule TO.	
10.31	Amendment No. 2 to the autobytel.com inc. 1999 Stock Option Plan is incorporated herein by reference to Exhibit (d)(8) of the Schedule TO.	
10.32	Amendment No. 1 to the autobytel.com inc. 1999 Employee and Acquisition Related Stock Option Plan is incorporated herein by reference to Exhibit (d)(10) of the Schedule TO.	
10.33	Amendment No. 1 to the autobytel.com inc. 2000 Stock Option Plan is incorporated herein by reference to Exhibit (d)(12) of the Schedule TO.	
10.34	Amendment No. 2 to the autobytel.com inc. 2000 Stock Option Plan is incorporated herein by reference to Exhibit 10.46 of the 2001 10-K.	
10.35	Form of Stock Option Agreement pursuant to Auto-by-Tel Corporation 1996 Stock Incentive Plan is incorporated herein by reference to Exhibit (d)(13) of the Schedule TO.	

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Number	Description	Sequentially Numbered Page
10.36	Form of Stock Option Agreement pursuant to autobytel.com inc. 1998 Stock Option Plan is incorporated herein by reference to Exhibit (d)(14) of the Schedule TO.	
10.37	Form of Stock Option Agreement pursuant to autobytel.com inc. 1999 Stock Option Plan is incorporated herein by reference to Exhibit (d)(15) of the Schedule TO.	
10.38	Form of Stock Option Agreement pursuant to autobytel.com inc. 1999 Employee and Acquisition Related Stock Option Plan is incorporated herein by reference to Exhibit (d)(16) of the Schedule TO.	
10.39	Form of Stock Option Agreement pursuant to autobytel.com inc. 2000 Stock Option Plan is incorporated herein by reference to Exhibit (d)(17) of the Schedule TO.	
10.40	Form of Performance Stock Option Agreement pursuant to autobytel.com inc. 1999 Stock Option Plan is incorporated herein by reference to Exhibit (d)(18) of the Schedule TO.	
10.41	Form of Non-employee Directors Stock Option Agreement pursuant to Auto-by-Tel Corporation 1996 Stock Incentive Plan is incorporated herein by reference to Exhibit (d)(19) of the Schedule TO.	
10.42	Employment Agreement dated as of December 17, 2001 between Autobytel and Jeffrey Schwartz is incorporated herein by reference to Exhibit 10.54 of the 2001 10-K.	
10.43	Employment Agreement dated as of September 13, 2001 between Autobytel and John Honiotes is incorporated herein by reference to Exhibit 10.55 of the 2001 10-K.	
10.44†	Amendment Number 2 to Interactive Marketing Agreement, dated as of April 1, 2001 between Autoweb and America Online, Inc. is incorporated herein by reference to Exhibit 10.56 of the 2001 10-K	
10.45	Second Amended and Restated Operating Agreement, dated as of March 28, 2002, among Autobytel.Europe LLC, Autobytel and Pon Holdings B.V. is incorporated herein by reference to Exhibit 10.1 of the March 2002 10-Q	
10.46	Amendment to Second Amended and Restated Operating Agreement, dated as of April 24, 2002, among Autobytel.Europe LLC, Autobytel and Pon Holdings B.V. is incorporated herein by reference to Exhibit 10.2 of the March 2002 10-Q	
10.47	Amended and Restated License Agreement, dated as of March 28, 2002, among Autobytel.Europe LLC, Autobytel.Europe Holdings B.V. and Autobytel is incorporated herein by reference to Exhibit 10.3 of the March 2002 10-Q	
10.48	Consulting Services Agreement, dated March 1, 2002, between Autobytel and Jeffrey Coats is incorporated herein by reference to Exhibit 10.4 of the March 2002 10-Q	
10.49	Letter Agreement, dated March 19, 2002, between Autobytel and Robert Grimes is incorporated herein by reference to Exhibit 10.5 of the March 2002 10-Q	
10.50†	Amendment Number 3 to Interactive Marketing Agreement between Autoweb and American Online, Inc., dated as of March 1, 2002, is incorporated herein by reference to Exhibit 10.1 of Form 10-Q for the Quarter Ended June 30, 2002 filed with the SEC on August 14, 2002	
10.51†	Amendment Number 4 to Interactive Marketing Agreement between Autoweb and American Online, Inc., dated as of July 1, 2002, is incorporated herein by reference to Exhibit 10.1 of Form 10-Q for the Quarter Ended September 30, 2002 filed with the SEC on November 12, 2002	
10.52*	Letter Agreement, dated October 1, 2002, between Andrew Donchak and Autobytel	
10.53*	First Amendment, dated as of October 1, 2002, between Hoshi Printer and Autobytel	

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Number	Description	Sequentially Numbered Page
10.54*	Letter Agreement, dated as of October 1, 2002, between Stephen Ammons and Autobytel	
10.55*	Letter Agreement, dated January 21, 2003, between Richard Walker and Autobytel	
10.56*	Amendment No. 1 to Employment Agreement, dated as of January 2, 2003, between Jeffrey Schwartz and Autobytel	
10.57*	Form of Dealer Agreement	
10.58*	Letter agreement, dated March 10, 2003, between Autobytel and Robert Grimes	
16	Letter of Arthur Andersen LLP, dated May 22, 2002, is incorporated herein by reference to Exhibit 16 of Form 8-K filed with the SEC on May 22, 2002	
21.1*	Subsidiaries of Autobytel.	
23.1*	Consent of PricewaterhouseCoopers LLP, Independent Accountants.	
23.2*	Consent of Manheim Auctions.	
24.1*	Power of Attorney (reference is made to the signature page)	
99.1*	Chief Executive Officer Certification of Periodic Report, dated March 26, 2003.	
99.2*	Chief Financial Officer Certification of Periodic Report, dated March 26, 2003	

† Confidential treatment has been requested with regard to certain portions of this document. Such portions were filed separately with the Securities and Exchange Commission.

* Filed herewith.

Exhibit 10.51

October 1, 2002

Mr. Andrew F. Donchak
233 Avenida La Cuesta
San Clemente, CA 92672

Dear Mr. Donchak:

Autobytel Inc. (the “Company”) and Andrew F. Donchak, Executive Vice President and Chief Marketing Officer (“Executive”) hereby agree as follows:

In the event of termination of the Executive by the Company without Cause (as defined in Schedule I attached hereto) or by the Executive for Good Reason (as defined in Schedule I attached hereto), the Executive shall be entitled to a severance payment equal to one year’s base salary at the highest rate paid to Executive while employed by the Company and Benefits (as defined in Schedule I hereto) for twelve months following termination.

Upon a Change of Control (as defined in Schedule I hereto), the employment of Executive, to the extent Executive is employed by the Company on the date of such Change of Control, shall extend for two years from such date.

In the event the employment of Executive is terminated during the six (6) month period immediately prior to, or the first twelve (12) months following a Change of Control either: (i) by Executive for Good Reason; or (ii) by the Company other than for Cause, Disability (as defined in Schedule I hereto) or death (it being understood that termination upon death or Disability shall not require any payments to Executive under this letter agreement), then the payments in the second paragraph hereof shall not apply and the Company shall, within thirty (30) days of notice of termination to Executive, pay to Executive in a single lump-sum payment the base salary that would have been received by Executive if he had remained employed by the Company for two (2) years (calculated at the highest base salary rate during his employment with the Company), and shall continue to pay Benefits for twelve months.

The terms and conditions of the stock option agreements between the Company and Executive entered into prior to the date hereof shall incorporate the terms and conditions set forth on Schedule I hereto, which Schedule I terms and conditions shall govern such stock options, including to the extent of any conflict with the terms and conditions of the stock option agreements entered into prior to the date hereof.

Additionally, Executive will be eligible to participate in the Company’s health insurance plan and 401(k) plan, and other benefit plans each in accordance with the terms of such plan. Executive shall be entitled to plan perquisites and benefits afforded to the other senior officers of the Company, in each case, in accordance with the plans governing such programs.

The provisions of this letter are severable which means that if any part of this letter is legally unenforceable, the other provisions shall remain fully valid and enforceable. This letter sets forth our complete understanding regarding the matters addressed herein and supersedes all previous agreements or understandings between Executive and the Company, whether written or oral, including, without limitation, that certain letter agreement, dated July 28, 2000.

No modification, waiver, amendment, discharge or change of this letter, shall be valid unless the same is in writing and signed by the party against whom enforcement of such modification, waiver, amendment, discharge, or change is sought.

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

This letter shall be construed and enforced in accordance with the laws of the State of California.

Please execute a copy of this letter confirming your acceptance of and agreement with the foregoing.

Sincerely,

/s/ JEFFREY A. SCHWARTZ

Jeffrey A. Schwartz
President and CEO

AGREED AND ACCEPTED:
this 1st day of October, 2002.

