FILED PURSUANT TO RULE 424(B)(3)
REGISTRATION NO. 333-70621

4,500,000 SHARES

LOGO

AUTOBYTEL.COM INC.

COMMON STOCK

We are offering 3,500,000 shares of our common stock. The selling stockholders identified in this prospectus are offering an additional 1,000,000 shares. We will not receive any of the proceeds from the sale of shares by the selling stockholders. There is currently no public market for our common stock. The market price of our common stock after this offering may be higher or lower than the actual price at which the shares of our common stock will be sold in this offering.

Our common stock will be listed on the Nasdaq National Market under the symbol "ABTL."

INVESTING IN THE COMMON STOCK INVOLVES A HIGH DEGREE OF RISK. SEE "RISK FACTORS" BEGINNING ON PAGE 6.

Autobytel.com has agreed to sell to international strategic investors 250,000 shares registered under the registration statement of which this prospectus is a part at the initial public offering price. The sale of these shares will not be subject to the underwriting agreement between Autobytel.com and the underwriters. No underwriting discounts will apply to the sale of these shares, however, we will pay a fee of $350,000 to an affiliate of one of the underwriters.

	PER SHARE	TOTAL
Public Offering Price	$23.00	$103,500,000
Underwriting Discounts	$ 1.61	$ 6,842,500
Proceeds, before expenses, to Autobytel.com	$21.39	$ 69,517,500
Proceeds, before expenses, to the selling stockholders	$21.39	$ 21,390,000

Proceeds, before expenses, to Autobytel.com above does not include $5,400,000 that will be realized as proceeds, before expenses, to Autobytel.com on the sale of 250,000 shares to international strategic investors in this offering.

NEITHER THE SECURITIES AND EXCHANGE COMMISSION NOR ANY STATE SECURITIES COMMISSION HAS APPROVED OR DISAPPROVED OF THESE SECURITIES OR PASSED UPON THE ADEQUACY OR ACCURACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

The selling stockholders have granted the underwriters a 30-day option to purchase up to an additional 637,500 shares of common stock to cover any over-allotments. If the underwriters exercise the over-allotment option in full, these stockholders will receive $13,636,125 from the proceeds.

BT ALEX. BROWN

LEHMAN BROTHERS

PAINEWEBBER INCORPORATED

March 26, 1999

GATEFOLD
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Purchase Request Process utilizes easy-to-use online forms that enable consumers to choose their desired vehicle and options. The purchase request is then routed to the nearest Autobytel.com participating dealer, whom we expect to promptly contact the customer with a haggle-free, competitive offer.

Research allows consumers to empower themselves by gathering up-to-date, useful information regarding vehicles, vehicle pricing and other related topics from Autobytel.com's comprehensive network of automobile information sources.

Dealer Real Time(tm) is a extranet used exclusively by Autobytel.com and its participating dealers that delivers the purchase requests from consumers to Autobytel.com dealers in real time. It notifies dealers when new purchase requests have been received, enables dealers to efficiently manage the purchase process and allows dealers to load their pre-owned vehicle inventories directly to the network.

Pre-Owned Vehicle Purchasing is simplified through Autobytel.com's Pre-Owned CyberStore, which enables consumers to search for vehicles according to specific search parameters such as the price, make, model, mileage, year and location of the vehicle. CyberStore locates and displays the description, location and actual photograph of all vehicles that satisfy the search parameters.

INSIDE COVER
- ------------

New Cars
Consumers can shop for and select a new vehicle that specifically fits their needs using Autobytel.com.

Pre-Owned CyberStore
Consumers can search for, view and select a certified, pre-owned vehicle through CyberStore.

Research
Pricing information, consumer reports, "test drives" and up-to-date automotive industry information help consumers make informed and intelligent buying decisions.

Finance
Consumers can research loan and leasing information and receive online approval.

Insure
Consumers can receive insurance quotes and obtain approval online.

Rewards
Mobalist Rewards and its affiliate programs allow members to earn credits toward the purchase of a new or pre-owned car through Autobytel.com.

Warranty
Consumers can purchase extended warranty and mechanical breakdown insurance through our online affiliates.