/s/ ANDREW F. DONCHAK

Andrew F. Donchak

(a) Termination for Cause. As of the date of the Executive's termination for Cause (as defined below), any unvested or unexercised portion of any Option shall terminate immediately and shall be of no further force or effect. As used herein, the term "for Cause" shall refer to the termination of the Executive's employment as a result of any one or more of the following: (i) any conviction of, or pleading of nolo contendre by, the Executive for any crime or felony; (ii) any gross willful misconduct of the Executive which has a materially injurious effect on the business or reputation of the Company; (iii) the gross dishonesty of the Executive which has a materially injurious effect on the business or reputation of the Company; or (iv) failure to consistently discharge his duties under this Agreement which failure continues for thirty (30) days following written notice from the Company detailing the area or areas of such failure. For purposes hereof, no act or failure to act, on the part of the Executive, shall be considered "willful" if it is done, or omitted to be done, by the Executive in good faith or with reasonable belief that his action or omission was in the best interest of the Company. The Executive shall have the opportunity to cure any such acts or omissions (other than item (i) above) within fifteen (15) days of the Executive's receipt of notice from the Company finding that, in the good faith opinion of the Company, the Executive is guilty of acts or omissions constituting "Cause".

(b) Termination Without Cause or for Good Reason. As of the date of the Executive's termination by the Company without Cause or by the Executive for Good Reason (as defined below), any unvested portion of any Option shall become immediately and fully vested and all Options, including any previously vested but unexercised portions of any Options, shall be exercisable from such termination of employment until the date that is two (2) years following the termination date. The term "termination without Cause" shall mean the termination of the Executive's employment for any reason other than those expressly set forth in the definition "for Cause" above, or no reason at all, and shall also mean the Executive's decision to terminate his employment with the Company by reason of any act, decision or omission by the Company or the Board that: (A) materially modifies, reduces, changes, or restricts the Executive's salary, bonus opportunities, options or other compensation benefits or perquisites, or the Executive's authority, functions, services, duties, rights, and privileges as, or commensurate with the Executive's position as, Executive Vice President and Chief Marketing Officer of the Company; (B) relocates the Executive without his consent from the Company's offices located at 18872 MacArthur Boulevard, Irvine, California, 92612-1400 to any other location in excess of fifty (50) miles beyond the geographic limits of Irvine, California; (C) deprives the Executive of his titles and positions of Executive Vice President and Chief Marketing Officer of the Company; or (D) involves or results in any failure by the Company to comply with any provision of the Employment Agreement or any Option, other than an isolated, insubstantial and inadvertent failure not occurring in bad faith and which is remedied by the Company promptly after receipt of notice thereof given by the Executive (each a "Good Reason").

(c) Termination due to Death or Disability. As of the date of the Executive's termination due to death or Disability (as defined below), any unvested portion of any Option shall become immediately and fully vested and all Options, including any previously vested but unexercised portion of any Options, shall be exercisable from the date of such termination of employment until two (2) years following the termination date. If the Company determines in good faith that the Disability of the Executive has occurred, it shall give written notice to the Executive of its intention to terminate his employment. In such event, the Executive's employment with the Company shall terminate effective on the 30th day after receipt of such notice by the Executive, provided that, within the thirty (30) days after such receipt, the Executive shall not have returned to full-time performance of his duties. For purposes hereof, "Disability" shall mean the inability of the Executive to perform his duties to the Company on account of physical or mental illness or incapacity for a period of ninety (90) consecutive calendar days, or for a period of one hundred eighty (180) calendar days, whether or not consecutive, during any three hundred sixty-five (365) day period.

(d) Termination Without Good Reason. As of the date of any voluntary termination of employment with the Company by the Executive other than due to death or Disability, and other than for Good Reason, any unvested portion of any Option shall terminate immediately and shall be of no further force or effect. Any previously vested but unexercised portion of any Option shall remain exercisable from the date of such termination of employment until the second anniversary of the termination date.

(e) Termination Prior to or Following a Change of Control. In the event of a Change of Control (as defined below) while the Executive is employed by the Company, or the Executive's employment is terminated by the Company without Cause or by the Executive for Good Reason within six (6) months prior to a Change of Control, any unvested installment of any Option shall immediately vest and become exercisable from the date of such Change of Control, or if earlier the date of termination, until the date that is two (2) years following: (i) the Change of Control date, or (ii) if earlier the date of termination. For purposes hereof, "Change of Control" means the occurrence of any of the following: (i) the sale, lease, transfer, conveyance or other disposition (other than by way of merger or consolidation but not including any initial or secondary public offering) in one or a series of related transactions of all or substantially all of the assets of the Company taken as a whole to any person (a "Person") or group of persons acting together (a "Group") (other than any of the Company's wholly-owned subsidiaries or any Company employee pension or benefits plan), (ii) the adoption of a plan relating to the liquidation or dissolution of the Company, (iii) the consummation of any transactions (including any stock or other purchase, sale, acquisition, disposition, merger or consolidation, but not including any initial or secondary public offering) the result of which is that any Person or Group (other than any of the Company's wholly-owned subsidiaries or any Company employee pension or benefits plan), becomes the beneficial owners of more than 40 percent of the aggregate voting power of all classes of stock of the Company having the right to elect directors under ordinary circumstances; or (iv) the first day on which a majority of the members of the Board are not individuals who were nominated for election or elected to the Board with the approval of two-thirds of the members of the Board just prior to the time of such nomination or election.

"Benefits" shall mean participation, including eligible dependents, in any Company medical, dental or other health plans.

Exhibit 10.52

FIRST AMENDMENT

This First Amendment ("Amendment"), dated as of October 1, 2002 to that certain Employment Agreement ("Agreement") dated as of April 18, 2001, by and between Autobytel Inc., a corporation duly organized under the laws of the State of Delaware (the "Company"), with offices at 18872 MacArthur Boulevard, Irvine, California 92612-1400, and Hoshi Printer (hereinafter referred to as the "Executive"), who resides at 15 Classico Drive, Newport Coast, CA 92657.

WHEREAS, The parties desire to amend the Agreement.

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

1. The first two sentences of Article 1 of the Agreement are hereby amended in their entirety to read as follows:

   "The Company hereby employs the Executive as Executive Vice President and Chief Financial Officer of the Company and the Executive hereby accepts such employment by the Company for a period of two (2) years (the "Term") commencing from April 18, 2001 (the "Commencement Date") and expiring on the second anniversary of the Commencement Date (the "Termination Date"), which Term shall automatically renew for one year periods unless either party notifies the other of its election not to renew at least 60 days prior to the Termination Date or any applicable anniversary of the Termination Date. Notwithstanding the above, in the event of a Change of Control (as defined below) of the Company while the Executive remains employed by the Company, the Term shall automatically extend for a period of two (2) years commencing from the date of the Change of Control."

2. The other terms and conditions of the Agreement shall remain in effect and not be affected by this Amendment.

3. This Amendment shall be construed and enforced in accordance with the laws of the State of California, without giving effect to the principles of conflict of laws thereof.

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

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

AUTOBYTEL INC.

By: /s/ JEFFREY A. SCHWARTZ

Jeffrey A. Schwartz
President and Chief Executive Officer

/s/ HOSHI PRINTER

Hoshi Printer

As of October 1, 2002

Mr. Steve Ammons
74 Rockinghorse Rd.
Rancho Palos Verdes, CA 90275

Dear Steve:

It is a pleasure to offer you the temporary position of Vice President Sales at **Autobytel Inc**. (the "Company"), subject to approval by the Board of Directors. Please be reminded that our offer of employment is contingent upon completion of our background check and your reviewing and accepting the terms of our various pre-hire and new-hire documents, including the employee handbook, the Confidentiality Agreement, the Arbitration Agreement, and the Securities Trading Policy. Following is a summary of our offer:

Position:	Vice President Sales
Semi-Monthly Rate:	$9375.00
Bonus Opportunity	$37,500 per calendar quarter beginning at the close of calendar Q4 and payable in January 2003, based on achievement of specified objectives for Q4. You would be eligible for Q1 or Q2 2003 bonus payable in the month following the close of the calendar quarter and based on results against objectives for such respective quarters. Specific objectives and plan details to be outlined in a separate document and incorporated herein by reference.
Stock Options	25,000 options that will be subject to acceleration based upon achievement of objectives to be determined and documented in a separate memo. Steve will also be given consideration, based upon performance for additional options in 2003.
Hire Date:	October 1, 2002
Term of employment:	October 1, 2002 to June 30, 2003
Severance:	If you are terminated without cause, cause is defined below, you will receive the lesser of six (6) months of base salary based on your current semi-monthly salary, or the balance of the term of your employment scheduled to end on June 30, 2003. Such severance paid in a lump sum provided you execute a Company approved Settlement and General Release Agreement.

As a condition of employment, you will be required to sign the standard Employee Confidentiality Agreement, Arbitration Agreement, and the Securities Trading Policy, which will apply during your employment with the Company and thereafter. Two originals of each of these documents are enclosed for your review. Upon acceptance of this offer of employment, please sign and/or date in the designated areas, and return two signed originals of each directly to me. I will then sign and return one complete package to you for your records.

autobytel.com inc.

Enclosed you will also find information regarding our benefits package. Please review the information, fill out as much as possible, and bring it with you on your first day of employment. If you have any questions or concerns they will be addressed during your new hire orientation or you may contact Natalie Hensley at 949.862.1312. Your benefits will be effective November 1, 2002. The Company will reimburse the cost for benefits for one month (October) should you choose to purchase a private policy or C.O.B.R.A. benefits from your former employer.