My Area
Consumers can keep track of their current cars, watch expenses and plan future "dream car" purchases through this personalized homepage.

PROSPECTUS SUMMARY

In addition to this summary, you should read the more detailed information appearing elsewhere in this prospectus, including the "Risk Factors" section and the Consolidated Financial Statements and Notes thereto.

AUTOBYTEL.COM

We are a leading, branded Internet site for new and pre-owned vehicle information and purchasing services. Through our Web site, www.autobytel.com, consumers can research pricing, specifications and other information regarding new and pre-owned vehicles. When consumers indicate they are ready to buy, they can be connected to Autobytel.com's network of over 2,700 dealers in North America, with each dealer representing a franchise for a particular vehicle make. Dealers participate in our network by entering into non-exclusive contracts with us. We expect our dealers to provide a haggle-free, competitive offer. We provide our services free of charge to consumers and derive substantially all of our revenues from fees paid by participating dealers.

We believe our services benefit both consumers and participating dealers in the following ways:

- we supply consumers with information they can use to make an informed and intelligent vehicle purchasing decision,

- we provide consumers a convenient buying experience,

- we provide consumers access to a broad range of related services such as insurance, financing and leasing through our Web site,

- we reduce our participating dealers' costs by directing to them large volumes of potential automotive buyers, and

- we train our dealers to appropriately deal with knowledgeable Internet consumers.

We introduced our new vehicle purchasing services in May 1995 and our Certified Pre-Owned CyberStore program in April 1997. Our new vehicle purchasing service enables consumers to shop for and select a new vehicle through our Web site by providing research on new vehicles such as pricing, features, specifications and colors. When consumers indicate they are ready to buy, they can complete a purchase request online. A purchase request is an online inquiry a consumer makes to receive a price quote for a specific vehicle from one of the dealers in our network. The CyberStore allows consumers to search for a pre-owned vehicle according to the price, make, model, color, year and location of the vehicle. The CyberStore locates and displays the descriptions, locations and actual photographs of all vehicles that satisfy the consumers' search parameters.

According to CNW Marketing/Research, an independent research organization, United States consumers spent over $657 and $667 billion on new and pre-owned vehicles representing the sale of over 60.0 and 60.3 million vehicles in 1997 and 1998, respectively. Although automotive retailing attracts significant consumer dollars, we believe that consumers associate the traditional vehicle buying experience with high-pressure sales tactics. In the United States, new vehicles are traditionally sold through face-to-face, negotiated transactions at approximately 49,000 dealerships franchised by manufacturers. Approximately 40% of pre-owned vehicles are also sold through these dealerships. Our company was founded with the objective of significantly improving the purchasing process for consumers and dealers.

Since inception, we have successfully expanded our dealer network to over 2,700 dealers and have directed approximately 2.5 million purchase requests to our dealer network. During 1998, we directed over 1.3 million purchase requests to our dealers. The dealers in our network use our online information platform, the Dealer Real Time system. The Dealer Real Time system is an Internet-based communications platform that provides dealers with immediate purchase request information, the ability to track customers and purchase requests, and other value-added features, including automatic uploading of pre-owned vehicle inventory into our database. We believe that the Dealer Real Time system gives dealers a competitive advantage compared to delivering purchase requests by fax.

We have developed strategic marketing, advertising, development and distribution affiliations with other companies, including:

- Internet search engine providers, such as Excite, Inc.,

- cable service providers, such as MediaOne Interactive Services, Inc.,

- international automotive distributors, such as Inchcape Automotive Limited and Bilia AB,

- Internet providers of vehicle pricing and specification information, such as Edmund's Publications Corp., Kelley Blue Book, Pace Publications, Inc. and IntelliChoice, Inc., and

- financing and insurance providers, such as Chase Manhattan Automotive Finance Corporation, General Electric Capital Auto Financial Services, Inc. and New Hampshire Insurance Corporation, a member company of the American International Group.

We have agreed to sell to existing and potential strategic investors, including companies with international automotive operations, 250,000 shares at the initial public offering price. We have entered into agreements with e-solutions, Inc., Intec, Inc. and Trans Cosmos, Inc. to provide for the organization and establishment of a joint venture in Japan and the license for the use of our name and systems.