The Immigration Reform and Control Act of 1986 requires all new associates to provide proof of citizenship and/or right to work documentation within three (3) days from the commencement of employment. A list of acceptable documents is enclosed. Please bring documents to verify employment eligibility on your first day of work.

For purposes of the severance described above, cause shall mean any one of the following:

(1) Gross misconduct; or

(2) The willful and continued failure by employee to substantially perform his duties (this cannot relate to employee’s work location) (other than such failure resulting from the employee’s disability), after a written demand for substantial performance of such duties is delivered to the employee that specifically identifies the manner in which employee’s manager believes that the employee has failed to substantially perform his duties, and the employee has failed to remedy the failure within 10 business days of receiving such notice; or

(3) The willful or continued action, or failure to act, by the employee that results, or is expected to result, in actual material financial injury to the Company. However, no act or failure to act on the employee’s part shall be considered “willful” if done, or omitted to be done, by the employee in good faith and with a reasonable belief that his action or omission was in the best interest of the Company; or

(4) The employee’s conviction for committing an act of fraud, embezzlement, theft, or any other act constituting a felony involving moral turpitude or causing material harm, financial or otherwise, to the Company; or

(5) Violation of Company policies of a serious nature, examples of which include but are not limited to: discrimination or harassment tied to race, color, gender, age, national origin, sexual orientation, disability, medical condition, marital status, veteran status, or religion; theft; falsification of Company records; being under the influence or in the possession of illegal drugs or controlled substances on Company property; possession of fire arms or other weapons or explosives on Company property; or similar serious violations of Company policies.

Steve Ammons

The provisions of this letter are severable which means that if any part of the letter is legally unenforceable, the other provisions shall remain fully valid and enforceable. This letter sets forth our complete understanding regarding the matters addressed herein and supersedes all previous agreements or understandings between you and the Company, whether written or oral.

Steve, while we sincerely hope your employment relationship with the Company will be mutually rewarding, we want to be clear that by our policy, your employment is "at will" and there is no express or implied contract of employment for a specified period of time. This means that you may resign at any time without notice and that Autobytel Inc., may terminate your employment or change the terms of your employment, including but not limited to your duties, position, or compensation, at any time without cause and without notice. Our at-will employment policy may not be changed except by an explicit written agreement signed by both you and the President and CEO of Autobytel Inc. This policy supersedes any prior written or oral communications to the contrary.

Please indicate acceptance of our offer by signing and returning the enclosed copy of this letter. By signing this offer letter you also will be acknowledging that you are not relying on any promises or representations other than those set forth above in deciding to accept this conditional offer of employment. You may fax a signed copy, if you wish, to our confidential fax at 949.797.0443. Feel free to call if you have questions. We look forward to having you join the Autobytel team.

/s/ STEVE AMMONS

Steve Ammons

Best regards,
AUTOBYTEL INC.

/s/ MARK ERNST

Mark Ernst
V.P., Human Resources

Steve Ammons

January 21, 2003

Richard Walker
4051 Preserve Parkway South
Greenwood Village, CO 80121

Dear Richard:

It is a pleasure to offer you ("Employee") the position of Senior Vice President, Corporate Development and Strategy, at **Autobytel Inc.** (the "Company"). Please be reminded that our offer of employment is contingent upon completion of our background check and your reviewing and accepting the terms of our various pre-hire and new-hire documents, including the employee handbook, the Employee Confidentiality Agreement, the Mutual Agreement to Arbitrate, and the Securities Trading Policy. Following is a summary of our offer:

Position:	Senior Vice President, Corporate Development and Strategy reporting to the Chief Executive Officer
Semi-Monthly Rate:	$10,416.67 ($250,000.00 Annually)
Hire Date:	January 21, 2003
Term:	One year, terminable upon 30 days' written notice by Employee or the Company for any reason or no reason; renewable automatically for one year periods unless either party notifies the other of its election not to renew at least ninety (90) days prior to the applicable anniversary of the hire date.
Stock Options:	200,000 subject to board approval
Bonus Opportunity:	up to 50% at the discretion of the Board of Directors
Vacation:	4 weeks per year
Severance:	6 months severance if terminated by the Company without cause as described below, it being understood that severance is not applicable in the event of termination due to death or disability; provided, however, that if the Company elects not to renew Employee's term in the first year of employment (other than due to death or disability), Employee shall be entitled to 3 months severance but in no event will severance payments hereunder exceed 6 months:

Cause shall mean any one of the following:

(1) Gross misconduct; or

(2) The willful and continued failure by Employee to substantially perform his duties (other than such failure resulting from the Employee's disability), after a written demand for substantial performance of such duties is delivered to the Employee that specifically identifies the manner in which Employee's manager believes that the Employee has failed to substantially perform his duties, and the Employee has failed to remedy the failure within 10 business days of receiving such notice; or

(3) The willful or continued action, or failure to act by the Employee that results, or is expected to result, in actual material financial injury to the Company. However, no act or failure to act on the Employee's part shall be considered "willful" if done, or omitted to be done, by the Employee in good faith and with a reasonable belief that his action or omission was in the best interest of the Company; or

(4) The Employee's conviction for committing an act of fraud, embezzlement, theft, or any other act constituting a felony involving moral turpitude or causing material harm, financial or otherwise, to the Company; or

(5) Violation of Company policies of a serious nature, examples of which include but are not limited to: discrimination or harassment tied to race, color, gender, age, national origin, sexual orientation, disability, medical condition, marital status, veteran status, or religion; theft; falsification of Company records; being under the influence or in the possession of illegal drugs or controlled substances on Company property; possession of fire arms or other weapons or explosives on Company property; or similar serious violations of Company policies.

As a condition of employment, you will be required to sign the standard Employee Confidentiality Agreement, Mutual Agreement to Arbitrate, and the Securities Trading Policy, which will apply during your employment with the Company and thereafter. Two originals of each of these agreements are enclosed for your review. Upon acceptance of this offer of employment, please sign and/or date in the designated areas, and return two signed originals of each directly to me. Jeffrey Schwartz, **Autobytel Inc.'s** President, CEO, will then sign and return one complete package to you for your records.

Enclosed you will also find information regarding our benefits package. Please review the information, fill out as much as possible, and bring it with you on your first day of employment. If you have any questions or concerns they will be addressed during your new hire orientation or you may contact Natalie Hensley at 949.862.1312.

The Immigration Reform and Control Act of 1986 requires all new associates to provide proof of citizenship and/or right to work documentation within three (3) days from the commencement of employment. A list of acceptable documents is enclosed. Please bring documents to verify employment eligibility on your first day of work.

The provisions of this letter are severable which means that if any part of the letter is legally unenforceable, the other provisions shall remain fully valid and enforceable. This letter sets forth our complete understanding regarding the matters addressed herein and supersedes all previous agreements or understandings between you and the Company, whether written or oral.

This offer shall expire 7 days from date of issue. Please indicate acceptance of our offer by signing and returning the enclosed copy of this letter. By signing this offer letter you also will be acknowledging that you are not relying on any promises or representations other than those set forth above in deciding to accept this conditional offer of employment. You may fax a signed copy, if you wish, to our confidential fax at 949.862.1324. Feel free to call if you have questions. We look forward to having you join the Autobytel Inc. team.

/s/ RICHARD WALKER

Richard Walker

Best regards,
AUTOBYTEL INC.

/s/ MARK ERNST

Mark Ernst
V.P., Human Resources

Exhibit 10.55

AMENDMENT NO. 1 TO EMPLOYMENT AGREEMENT

This Amendment No. 1 to Employment Agreement ("Amendment") is made and entered into, at Irvine, California, as of the 2nd day of January, 2003, by and between **Autobytel Inc**., a corporation duly organized under the laws of the State of Delaware (the "Company"), with offices at 18872 MacArthur Boulevard. Second Floor, Irvine, California, 92612-1400, and **Jeffrey A. Schwartz** (hereinafter referred to as the "Executive"), who resides at 24950 Norman's Way, Calabasas, California 91302.

RECITALS

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

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

WHEREAS: The Company and Executive desire to amend that certain Employment Agreement, dated as of December 17, 2001, between the Company and Executive (the "Employment Agreement") as set forth below.

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

1.1 Sections 3.1 and 3.2 of the Employment Agreement are hereby amended in their entirety as set forth below:

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

3.2 BONUSES. The Board may, in its sole discretion, provide the Executive with the opportunity to earn an annual bonus for each fiscal year of the Company, occurring in whole or in part during the Term. The annual bonus, if any, payable to the Executive shall be based on such criteria as may be established by the Board, in its sole discretion, from time to time. The Executive shall participate in all other short term and long term bonus or incentive plans or arrangements in which other senior executives of the Company are eligible to participate from time to time. Any bonus shall be paid as promptly as practicable following the end of the preceding fiscal year. The provisions of this Section 3.2 shall be subject to the provisions of Section 3.4."

1.2 The terms and conditions of this Amendment shall inure to the benefit of and be binding upon the successors and assigns of the parties hereto.

1.3 This Amendment shall be construed and enforced in accordance with the laws of the State of California, without giving effect to the principles of conflict of laws thereof.

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

1.5 Except as amended hereby, the Employment Agreement shall remain in full force and effect in accordance with its terms.

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

AUTOBYTEL INC.