Following this offering, our executive officers and directors will beneficially own or control approximately 5,856,614 shares or 30% of the outstanding shares of our common stock. In addition, after this offering, our founders, Peter Ellis and John Bedrosian will beneficially own or control approximately 19% and 17%, respectively, of the outstanding shares of our common stock. If the underwriters' over-allotment option is exercised in full, our founders will beneficially own or control approximately 17% and 15%, respectively, of the outstanding shares of our common stock.

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 executive offices are located at 18872 MacArthur Boulevard, Irvine, California 92612-1400, and our telephone number is (949) 225-4500. Our Web site is located at www.autobytel.com.

THE OFFERING

The information below is stated as of December 31, 1998. Investors should be aware that the aggregate number of shares of common stock to be outstanding after the offering does not include 2,859,340 shares subject to outstanding options and 773,133 shares subject to outstanding warrants.

Common stock offered by Autobytel.com...	3,500,000 shares
Common stock offered by the selling stockholders..........................	1,000,000 shares
Common stock to be outstanding after the offering..............................	17,858,745 shares
Use of proceeds.........................	For working capital and general corporate purposes
Nasdaq National Market symbol...........	"ABTL"

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

We have calculated pro forma net loss per share assuming the conversion on their date of issuance of the outstanding preferred stock into common stock. The as adjusted for the offering column reflects the receipt by Autobytel.com of the estimated net proceeds of $72.8 million from our sale of common stock offered in this offering.

	INCEPTION (JANUARY 31, 1995) TO DECEMBER 31, 1995	YEARS ENDED DECEMBER 31, 1996	1997	1998
STATEMENT OF OPERATION DATA:				
Revenues................................	$ 274	$ 5,025	$ 15,338	$ 23,826
Loss from operations....................	(1,030)	(6,159)	(17,415)	(20,643)
Net loss................................	$(1,030)	$(6,035)	$(16,810)	$(19,398)
Basic net loss per share................	$ (0.12)	$ (0.73)	$ (2.03)	$ (2.30)
Shares used in computing basic net loss per share.............................	8,250	8,252	8,291	8,423
Pro forma basic net loss per share......	$ (0.12)	$ (0.68)	$ (1.53)	$ (1.49)
Shares used in computing pro forma basic net loss per share....................	8,250	8,849	10,967	13,008

	DECEMBER 31, 1998 ACTUAL	AS ADJUSTED FOR THE OFFERING
BALANCE SHEET DATA:		
Cash and cash equivalents................................	$ 27,984	$100,802
Working capital..	23,436	96,254
Total assets...	34,207	107,025
Accumulated deficit......................................	(43,273)	(43,273)
Stockholders' equity.....................................	25,868	98,686

RISK FACTORS

You should read the following risk factors carefully before purchasing our common stock.

WE HAVE A HISTORY OF NET LOSSES AND EXPECT NET LOSSES FOR THE FORESEEABLE FUTURE. IF WE CONTINUE TO LOSE MONEY, OUR OPERATIONS WILL NOT BE FINANCIALLY VIABLE.

We were formed in January 1995 as Auto-By-Tel LLC, and first received revenues from operations in March 1995. We therefore have a limited operating history upon which you may evaluate our operations and future prospects. Because of the recent emergence of the Internet-based vehicle information and purchasing industry, none of our executives has significant experience in the industry. This limited operating history and management experience means it is difficult for us to predict future operating results. We have incurred losses every quarter since inception and expect to continue to incur losses for the foreseeable future. We had an accumulated deficit of $43.3 million and $23.9 million as of December 31, 1998 and 1997, respectively. 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 new and rapidly evolving markets, such as the market for Internet commerce. To achieve profitability, we must, among other things:

- generate increased vehicle buyer traffic to our Web site,
- continue to send new and pre-owned vehicle purchase requests to dealers that result in sufficient dealer transactions to justify our fees,
- continue to expand the number of dealers in our network and enhance the quality of dealers,
- respond to competitive developments,
- increase our brand name visibility,
- successfully introduce new services,
- 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.

IF OUR DEALER TURNOVER INCREASES, OUR DEALER NETWORK AND REVENUE DERIVED FROM THIS NETWORK MAY DECREASE.