By: /s/ MICHAEL J. FUCHS

Michael J. Fuchs
Chairman

/s/ JEFFREY A. SCHWARTZ

Jeffrey A. Schwartz

Exhibit 10.56

[LOGO OF AUTOBYTEL]

DEALER AGREEMENT

A separate Dealer Agreement must be completed for each Legal Entity Dealer wishes to include on the Autobytel Program(s).

This is a Dealer Agreement ("Agreement") effective as of the date signed by dealer below (the "Effective Date") between (legal name) _____ ("Dealer"), a o Corporation, o LLC, o Partnership, o LLP, o Sole Proprietor, o Other _____ under the laws of the state of _____, and doing business as (DBA) _____, and, as indicated below, Autobytel Inc., a Delaware corporation, Autoweb.com, Inc., a Delaware corporation, and/or A.I.N. Corporation d.b.a. CarSmart.com, each with their principal place of business located at 18872 MacArthur Blvd., Irvine, California 92612.

The undersigned hereby represent that they are authorized on behalf of their respective entity to enter into this Agreement, and that each entity is in good standing under the laws of the state of its incorporation or in which it is otherwise formed or licensed.

In consideration of the mutual promises and other good and valuable consideration set forth in this Agreement, the Standard Provisions and the attached Exhibits incorporated herein by reference, the parties agree as follows:

[LOGO OF AUTOBYTEL.COM]

o 1. Autobytel.com Program: (Please complete Exhibit 1) — ______________________ **Dealer Signature**

o 2. Pre-Owned Cyberstore Program: (Please complete Exhibit 1) — ______________________ **Dealer Signature**

o 3. Dealer Appointments Program (Please complete Exhibit 1) — ______________________ **Dealer Signature**

o 4: Training Program: (Please complete Exhibit 4) — ______________________ **Dealer Signature**

[LOGO OF AUTOWEB.COM]

o 1. Autoweb.com Program: (Please complete Exhibit 2) — ______________________ **Dealer Signature**

[LOGO OF CARSMART.COM]

o 1. CarSmart.com Program: (Please complete Exhibit 3) — ______________________ **Dealer Signature**

o **Autobytel Inc.** o **Autoweb.com, Inc.** o **A.I.N. Corporation**	**Dealer**
By: ______________________	By: ______________________
Name: ______________________	Name: ______________________
Title: ______________________	Title: ______________________
Date: ______________________	Date: ______________________

[LOGO OF AUTOBYTEL]

AUTOBYTEL INC./AUTOWEB.COM, INC. /A.I.N. CORPORATION
(INDIVIDUALLY AND COLLECTIVELY, AS APPLICABLE, “WE,” “OUR,” OR “US”)
DEALER AGREEMENT STANDARD PROVISIONS

I. Our Obligations

A. **General.** In order to support the portion of the services selected by Dealer and offered by Autobytel Inc., Autoweb.com, Inc., and/or A.I.N. Corporation d.b.a. CarSmart.com, as applicable (the “Program” or “Programs”), which connect potential consumers with Dealer for the purpose of purchasing a new or pre-owned vehicle, We agree to provide the following:

1. **Website.** A website designed to market the services offered under each Program to Dealer and to potential vehicle consumers, provide information to potential consumers to help them make more informed choices in the purchase of a vehicle, and to provide information as to services such as financing, insurance and such other services that may be included in each Program from time to time.

2. **Systems.** We will maintain, either directly or through an authorized provider, the necessary computer hardware, software and electronic communication systems (“Systems”) to enable the Systems to receive and transmit data necessary to support the Programs. Such Systems will support the services We offer to both Dealer and consumers. In the event of a dispute regarding the actual delivery of consumer requests, Systems records shall be deemed conclusive. Such Systems may be altered, upgraded or enhanced by Us from time to time in Our sole discretion. During the Term, We hereby grant Dealer a non-exclusive, revocable, non-transferable license to access and use such portions of our proprietary Systems. As an express condition of this license to use Our proprietary Systems, Dealer is prohibited from reselling, loaning or otherwise sharing such Systems or divulging any related confidential information including, but not limited to, passwords or instructional manuals. We will supply Dealer with the specifications and other requirements and/or restrictions related to the use of the applicable Program and Systems. Dealer shall not, and shall not permit any third party to, modify, reverse-engineer, decompile, disassemble, reverse compile, create derivative works of or attempt to derive the source code of the Programs or Systems.

3. **Technical Support.** We agree to use reasonable efforts to supply limited technical support to Dealer during Our regular business hours as published from time to time (Pacific Time) to assist Dealer and Dealer’s personnel in using the services offered under the applicable Program(s).

4. **Consumer Support.** As part of Our ongoing commitment to consumer satisfaction, We will use reasonable efforts to provide consumers with assistance and support during Our regular business hours (Pacific Time) by means of a toll-free telephone number, online communication, facsimile or such other methods as are reasonably available to Us. We will notify Dealer of any consumer complaints, comments, or questions that relate to Dealer. We reserve the right to revise Our consumer support standards to comply with applicable laws or to address changes in the business climate. We will notify Dealer of any such revisions.

5. **Transmission of Data.** We will use reasonable efforts to provide prompt transmission of data to Dealer and consumers. We shall not be liable for any loss of data, delays, or errors in transmitting data or any loss of business due to electrical power source failure, telephone transmission failure, internet failure, criminal or terrorist acts of others, Natural Disasters, acts of God, or any other conditions beyond our control.

B. **Consumer Requests.** We agree to use commercially reasonable efforts to provide to Dealer certain consumer requests from consumers originating from the www.autobytel.com, www.autoweb.com, or www.carsmart.com websites, as applicable. In the event of Dealer’s breach of this Agreement and until such breach is cured, We may reroute consumer requests, service requests or other inquiries, to the nearest qualified enrolled dealer without prior notice to Dealer. We reserve the right to suspend delivery of consumer requests or terminate this Agreement in the event that a payment due to any Autobytel Entity remains unpaid three (3) business days after Dealer has been notified of such non-payment. For purposes of this Agreement, “Autobytel Entity” shall mean Autobytel Inc., Autoweb.com, Inc., or A.I.N. Corporation d.b.a. CarSmart.com.

C. **Database Support for Pre-Owned Vehicle Sales.** If to enroll in the Autobytel Pre-Owned CyberStore® Program, We a database permitting Dealer to electronically publish images of retail quality pre-owned vehicles. Consumers will be search the database for vehicles by make and/or model and other Inquiries from interested consumers will be routed to dealers appropriate vehicle in the database. The terms and conditions the Autobytel Pre-Owned Cyberstore Program are http://extranet.autobytel.com/dealers/, which may be amended by sole discretion upon thirty (30) days notice to Dealer.

D. **Dealer Appointments Program .** If Dealer elects to enroll in Appointments Program, We, or our authorized vendor, will telephonic appointment scheduling services to Dealer in connection consumer requests described in Section I(B) hereof (an Consumer”), as follows:

1. use commercially reasonable efforts to contact all Consumers for the purpose of scheduling appointment dates and such consumers to visit Dealer.

2. make not less than six (6) telephonic attempts to contact Interested Consumer and use reasonable efforts to make the first contact not more than fifteen (15) minutes following Our receipt Interested Consumer request. We shall either schedule appointment with the Interested Consumer or complete six (6) schedule such appointment, whichever comes first, within three (3) days of our receipt of an Interested Consumer request. Dealer information received by Us from an Interested Consumer will delivered to Dealer until the earliest to occur of either the scheduling Dealer appointment, or once six (6) telephonic attempts have been contact such Interested Consumer. In the event We are unable an Interested Consumer, Dealer shall remain obligated to contact Interested Consumer in accordance with this Agreement.

3. We will provide Dealer with access to weekly reports services performed including, without limitation, number of Consumer requests submitted, number of appointments general calling status information.

E. **Training:** If Dealer elects to enroll in the Dealer Training will provide the following services to Dealer:

1. In-dealership training for Dealer’s employees at any of franchises (as indicated by Dealer), which may include, among other training for our products sold to Dealer (a minimum of two (2) days products) and general sales consulting;
2. Training manuals, workbooks and other training materials;
3. Dealer will be notified in writing at least ten (10) business days the scheduled in-dealership training date(s);
4. We will confirm the scheduled dealership training date(s) by facsimile message to Dealer at the telephone or facsimile number herein at least five (5) business days prior to the scheduled date;
5. Training will be provided by our qualified personnel or consu

F. **Changes in Programs and Services.** We reserve the add or delete programs or services as part of our continued of the Programs. We will give Dealer thirty (30) days notice of changes and any fee increases or decreases related thereto Dealer Agreement Standard Provisions are http://extranet.autobytel.com/dealers and may be amended by time in our sole discretion.

G. **Title to System, Trademarks.** To the extent permitted the goodwill associated with any and all intellectual services to be provided under this Agreement are proprietary to title thereto remains in Us. All applicable rights to patents, trademarks, trade secrets, and any other intellectual property the Programs or Systems now and in the future, belong Us. Any and all of Our trademarks and service marks associated Us are and shall forever remain the exclusive property of Autobytel Autoweb.com, Inc., and/or A.I.N. Corporation d.b.a. CarSmart applicable. Upon our written consent during the Term of this Dealer is permitted to use our applicable trademarks and service for inclusion on business cards, and media advertisements communicate Dealer’s association with Us. This authority to use our patented systems , name, logo, and other trademarks or service marks is revocable by Us at any time. We reserve the right, in our sole discretion, to revoke Dealer's permission as to future use.