Substantially all of our revenues are derived from fees paid by our network of subscribing dealerships. If dealer turnover increases and we are unable to add new dealers to mitigate any turnover, our revenues will decrease as our network of dealers decreases. If the number of dealers in our network declines our revenues may decrease and our business, results of operations and financial condition will be materially and adversely affected. A material factor affecting dealer turnover 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. All of our subscribing dealerships have entered into written marketing agreements with us having a stated term of one year or five years, but they are cancelable at the option of either party upon 30 days notice. We cannot assure that dealers will not terminate their agreements with us. Subscribing dealers may terminate their relationship with us for any reason, including an unwillingness to accept our subscription terms or in order to join alternative marketing programs. Our business is dependent upon our ability to attract and retain qualified new and pre-owned vehicle dealers. During 1998, 556 subscribing dealers in the United States terminated their affiliation with us or were terminated by us. During 1998 we also added 1,323 subscribing dealers to our dealership network. In order for us to grow or maintain our dealer network, we may need to reduce dealer turnover.

WE MAY LOSE SUBSCRIBING DEALERS IF WE RECONFIGURE DEALER TERRITORIES. IF WE LOSE DEALERS, WE WILL LOSE THE REVENUES ASSOCIATED WITH THOSE DEALERS.

If the volume of purchase requests increases, we may need to reduce or reconfigure the exclusive territories currently assigned to dealerships in order 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. The loss of dealers will cause a subsequent reduction in revenue unless we are able to mitigate this loss by adding new dealers or increasing the fees we receive from our other dealers. A dealer also could sue us to prevent such reduction or reconfiguration, or collect damages from us. We have experienced one such lawsuit -- for more details, see the section in this prospectus entitled "Business -- Litigation." A material decrease in the number of dealers subscribing to our network 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 brand could be damaged and the number of consumers using our services may decrease. We devote significant efforts to train participating dealerships 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 name and could 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 may fluctuate due to many factors. Our expense levels are based in part on our expectations of future revenues which may vary significantly. We plan our business operations based on increased revenues and if our revenues do not increase faster than our 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 site and other sites that refer traffic to our Web site,

- technical difficulties, system downtime or Internet brownouts,

- 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.

To date, our quarter to quarter growth in revenues have offset any effects due to seasonality. However, we expect our business to experience seasonality as it matures. If this 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, operating results and financial condition. We anticipate that purchase requests will typically increase during the first and third quarters when new vehicle models are introduced and will typically decline during the second and fourth quarters. Internet and commercial online service usage and the growth rate of such usage typically declines during the summer.

INTENSE COMPETITION COULD REDUCE OUR MARKET SHARE AND HARM OUR FINANCIAL PERFORMANCE. OUR MARKET IS COMPETITIVE NOT ONLY BECAUSE THE INTERNET HAS MINIMAL 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 and automotive brokers. 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 is expected to increase significantly in the future. Our business is characterized by minimal barriers to entry, and new competitors can launch a competitive service at relatively low cost. To compete successfully as an Internet-based commercial entity, we must significantly increase awareness of our services and brand name. Failure to achieve these objectives 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 Autoweb.com, Cendant Membership Service, Inc.'s AutoVantage, Microsoft Corporation's Carpoint and Stoneage Corporation. Republic Industries, Inc., a large consolidator of dealers, has announced its intention to launch 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 vehicle manufacturers have their own Web sites and many have recently launched or announced plans to launch online buying services, such as General Motors Corporation's BuyPower. We also compete with vehicle insurers, lenders and lessors as well as other dealers that are not part of our network. 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,

- speed and quality of fulfillment,

- variety of value-added services,

- ease of use,

- customer satisfaction,

- 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.

IF ANY OF OUR RELATIONSHIPS WITH INTERNET SEARCH ENGINES OR ONLINE AUTOMOTIVE INFORMATION PROVIDERS TERMINATES, OUR PURCHASE REQUEST VOLUME COULD DECLINE. IF OUR PURCHASE REQUEST VOLUME DECLINES, OUR PARTICIPATING DEALERS MAY NOT BE SATISFIED WITH OUR SERVICES AND MAY TERMINATE THEIR RELATIONSHIP 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 site. 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 to decline. Since our dealers would be receiving fewer purchase requests, they 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 relationship with us or force us to decrease the fees we charge for our services, our revenues will decline which will 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, such as Excite, and online automotive information providers, such as Edmund's and Kelley Blue Book. For example, in 1997 and 1998, approximately 49% and 34%, respectively, of our purchase requests came through Edmund's. We may not be able to maintain our relationship with Edmund's or other online service providers or find alternative, comparable marketing partners capable of originating significant numbers of purchase requests on terms satisfactory to us. In addition, 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. Also, our agreement with Excite relating to our sponsorship of Netscape Communications Corporation's NetCenter Auto Channel is conditioned on Excite's NetCenter agreement with Netscape remaining in effect. The

NetCenter agreement between Excite and Netscape can be terminated in the event of a change in control which may be triggered if America Online's proposed acquisition of Netscape occurs.

IF WE CAN NOT BUILD 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 brand will depend largely on our ability to obtain a leadership position in Internet commerce. If dealers 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 pre-owned 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 brand. Our brand may not be able to gain widespread acceptance among consumers or dealers. Our failure to develop our brand 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 AND 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 and marketing, managerial and technical personnel. In addition, as we introduce new services we will need to hire a significant number of personnel. Competition for such personnel is intense, and 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 and 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, some of whom are employed on an at-will basis and all of whom have worked together for only a short period of time. We maintain "key person" life insurance in the amount of $3.0 million on the life of Mark W. Lorimer, our Chief Executive Officer and President. The loss of the services of Mr. Lorimer or Ann Marie Delligatta, Executive Vice President and Chief Operating Officer, or one or more of our other executive officers or key employees could have a material adverse effect on our business, results of operations and financial condition.

WE ARE A NEW BUSINESS IN A NEW INDUSTRY AND NEED TO MANAGE OUR GROWTH AND OUR ENTRY INTO NEW BUSINESS AREAS IN ORDER TO AVOID INCREASED EXPENSES WITHOUT CORRESPONDING REVENUES.

We are constantly expanding our operations and introducing new services to consumers and dealers in order to establish ourselves as a leader in the evolving market for Internet-based vehicle purchasing services. We also intend to enter into new foreign markets. The growth of our operations requires us to increase expenditures before we generate revenues. For example, we need to hire personnel to oversee the introduction of new services before we generate revenue 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, financial condition and results of operations. As of December 31, 1998, we had 180 employees, compared to 159 employees as of December 31, 1997, and 73 employees as of December 31, 1996.

We believe establishing industry leadership also requires us to:

- test, introduce and develop new services and products, including enhancing our Web site,

- 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 you that we can successfully manage these tasks.

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 and that we are not subject to the coverage of state and motor vehicle dealer licensing laws. However, in the event that 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, we may become subject to fines or other penalties or 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 revenues may decline and our business, results of operations and financial condition could be materially and adversely affected.

A Federal district court in Michigan has ruled that our dealer subscription agreement is not a "franchise" under Michigan law. However, if our relationship or written agreement with our dealers were found to be a "franchise" under federal or state franchise laws, then we could be subjected to other regulations, such as franchise disclosure and registration requirements and limitations on our ability to effect changes in our relationships with our dealers. We also believe that our dealer marketing service does not qualify as an automobile brokerage activity and therefore state broker licensing requirements do not apply to us. In response to Texas Department of Transportation concerns, we modified our marketing program in that state to include a pricing model under which all subscribing dealerships in Texas are charged uniform fees based on the population density of their particular geographic area and to make our program open to all dealerships who wish to apply.

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.

We currently hold financial broker licenses in the states of Florida, Indiana, Rhode Island and Wisconsin and have applied for renewals in the states of California and Colorado. If we are required to be licensed elsewhere, 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 other 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, and our business, results of operations and financial condition could be materially and adversely affected.