H. **Warranty Limitation.** WE DO NOT GUARANTEE OR WARRANT THE PERFORMANCE OF THE SERVICES OR PROGRAMS PROVIDED HEREUNDER. INCLUDING, BUT NOT LIMITED TO, THE NUMBER OF CONSUMER REQUESTS OR VEHICLE SALES/LEASES DEALER MAY RECEIVE AND/OR CONSUMMATE UNDER THE APPLICABLE PROGRAM, IF ANY. THE DEALER APPOINTMENT SERVICES ARE PROVIDED AS-IS AND WE DO NOT GUARANTEE OR WARRANT THE PERFORMANCE OF THOSE SERVICES PROVIDED HEREUNDER, INCLUDING, BUT NOT LIMITED TO, THE NUMBER OF CUSTOMERS THAT WILL BE SUCCESSFULLY CONTACTED TO SCHEDULE AN APPOINTMENT OR THAT ANY SUCH CUSTOMERS WILL ATTEND ANY SCHEDULED APPOINTMENT. TRAINING IS PROVIDED AS-IS AND WE DO NOT GUARANTEE OR WARRANT THE PERFORMANCE OF THOSE TRAINING SERVICES PROVIDED HEREUNDER, INCLUDING, BUT NOT LIMITED TO, THE SUCCESS RATE OF DEALER IN CLOSING SALES AFTER TRAINING. DEALER SPECIFICALLY WAIVES ALL WARRANTIES, EXPRESS, STATUTORY, OR IMPLIED, ARISING OUT OF OR IN CONNECTION WITH THE SERVICES OR PROGRAMS TO BE PROVIDED BY US HEREUNDER. SPECIFICALLY EXCLUDED ARE ALL WARRANTIES, EXPRESS, STATUTORY, OR IMPLIED, INCLUDING, BUT NOT LIMITED TO, WARRANTIES OF MERCHANTABILITY, NON-INFRINGEMENT, TITLE, OR FITNESS FOR A PARTICULAR PURPOSE. IN NO EVENT SHALL WE BE LIABLE FOR ANY LOSS OF BUSINESS PROFITS OR DATA OR FOR ANY CONSEQUENTIAL, INCIDENTAL, EXEMPLARY, PUNITIVE OR SIMILAR DAMAGES OR FOR ANY THIRD-PARTY CLAIMS OR DAMAGES, EVEN IF ADVISED OF THE POSSIBILITY OFSUCHDAMAGES.

II. Dealer Obligations.

A. **General.** Dealer agrees to the following:

1. **Management Involvement.** Dealer's Principal and General Manager will actively participate in the application, implementation, and operation of the Program(s) within the dealership.

2. **Dedicated Personnel.** Dealer will, for each franchise enrolled in the Program(s), dedicate at least one (1) key employee to be responsible for the new vehicle Program and, where possible, at least one (1) additional key employee to be responsible for the Autobytel Pre-Owned CyberStore Program, if Dealer enrolls in that Program. Each such dedicated person will be empowered to act as a liaison between Us and Dealer. Each person shall be referred to as "Autobytel Manager." Dealer promises to notify Us in writing within ten (10) days of the termination or resignation of a Program Manager and with the identity of the newly designated Program Manager.

3. **Systems.** Dealer agrees to provide dedicated access to an IBM compatible personal computer with Internet access and related equipment that meets or exceeds the minimum specifications We publish from time to time. Upon request, Dealer shall provide Us with written assurances regarding Dealer's compliance with this provision.

4. **Designated Work Area.** Dealer shall set aside and designate a work area within the dealership wherein each Program Manager may perform his/her duties under this Agreement. In addition to the personal computer outlined above, Dealer shall provide a dedicated workstation that, at a minimum, contains a desk, a compatible printer, telephone, and other office supplies and equipment as may be necessary to receive and properly implement at the dealership, the services contemplated by this Agreement.

5. **Services Free to Consumer.** The services We offer are free of charge to a consumer. Dealer and its employee/agents are expressly prohibited from representing to any consumer, in any manner, either orally or in writing, the existence of any charge or fee to be paid by reason of the consumer's use of Our services.

6. **Participation in Future Programs.** Dealer agrees to reasonably participate in our program offerings, including any programs or services developed in the future so long as Dealer is enrolled in the Program(s), unless We expressly state that such programs are optional.

B. **Start-Up Training.** Dealer will ensure that an Program Manager will attend at least one (1) phone training session offered by Us prior to activating the Program(s). Dealer understands that We will not forward consumer requests under this Agreement until such time as the initial phone training session for an Program Manager has been completed. Dealer must at all times have at least one (1) trained Program Manager in order to continue receiving consumer requests.

C. **Consumer Service Standards.**

1. Dealer shall contact one hundred percent (100%) of the consumers submitting consumer requests or service requests routed to Dealer by the most expeditious means possible within one (1) business day of Dealer's receipt of such request, confirming receipt of such request, and

2. Dealer shall at the same time, but in no event more than two (2) business days following receipt of such request, disclose all of the following:

a) the Program Manager's name and contact phone number;

b) the availability of the vehicle including any requested options;

c) the confirmed price that Dealer will sell or lease the vehicle to the consumer, including the Website advertised price, if any, all additional options requested, pre-delivery inspection fees, destination fees and/or advertising costs or charges not otherwise included in the vehicle price;

d) all relevant financing terms and conditions which may apply to the purchase or lease transaction requested; and

e) all other terms, costs and conditions required by law to be disclosed to prospective purchasers

3. Dealer represents and warrants that all such information, including the price, that Dealer provides to a consumer shall be truthful and be binding on Dealer for a period of seven (7) days after its transmittal, provided the identified vehicle still remains available for sale. If Dealer relied on a manufacturer-sponsored program when quoting the pricing, terms, incentives or availability of vehicles, the time period in which the Dealer information must be truthful shall coincide with the termination date of the manufacturer's program or seven (7) days, whichever is less. In the case of a service-related request, Dealer shall respond truthfully with all information reasonably requested by the consumer.

D. **Pre-Owned Vehicle Sales.** Dealer's election to sell pre-owned vehicles through the Autobytel Pre-Owned CyberStore Program and Dealer's participation shall be governed by the Autobytel Pre-Owned CyberStore Program rules which are located at http://extranet.autobytel.com/dealers.

E. **Performance Standards.** Dealer agrees to maintain a satisfactory performance rating as measured by the standards and/or formulas We publish from time to time to dealers.

III. Fees and Costs.

A. Dealer agrees to pay Us the sums listed in the Fees section of the attached Dealer Agreement(s) and any addendums and/or amendments thereto.

B. Except where otherwise informed by our technical support staff at the time services are requested, technical support service is included in Dealer's monthly fees. As some services require substantial time and effort to complete, We reserve the right to institute supplemental charges for some services.

C. All fees are due and payable upon receipt of invoice. ABT reserves the right to suspend all services under this Agreement if any payment to any Autobytel Entity is past due until such account is brought current. Our invoices will be deemed to be correct and acceptable to Dealer, and Dealer's obligation to pay the invoiced amounts shall become absolute and unconditional and not subject to any offset, defense or counterclaim, unless Dealer advises Us of any disputed items within thirty (30) days of their receipt.

D. We, in our sole discretion, may change the amount, structure, method and/or basis of the fee at any time during the term of this Agreement. Any changes shall be effective upon thirty (30) days written notice to Dealer and shall not require an affirmative response or any further action by the parties.

E. Each party is solely responsible for paying all taxes (local, state and federal) imposed as a result of its activities under this Agreement.

F. Each party hereto is responsible for all of its internal costs, if any, associated with implementation and operation of the Program(s).

IV. **Term and Termination.**

A. This Agreement shall be for six (6) months (the "Term") from the Effective Date, unless terminated sooner or extended in accordance with these Standard Provisions. This Agreement shall automatically renew for additional Terms, unless thirty (30) days prior to the expiration of any Term, either party provides notice of election not to renew.

B. Either party may terminate this Agreement immediately for any breach of this Agreement by the other party that is not cured within ten (10) days after receipt of written notice of the breach from the non-breaching party.

C. We may terminate this Agreement:

1. immediately upon finding of Dealer’s violation of state or federal law or conviction for such violation;
2. immediately upon Dealer’s sale or transfer of all or substantially all of its dealership assets and change of control or management;
3. immediately upon loss of franchise, revocation, termination, suspension, or other invalidation of Dealer’s license;
4. immediately if an order of liquidation or petition for bankruptcy is entered or filed against Dealer and not stayed;
5. immediately upon failure to pay any past due amounts after having received written notice of such past due amounts; or
6. without cause, upon thirty (30) days written notice to Dealer.

D. Under any of the circumstances above, except breach of this Agreement by Us, Dealer shall remain responsible for all fees due and payable up through the effective date of the termination or as otherwise dictated by the terms of this Agreement or applicable law.

E. Upon termination or expiration of this Agreement, Dealer shall immediately discontinue all use of the Systems and our trademarks and service marks, and shall immediately return all such materials to Us.