We provide a link on our Web site to an online insurance application program offered by the American International Group. We receive fees from a member company of the American International Group in connection with this advertising activity. We do not believe that this 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 these uncertainties, we currently hold, through a wholly-owned subsidiary, insurance agent licenses in California, Indiana, Nebraska, New Jersey, and Utah. We have applied for insurance agent licenses in the remaining thirty-two states that issue corporate licensing and are awaiting approval. In the event other 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, and our business, results of operations and financial condition could be materially and adversely affected.

INTERNET COMMERCE HAS YET TO ATTRACT SIGNIFICANT REGULATION. GOVERNMENT REGULATIONS MAY RESULT IN ADMINISTRATIVE MONETARY FINES, PENALTIES OR TAXES 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, national or international 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 domestic and foreign 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; insurance licensing laws; and motor vehicle dealership licensing laws, which 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.

The introduction of new services and expansion of our operations to foreign countries may require us to comply with additional, yet undetermined, laws and regulations. Compliance may require obtaining appropriate business licenses, filing of bonds, appointment of foreign agents and periodic business reporting activity. The failure to adequately comply with these future laws and regulations may delay or possibly prevent some of our products or services from being offered in a particular foreign country, thereby having an adverse affect on our results of operations.

OUR SUCCESS IS DEPENDENT ON OUR 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 site and technology obsolete. 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 site, Dealer Real Time system and other proprietary technology entails significant technical and business risks. We may not be successful in using new technologies effectively or adapting our Web site, Dealer Real Time system, or other proprietary technology to customer requirements or to emerging industry standards.

WE ARE VULNERABLE TO COMMUNICATIONS SYSTEM INTERRUPTIONS BECAUSE ALL OF OUR PRIMARY SERVERS ARE LOCATED IN A SINGLE LOCATION. IF COMMUNICATIONS TO THAT LOCATION WERE INTERRUPTED, OUR OPERATIONS COULD BE ADVERSELY AFFECTED.

We host our Web site and Dealer Real Time system at our corporate headquarters in Irvine, California. Although we maintain redundant local offsite backup servers, all of our primary servers are located at our corporate headquarters and 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. We maintain business interruption insurance which pays up to $6 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 revenue, few are profitable. We can not 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.

IF CONSUMERS DO NOT ADOPT INTERNET COMMERCE AS A MAINSTREAM MEDIUM OF COMMERCE, OUR REVENUES MAY NOT GROW AND OUR EARNINGS MAY SUFFER.

The success of our services will depend upon the adoption of the Internet by consumers and dealers as a mainstream medium for commerce. 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. 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. In addition, dealers must be persuaded to adopt new selling models and be trained to use and invest in developing technologies. Moreover, critical issues concerning the commercial use of the Internet, such as, ease of access, security, reliability, cost, and quality of service, remain unresolved and may impact the growth of Internet use. If the market for Internet-based vehicle marketing services fails to develop, develops slower than expected 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.

THE PUBLIC MARKET FOR OUR COMMON STOCK MAY BE VOLATILE, ESPECIALLY SINCE MARKET PRICES FOR INTERNET-RELATED AND TECHNOLOGY STOCKS HAVE OFTEN BEEN UNRELATED TO OPERATING PERFORMANCE.

Prior to this offering, there has been no public market for our common stock. We cannot assure that an active trading market will develop or be sustained or that the market price of the common stock will not decline. Even if an active trading market does develop, the market price of the common stock is likely 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,

- announcements of new product or service offerings,

- technological innovations,

- competitive developments,

- changes in financial estimates by securities analysts,

- conditions and trends in the Internet and electronic commerce industries,

- adoption of new accounting standards affecting the 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. The trading prices of many technology companies' stocks are at or near historical highs. We cannot assure that such high trading prices will be sustained. These broad market factors may adversely affect the market price of our common stock. In addition, general economic, political and market conditions such as recessions, interest rates or international currency fluctuations, 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, if instituted, 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.

WE FACE UNCERTAINTIES WITH CHANGING LEGISLATION IN THE AUTOMOTIVE INDUSTRY WHICH COULD REQUIRE INCREASED REGULATORY AND LOBBYING COSTS AND MAY HARM OUR BUSINESS.

Our purchasing service may result in changing the way vehicles are sold which may be viewed as threatening by new and pre-owned vehicle dealers who do not subscribe to the Autobytel.com program. 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 service promotes. 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 would have a material adverse effect on our results of operations and financial condition.

OUR INTERNATIONAL EXPANSION MAY REQUIRE US TO COMPLY WITH BURDENSOME REGULATORY, TARIFF AND LICENSING REQUIREMENTS. OUR NEED TO COMPLY WITH BURDENSOME GOVERNMENTAL REQUIREMENTS MAY ADVERSELY AFFECT OUR ABILITY TO GROW OUR BUSINESS.

We intend to expand our new vehicle purchasing service to foreign markets through licensing our technology, business processes and tradenames and by establishing relationships with vehicle dealers and strategic partners located in foreign markets.

By expanding our operations to various other countries, we may become subject to laws or treaties that regulate the marketing, distribution and sale of motor vehicles. We will need to spend our resources to determine whether the laws of the countries in which we seek to operate require us to modify, or prohibit the use of, our Autobytel.com system. In addition, the laws of other countries may impose licensing, bonding or similar requirements on us as a condition to doing business in these countries.

WE HAVE LIMITED EXPERIENCE IN PROVIDING OUR INTERNET-BASED MARKETING SERVICE ABROAD. WE MAY NOT BE SUCCESSFUL IN ESTABLISHING OUR BUSINESS ABROAD WHICH MAY LIMIT OUR FUTURE GROWTH.

We have had limited experience in providing our Internet-based marketing service abroad and we cannot be certain that we will be successful in introducing or marketing our services abroad. In addition, there are risks inherent in conducting business in international markets, such as:

- changes in political conditions,
- regulatory requirements,
- potentially weaker intellectual property protections,
- tariffs and other trade barriers, fluctuations in currency exchange rates, potentially adverse tax consequences,
- difficulties in managing or overseeing foreign operations, and
- educating consumers and dealers who may be unfamiliar with the benefits of online marketing and commerce.

One or more of such factors may have a material adverse effect on our current or future international operations and, consequently, on our business, results of operations and financial condition.

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 breach could cause us to have liability to one or more third parties and disrupt all or part of our operations. Any of these events would have a material adverse effect on our business, results of operations and financial condition. 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 insurance does not currently protect against such losses.

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 SITE, 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 site 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 site 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.

WE HAVE NO SPECIFIC PLAN FOR THE PROCEEDS OF THE OFFERING AND OUR MANAGEMENT MAY ALLOCATE OUR PORTION OF THE PROCEEDS TO USES THAT COULD ADVERSELY AFFECT OUR STOCKHOLDERS.

We currently have no specific plans for the net proceeds of the offering. As a consequence, our management will have the discretion to allocate this portion of the net proceeds of this offering to uses that the stockholders may not deem desirable. We may not be able to invest these proceeds to yield a significant return. Substantially all of the proceeds of the offering will be invested in short-term, interest-bearing, investment grade securities for an indefinite period of time.

OUR BUSINESS COULD BE INTERRUPTED BY YEAR 2000 PROBLEMS IF OUR VENDORS, CONSUMERS OR DEALERS ARE UNABLE TO CONVERT THEIR SYSTEMS. THEIR FAILURE TO CONVERT THEIR SYSTEMS MAY AFFECT THE ABILITY OF OUR CONSUMERS AND DEALERS TO ACCESS OUR WEB SITE OR THE DEALER REAL TIME SYSTEM. OUR BUSINESS WOULD SUFFER IF SUCH FAILURE PREVENTED ACCESS TO OUR ONLINE SYSTEMS.

Because many computer applications have been written using two digits rather than four to define the applicable year, date-sensitive software may recognize a date using "00" as the year 1900 rather than the year 2000. This "Year 2000 issue" could result in system failures or miscalculations causing disruptions of operations, including disruptions of our Web site, the Dealer Real Time system or normal business activities.

We cannot predict the extent to which the Year 2000 issue will affect our vendors, consumers or dealers, or the extent to which we would be vulnerable if such parties fail to resolve any Year 2000 issues on a timely basis. The failure of such parties to convert their systems on a timely basis or effect a conversion that is compatible with our systems in order to avoid any Year 2000 issues could have a material adverse effect on us. In addition, to the extent our customers are unable to access our Web site or dealers are unable to access the Dealer Real Time system, such failures would have a material adverse effect on our business, results of operations, or financial condition.