V. **Indemnification.** Dealer will defend, indemnify and hold harmless Us and each of Our parent company, affiliate companies, officers, directors, employees an agents against and in respect of any and all loss, debt, liability, damage, obligation, claim, demand, judgment or settlement of any nature or kind, known or unknown, liquidated or unliquidated, including Us without limitation all reasonable costs and expenses incurred (legal, I. accounting or otherwise) (collectively, “Damages”) arising out of, resulting a from Dealer’s negligence or wrongful conduct or based upon any claim, action or proceeding by any third party alleging facts or circumstances which, if true, would constitute a breach of the representations and warranties made but by Dealer. In all events, We shall, in Our sole discretion, have the right to participate in the defense of any such action through counsel of Our own J choosing at Our sole and separate expense.

VI. **General Provisions.**

A. **Notices.** Any notices required to be given in connection with be this Agreement by either party shall be in writing signed by a duly be authorized agent and shall be deemed given by any of the following means: (1) in person; (2) by certified mail, return receipt requested and deemed effective three days after the date of mailing; (3) by facsimile in which shall be deemed received on the day sent when a confirming notice from the sending facsimile machine has been generated; or (4) by overnight delivery service or courier, which shall be deemed received on the day of physical delivery as evidenced by courier receipt. All notices shall be directed to the most current address or facsimile number for each party as listed in this Agreement or as revised in accordance with the notice procedures set forth herein.

B. **No Implied Waivers.** The failure of either party at any time to require performance by the other party of any provision of this Agreement or to exercise any right provided for herein, shall in no way affect the right of such party to require such performance or exercise such right at any time thereafter. No waiver by either party of a breach of any provision herein shall constitute a waiver of any subsequent breach, or a waiver of the provision itself.

C. **Independent Contractor Relationship.** The relationship created by this Agreement between Us and Dealer is intended to be and shall for all purposes hereunder be considered that of an independent contractor. Nothing contained in this Agreement shall be construed as intending, creating or constituting a franchise, partnership, agency, fiduciary, or joint venture relationship between Us and Dealer.

D. **Controlling Agreement.** This Agreement and all attachments or amendments hereto supersede any and all agreements, oral or written, between the parties, and contains all of the representations, covenants, and understandings between the parties with respect to services described in this Agreement. Each party to this Agreement acknowledges that no representations, inducements, promises, or agreements, oral or otherwise, have been made by any party, or anyone acting on behalf of any party, which are not contained in this Agreement, any attachments and/or amendments hereto. No other agreement(s), statement(s), or promise(s) shall be valid or binding.

E. **Modifications and Amendments.** Except where otherwise set forth in this Agreement, all modifications or amendments to this Agreement shall be in writing and signed by both Parties hereto.

F. **Assignment.** This Agreement and the rights and duties hereunder, shall not be assignable by Dealer, except upon written consent of Us. This Agreement and the rights and duties hereunder shall be assignable by Us without restriction.

G. **Severability.** If any provision of this Agreement shall be held to be invalid, illegal or unenforceable, such determination shall in no way alter or impair the validity, legality, and enforceability of the remaining provisions of this Agreement which shall continue in full force and effect.

H. **Confidentiality.** Each of the parties hereto, on behalf of itself and its employees, agrees to keep all non-public information gained as a result of the business dealings contemplated in this Agreement confidential. Each party may, however, use such confidential information for its internal use only to further its performance under this Agreement. Dealer understands and agrees that the sale or unauthorized use or disclosure of any trade secrets or other confidential information, including but not limited to, private information provided by consumer request or other communication constitutes theft and will greatly damage Us and is prohibited. Dealer shall not impart our proprietary information to any person or entity other than Dealer’s key employee(s) without our prior written consent. We reserve the right to transmit pertinent vehicle information to consumers making inquiries concerning the terms of purchase and financing or leasing of motor vehicles. Notwithstanding the foregoing, if either party is required to produce any such information by order of any government agency, court of competent jurisdiction, or other regulatory body, it may, upon not less than five (5) days written notice to the other party, release the required information. Unless We agree in writing, Dealer is prohibited from issuing any press release(s) or making any public announcement(s) regarding its business relationship with Us or our services or programs provided to Dealer.

I. **Attorney Fees and Costs.** In the event any action shall be instituted to resolve a dispute between the parties regarding this Agreement or to enforce the terms of this Agreement, the prevailing party in such action shall be entitled to recover reasonable attorneys fees and costs incurred. As used in this section, the word “action” includes, but is not limited to, any act requiring legal counsel involvement up to and including a formal litigation filed in a court of competent jurisdiction.

J. **Good Faith, Governing Law and Jurisdiction.** Each party will at all times contemplated herein, act in good faith and in accordance with all applicable local, state and federal laws. This Agreement shall in all respects be governed by the laws of the State of California applicable to contracts to be performed wholly within California and without reference to conflicts of laws principles. Any dispute that arises under or relates to this Agreement (whether contract, tort or both) commenced by either party shall be resolved in state or federal court in Orange County, California, and the parties expressly waive any right they may otherwise have to cause any such action or proceeding to be brought or tried elsewhere.

Dealer Initial _______

EXHIBIT 1

[LOGO OF AUTOBYTEL]

1. **Market Area.** Dealer is hereby assigned an exclusive Market Area ("MA") (except in Texas where exclusive MA's are prohibited and are accordingly, not exclusive) for each new vehicle franchise that Dealer has enrolled in the Autobytel Inc. ("ABT") Program under this Agreement. The description of each MA is set forth in the Market Area Description attached as Exhibit 1-A. ABT retains sole and complete authority to define or adjust Dealer's MA, based on market conditions, Dealer's performance, and such other factors as ABT, in its sole discretion, deems relevant. ABT will provide Dealer with not less than thirty (30) days written notice of any change to Dealer's MA. ABT shall not be liable for any unforeseen/unnoticed changes to Dealer's MA which may result from factors such as, but not limited to, changes in U.S. Postal Service zip code alterations, until ABT receives actual notice of such changes and amends Dealer's MA accordingly.

2. **Fees.**

A.

Services:		Monthly Fees:	Initial Fees:
	Start-up Fee		$
	Systems	$	
	ABT Pre-Owned CyberStore ®	$	
Franchise:		$	
Franchise:		$	
Franchise:		$	
Franchise:		$	
Franchise:		$	
Franchise:		$	
	TOTAL FEES:	**$**	**$**

o **Dealer Appointments**(Please check one of the following):

o Dealer shall pay ABT ($) for each Interested Consumer that ABT attempts to contact in accordance with the terms of the Dealer Appointment Program.

o Dealer shall pay ABT an amount equal to thirty-five percent (35%), per month, of the Total Monthly Fees due and payable to ABT by Dealer pursuant to this Section 2.

B. CyberStore Flex Fees only

ABT Pre-Owned CyberStore ®	$ Per consumer request
	$

ABT Pre-Owned CyberStore® Program Information (If participating) **Cyber ID #**

1. Dealer will post vehicles as: o Certified o Non-Certified o BOTH
2. Please select from **one (1)** of the following 3 options:

o **OPTION A: Upload Dealer inventory through one of the following companies**:
o AutoBase o AutoMark o Dealer Specialties o Kelley KARPOWER oRolling Maronie
Other (Provide company name, contact & phone number): _____

o **OPTION B: Upload Dealer inventory through one of the following Mainframes:**
o ADP o EDS o Reynolds & Reynolds o UCS

Mainframe's Modem Phone Number (**MUST COMPLETE**): (______)_____
Mainframe Login (i.e. Hon-A or Store #): _____ Confidential Password (case-sensitive): _____

- **OPTION C:** o **Dealer will forward data to ABT as specified in the ABT Pre-Owned CyberStore® Program Rules, a copy of which is attached hereto as Exhibit 1-B and incorporated herein by reference.**

By my signature below and on the Dealer Agreement, I attest the above information is true and correct and I am authorized to sign this Exhibit on behalf of the dealership named below.
Dealer Legal Name:

By: ______________________________

Name: ______________________________
(Print)

Title: ______________________________
(Print)

Date: ______________________________

DG# _____ Region Name: _____

VOID IF ALTERED

EXHIBIT 2

[LOGO OF AUTOWEB.COM]

1. **Market Area.** Dealer is hereby assigned a Market Area ("MA") for each new vehicle franchise that Dealer has enrolled in the Autoweb.com, Inc. ("Autoweb") Program under this Agreement. The description of each MA is set forth on the attached **Exhibit 2-A.** Autoweb retains sole and complete authority to define or adjust Dealer's MA, based on market conditions, Dealer's performance, and such other factors as Autoweb, in its sole discretion, deems relevant. Autoweb will provide Dealer with not less than thirty (30) days written notice of any change to Dealer's MA. Autoweb shall not be liable for any unforeseen/unnoticed changes to Dealer's MA which may result from factors such as, but not limited to, changes in U.S. Postal Service zip code alterations, until Autoweb receives actual notice of such changes and amends Dealer's MA accordingly.
2. **Fees.** Please select **one (1)** of the following two options:

o **A.** **Flex (Not Available in Certain States).** Dealer agrees to pay Autoweb for each consumer request submitted by Autoweb to Dealer regarding a new vehicle as follows for the franchises listed below (The estimated number of consumer requests per month are solely for convenience and are not a minimum and do not limit the amount of consumer requests that may, or may not, be submitted to Dealer):

Franchise	$ Per consumer request	Est. # consumer requests/Month
	$	
	$	
	$	
	$	
	$	
	$	

Prior to the bill being sent to you Autoweb agrees to credit you for any consumer requests that are not Qualified consumer requests. **A Qualified consumer request is a consumer request that is delivered to you and that has a name and a valid telephone number or email address.** We will also credit you for any duplicate consumer requests ("Duplicate Consumer Requests"). A Duplicate Consumer Request is a second consumer request from a consumer originating from the Autoweb.com website and received from the same person for the same vehicle within seventy-two (72) hours. Dealer agrees to email to the Autoweb Regional Account Manager once a month before the 30th of the month in which the consumer request was delivered a list of each consumer request that Dealer contends is not a Qualified consumer request with the following information: the consumer request Number, the name of the consumer submitting the consumer request, and the reason for requesting it to be removed from Dealer's billing. You understand and agree that a consumer

o **B. Flat.**

Services:		Monthly Fees:	Initial Fees:
	Start-up Fee		$
	Systems	$	
Franchise:		$	
Franchise:		$	
Franchise:		$	
Franchise:		$	
Franchise:		$	
Franchise:		$	
Franchise:		$	
Franchise:		$	

Franchise:		$	
	TOTAL FEES:	**$**	**$**

By my signature below and on the Dealer Agreement, I attest the above information is true and correct and I am authorized to sign this Exhibit on behalf of the dealership named below.

Dealer Legal Name:

By: ______________________________

Name: ______________________________

(Print)

Title: ______________________________

(Print)

Date: ______________________________

DG# _____Region Name: _____

VOID IF ALTERED

[LOGO OF AUTOWEB.COM]

EXHIBIT 2-A
Market Area Description
(Please Check One (1) of the Following)

DBA Name: ______________________________

Legal Dealer Name: ______________________________

Franchise: ______________________________

Aweb Dealer ID No.: ______________________________

Aweb Dealer Group ID No.: ______________________________

Contract ID No.: ______________________________

o MARKET AREA DESCRIPTION
(Radius)
(New Vehicle Services Only)

The Market Area for each Franchise below shall include consumer requests received within the Radius distance from the Center Zip Code listed as follows:

FRANCHISE	CENTER ZIP CODE	RADIUS

MARKET AREA DESCRIPTION
(Zip Codes)
(New Vehicle Services Only)

The Market Area shall consist of the following zip codes:

VOID IF ALTERED

[LOGO OF CARSMART.COM]

EXHIBIT 3

1. **Market Area.** Dealer is hereby assigned an exclusive Market Area ("MA") (except in Texas where exclusive MA's are prohibited and are accordingly, not exclusive)for each new vehicle franchise that Dealer has enrolled in the A.I.N. Corporation d.b.a. CarSmart.com ("CarSmart") Program under this Agreement. The description of each MA is set forth in the Market Area Description attached as **Exhibit 3-A**. CarSmart retains sole and complete authority to define or adjust Dealer's MA, based on market conditions, Dealer's performance, and such other factors as CarSmart, in its sole discretion, deems relevant. CarSmart will provide Dealer with not less than thirty (30) days written notice of any change to Dealer's MA. CarSmart shall not be liable for any unforeseen/unnoticed changes to Dealer's MA which may result from factors such as, but not limited to, changes in U.S. Postal Service zip code alterations, until CarSmart receives actual notice of such changes and amends Dealer's MA accordingly.

2. **Fees.** Please select **one (1)** of the following two options:

o **A.** **Flex (Not Available in Certain States)**. Dealer agrees to pay CarSmart for each consumer request submitted by CarSmart to Dealer regarding a new vehicle as follows for the franchises listed below (The estimated number of consumer requests per month are solely for convenience and are not a minimum and do not limit the amount of consumer requests that may, or may not, be submitted to Dealer):

Franchise	**$ Per consumer request**	**Est. # consumer requests/Month**
	$	
	$	
	$	
	$	
	$	
	$	

Prior to the bill being sent to you CarSmart agrees to credit you for any consumer requests that are not Qualified consumer requests. **A Qualified consumer request is a consumer request that is delivered to you and that has a name and a valid telephone number or email address.** We will also credit you for any duplicate consumer requests ("Duplicate Consumer Requests"). A Duplicate Consumer Request is a second consumer request from a consumer originating from the CarSmart.com website and received from the same person for the same vehicle within seventy-two (72) hours. Dealer agrees to email to the CarSmart Regional Account Manager once a month before the 30th of the month in which the consumer request was delivered a list of each consumer request that Dealer contends is not a Qualified consumer request with the following information: the consumer request Number, the name of the consumer submitting the consumer request, and the reason for requesting it to be removed from Dealer's billing. You understand and agree that a consumer request is an expression of interest on the part of a consumer and that it does not necessarily lead to a sale of a vehicle.

o **B. Flat**.

Services:		**Monthly Fees:**	**Initial Fees:**
	Start-up Fee		$
	Systems	$	
Franchise:		$	
Franchise:		$	
Franchise:		$	
Franchise:		$	
Franchise:		$	
Franchise:		$	
Franchise:		$	
Franchise:		$	
Franchise:		$	

TOTAL FEES: **$ ____________** **$ ____________**

By my signature below and on the Dealer Agreement, I attest the above information is true and correct and I am authorized to sign this Exhibit on behalf of the dealership named below.

Dealer Legal Name: ________

By: ______________________________

Name: ______________________________

(Print)

Title: ______________________________

(Print)

Date: ______________________________

DG# _____Region Name: _____

VOID IF ALTERED

[LOGO OF AUTOBYTEL]

EXHIBIT 4
Training Program

o Training: Dealer shall pay Autobytel Inc. $ ______ per day for the number of training days selected by Dealer as follows:

o 1 day o 2 days o 4 days o 6 days o 8 days o ______days

Such fees shall be invoiced and payable monthly as follows:

o for all training completed in such month; or

o $___________ per month for________ months.

By my signature below and on the Dealer Agreement, I attest the above information is true and correct and I am authorized to sign this Exhibit on behalf of the dealership named below.

Dealer Legal Name: _____

By: ______________________________
Name: ______________________________
Title: ______________________________
Date: ______________________________

DG# _______ Region Name: _______

VOID IF ALTERED

[LOGO OF AUTOBYTEL]

ABT Pre-Owned CyberStore®Program

ABT Obligations:

ABT will provide a marketing program targeted at consumers interested in purchasing pre-owned vehicles. ABT will establish a database permitting Dealer to electronically publish details of retail quality pre-owned vehicles. Consumers will be able to search the database for vehicles by make and model and other criteria. Inquiries from interested consumers ("Purchase Requests") will be routed to dealers having the appropriate vehicle in the database**.**

Dealer Obligations:

1. <u>Vehicle Pricing:</u> Dealer may provide posted prices and vehicle information for display on the ABT Pre-Owned CyberStore website. Dealer shall have sole discretion in setting vehicle prices. However, Dealer agrees to price vehicles competitively for the market area in which Dealer is located and to honor those prices as required by law. Dealer assumes all responsibility for educating Dealer staff and sales personnel as to the amount and duration of the advertised prices. Dealer, and *not ABT*, shall be solely responsible for the quality and accuracy of such information.

2. <u>General Pre-Owned CyberStore Service Terms & Conditions:</u> The Pre-Owned CyberStore is a web-based service featuring a collection of dealer offered, retail quality, pre-owned vehicles. Dealer may post an unlimited number of vehicles on the Pre-Owned CyberStore web site. The Dealer must own each vehicle. Consignment vehicles are prohibited. All information posted for a vehicle must be accurate and based on facts known to the Dealer. Vehicles may be posted with or without digital images. Vehicles that do not meet the Pre-Owned CyberStore certification standards set forth below must be posted on the website as a non-certified vehicle. All vehicles regardless of certification status must meet state emissions and safety standards and have clear title prior to being offered for sale. It is Dealer's responsibility to disclose any mechanical or cosmetic damage or defect in the vehicle known to Dealer or any employee of Dealer at the time of posting until sold. It is Dealer's responsibility to disclose the existence of a warranty or lack of a warranty as required by state and federal laws. Dealer is responsible for withdrawing the advertisement as required by state and federal law but in no event more than 48 hours following sale of the vehicle.

3. <u>Non-Certified Pre-Owned CyberStore Vehicle Standards:</u> A "non-certified" vehicle shall mean a Dealer offered, retail quality, pre-owned vehicle that is offered without express warranty, return, refund or exchange options. Dealer, NOT ABT, is responsible for each vehicle as to meeting all applicable state and federal emissions and safety standards prior to its sale. Dealer may post any retail quality vehicle owned by the Dealer, regardless of model year or mileage. No consignment vehicle shall be posted. Prior rental history, dealer demo history, frame damage, salvaged vehicles history, stolen-recovered history, flood damage, and any material cosmetic or safety and non-safety related mechanical damage, defect or irregularity shall be clearly disclosed within the posted description of the vehicle. Dealer, in its sole discretion, may offer a limited warranty for any such vehicle or, in the alternative, offer a vehicle, without warranty, AS-IS. It is Dealer's sole responsibility to provide the consumer with all state and federal law required disclosures applicable to the type of warranty, if any, Dealer provides on a particular vehicle.

4. (a). <u>Certified Pre-Owned CyberStore Vehicle Standards:</u> A "certified" vehicle shall mean a Dealer offered, retail quality, pre-owned vehicle that is offered with an express warranty, written return, refund or exchange option. Dealer, NOT ABT, shall certify each vehicle as meeting all applicable local, state and federal emissions and safety standards. To qualify for a listing as a certified vehicle under this program, however, Dealer represents to ABT and to the general public that the vehicle offered has been mechanically inspected in accordance with customary and commercially reasonable standards for the market in which Dealer is located, and carries a manufacturer pre-owned vehicle certification or exhibits all of the following key qualifications:

A) Under 75,000 miles
B) Has undergone a complete diagnostic inspection and repairs as necessary
C) Less than 7 years old (current model year plus 6)
D) No salvage titles
E) No evidence of frame damage
F) No evidence of flood or water damage
G) No inoperative odometers
H) No odometer roll backs
I) No Lemon Law re-sales
J) No failed-emission tests as defined by applicable state and/or federal laws
K) No safety problems as defined by applicable state and/or federal laws.

(b). <u>Limited Warranty:</u> Dealer will establish and offer a limited warranty ("warranty") on all certified vehicles offered through the Pre-Owned CyberStore. Offering vehicles as certified through the Pre-Owned CyberStore on an "as-is" or "implied warranty only" basis is specifically prohibited. The warranty coverage shall be in addition to any implied warranties prescribed by the laws of the state in which Dealer is located. In all cases, Dealer's limited warranty offering shall not be less favorable to the consumer than the law of the jurisdiction where Dealer is located, and as a minimum will be for a duration of not less than three (3) months or 3,000 miles, whichever occurs first. The minimum warranty terms shall, at a minimum, cover internally lubricated engine, transmission and differential parts, emissions and safety components required by law as well as any additional vehicle systems Dealer specifically promises to cover in its warranty documentation. Dealer will provide each consumer at the time of purchase a written document that explains in detail, the terms and conditions of Dealer's warranty on the vehicle being purchased or leased. Dealer will indemnify ABT for any third-party claims arising under any warranty. Nothing in this section shall be interpreted as preventing Dealer from purchasing independent warranty coverage from a legitimate third party provider as long as the terms and conditions shall meet or exceed the minimum requirements set forth herein and on the ABT Pre-Owned CyberStore Website.

(c). **Vehicle Return Policy:** Except where expressly prohibited by law, Dealer shall offer, in writing, a return policy on all certified vehicles. This policy shall allow a consumer to return a vehicle to Dealer within 72 hours or 300 miles, whichever occurs first, for either a refund of purchase monies or for a reasonably comparable vehicle exchange, at Dealer's discretion. The consumer shall be responsible for any additional sales/use tax or licensing fees incurred as a result of an exchange. In the event the original vehicle is returned damaged, Dealer may refuse the return or, in the alternative, collect from consumer that amount that Dealer can prove was actually expended to repair the vehicle, where permitted by state law. Any tax or licensing charges as a result of withholding these funds shall be the sole responsibility of Dealer and not ABT. Dealer will provide each consumer the name and phone number of the Dealer employee to contact to exercise the exchange option. Dealer will facilitate the consumer's exercise of the option to return the vehicle in good faith, and will use reasonable efforts to maximize the consumer's satisfaction with the exchange experience.

5. **Out of Area Repairs:** Dealer will participate in the emergency repair system established by ABT as a Repairing Dealer (as defined below). Nothing in this section shall be construed to prohibit Dealer or consumer from abiding by the terms and conditions set forth in a third party provider warranty so long as terms and conditions of the warranty coverage do not fall below the minimum standards set forth under this Agreement. Absent any third-party coverage to the contrary, during the warranty period, the emergency repair system allows a consumer of a certified vehicle who is more than 100 miles from Dealer's repair facilities and encounters a situation where the vehicle is not operational (i.e. cannot be driven), to contact the nearest certified Pre-Owned CyberStore Dealer (the "Repairing Dealer") and have the Repairing Dealer perform any warranted service or repair. The Repairing Dealer or the consumer must contact the Dealer prior to any repairs being performed and obtain authorization to repair the vehicle from the Dealer. For covered items other than those that disabled the vehicle, the owner should return to the Dealer. In the interest of consumer satisfaction and improved inter-Dealer relations, when acceptable, independent third-party warranty coverage is not available to the consumer, the resulting repair charges should be calculated on a negotiated basis between the involved dealers but, in no event, shall such costs to the Dealer exceed an internal basis of "cost plus 25%" for parts and labor in all states, except for those states with higher mandates, in which states the applicable law will govern. In the event of a "major" repair (i.e. engine or transmission), the Dealer will have the option of providing alternate transportation to the consumer, retrieving the affected vehicle, and repairing the vehicle at the Dealer's service location.

6(a). **Digital Images:** Dealer may publish an unlimited number of pre-owned vehicle images on the Pre-Owned CyberStore. ***Digital images are not required for vehicles submitted to the Pre-Owned CyberStore but are highly recommended for all listings.*** Dealer shall provide a digital camera of the make and type compatible with ABT's computerized image-uploading characteristics. Dealer shall produce such images in accordance with the specifications and guidelines set forth herein. Placement of images of new vehicles on the Pre-Owned CyberStore is strictly prohibited.

(b). **Digital: Image Specifications and Guidelines:** All vehicle images provided by Dealer shall: (i) contain the vehicle as the sole subject matter of the image, and shall not contain any people, images of people, graphics, photos, artwork, overlays, signs, numbers, banners, balloons or any form of visual advertisement, or any other image that would have the effect of distracting from the vehicle; (ii) be side or angular photographs; and (iii) be true and correct images of the vehicle, without retouching, modification, manipulation, or enhancement. ABT reserves the right to eliminate, without prior notice to Dealer, any vehicle image from the Pre-Owned CyberStore that does not meet the above criteria.

Dealer Initial: __________

Exhibit 10.57

March 10, 2003

Jeffrey Schwartz
President and
Chief Executive Officer
Direct Line: 949.225.4510
FAX: 949.797.0488
jeffreys@autobytel.com

Robert S. Grimes
R.S. Grimes & Co., Inc.
The Empire State Building
350 Fifth Avenue, Suite 7801
New York, NY 10018

Dear Mr. Grimes:

Reference is hereby made to that certain Consulting Agreement entered between Autobytel Inc. (formerly autobytel.com inc.) and Robert Grimes as of April 1, 2000.

The parties hereby agree to extend the term of the agreement through March 31, 2004. All other terms and conditions remain unchanged.

Please evidence your agreement with the foregoing by signing below and returning a copy to the undersigned.

Very truly yours,

AUTOBYTEL INC.

By: /s/ JEFFREY SCHWARTZ

Jeffrey Schwartz

AGREED AND ACCEPTED

This 10th day of March, 2003

/s/ ROBERT S. GRIMES

Robert S. Grimes

Exhibit 21.1

Subsidiaries of Autobytel Inc.

Autobytel Services Corporation, a Delaware corporation.

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

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

Kre8.net inc., a Delaware corporation.

Autobytel Acquisition Corp., a California corporation

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

I-Net Training Technologies, LLC, a Delaware limited liability company.

AutoVisions Communications, Inc., a Delaware corporation.

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

Autobytel.ca inc., a Delaware corporation.

Autobytel Information Services Inc., a Delaware corporation.

Autoweb.com, Inc., a Delaware corporation.

iBuy Inc., a Delaware corporation.

Exhibit 23.1

CONSENT OF INDEPENDENT ACCOUNTANTS

We hereby consent to the incorporation by reference in the Registration Statements on Form S-8 (No. 333-90045, No. 333-77943, No. 333-33038, No. 333-39396, No. 333-67692 and No. 333-70334) of Autobytel Inc. of our report dated January 24, 2003 relating to the financial statements and financial statement schedule as of and for the year ended December 31, 2002, which appears in this Form 10-K.

PRICEWATERHOUSECOOPERS LLP

Orange County, California

March 25, 2003

Exhibit 23.2

MANHEIM
AUCTIONS

March 12, 2003

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

Dear Mr. Amir:

This letter will serve as permission to use our statistics, with proper identification, in your Annual Report on Form 10-K for the fiscal year ended December 31, 2002.

As reflected in the attached, the size of the U.S. automotive market (new and used) in 2001 and 2002 was $736 billion and $747 billion, respectively.

The “attached” is Manheim’s 2003 Used Car Market Report.

Sincerely,

/s/ GEORGE LARGAY

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

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

Exhibit 99.1

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

In connection with the Annual Report of Autobytel Inc. (the “Company”) on Form 10-K for the period ended December 31, 2002 (the “Report”), I, Jeffrey A. Schwartz, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

/s/ JEFFREY A. SCHWARTZ

Jeffrey A. Schwartz
Chief Executive Officer
March 26, 2003

Exhibit 99.2

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

In connection with the Annual Report of Autobytel Inc. (the "Company") on Form 10-K for the period ended December 31, 2002 (the "Report"), I, Hoshi Printer, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

/s/ HOSHI PRINTER

Hoshi Printer
Chief Financial Officer
March 26, 2003