The worst-case scenario related to the Year 2000 issue would be an overall failure of the national Internet and telecommunications infrastructure. If this failure were to prevent users and dealers from accessing the Internet, we would attempt to provide alternative means to allow users to connect to our servers. Any national disruption to the telecommunications systems used by our business will have a material adverse effect on our business, results of operations, or 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 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 brand. 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. Misappropriation of our intellectual property or potential litigation would have a material adverse effect on our business, results of operations and financial condition. 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. 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.

OUR FOUNDERS, OFFICERS AND DIRECTORS AND THEIR AFFILIATES HAVE SUBSTANTIAL CONTROL OF OUR VOTING STOCK AND HAVE THE ABILITY TO MAKE DECISIONS THAT COULD ADVERSELY AFFECT STOCKHOLDERS. SUCH DECISIONS COULD ADVERSELY AFFECT OUR STOCK PRICE.

The control of a large amount of our stock by insiders could have an adverse effect on the market price of our common stock. Following this offering, our executive officers and directors will beneficially own or control approximately 5,856,614 shares or 30% of the outstanding shares of our common stock. In addition, after this offering, our founders, Peter Ellis and John Bedrosian will beneficially own or control approximately 19% and 17%, respectively, of the outstanding shares of our common stock. If the underwriters' over-allotment option is exercised in full, our founders will beneficially own or control approximately 17% and 15%, respectively, of the outstanding shares of our common stock. Our officers, directors, founders and their affiliates, assuming they vote together, will have the ability to control the election of our board of directors and the outcome of corporate actions requiring stockholder approval, including mergers and other changes of corporate control, going private transactions and other extraordinary transactions.

SUBSTANTIAL SALES OR THE PERCEPTION OF FUTURE SALES OF OUR COMMON STOCK MAY DEPRESS OUR STOCK PRICE. SINCE THE MARKET PRICES FOR INTERNET-RELATED STOCKS ARE LIKELY TO REMAIN VOLATILE, OUR STOCK PRICE MAY BE MORE ADVERSELY AFFECTED THAN OTHER COMPANIES BY SUCH FUTURE SALES.

Sale of substantial numbers of shares of common stock in the public market could adversely affect the market price of our common stock and make it more difficult for us to raise funds through equity offerings in the future. A substantial number of outstanding shares of common stock and shares of common stock issuable upon exercise of outstanding stock options will become available for resale in the public market at prescribed times. Of the 17,858,745 shares to be outstanding after the offering, 4,250,000 shares offered hereby will be eligible for immediate sale in the public market without restriction and an additional 250,000 shares offered hereby will be eligible for sale without restriction after 180 days from the date of this prospectus. Other outstanding shares of common stock are restricted by 180-day lock-up agreements with the underwriters, and 6,446,477 shares held by the selling stockholders are restricted by 270-day lock-up agreements with the underwriters. Upon the expiration of these lock-up agreements, such shares of common stock will become eligible for sale in the public market in accordance with the provisions of Rules 144 and 701 under the Securities Act and any contractual restrictions on their transfer, as applicable. BT Alex. Brown Incorporated may, in its sole discretion and at any time without notice, release all or any portion of the shares subject to lock-up agreements. Upon completion of the offering, the holders of approximately 12,997,957 shares of common stock will be entitled to certain registration rights with respect to such shares until such time as the holders of such common stock may sell such shares under Rule 144 of the Securities Act. In addition, we intend to register the shares of common stock reserved for issuance under our 1996 Stock Option Plan, 1996 Stock Incentive Plan, 1996 Employee Stock Purchase Plan, 1998 Stock Option Plan and 1999 Stock Option Plan after the offering.

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 the net proceeds of this offering that we will receive, together with our cash, cash equivalents and short-term investments, will be sufficient to meet our anticipated needs for working capital and other cash requirements for at least twelve months following the effective date of this prospectus. 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. 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, effective upon the closing of this offering, provide that the board of directors will be 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 PROSPECTUS.

This prospectus 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 prospectus. The cautionary statements made in this prospectus should be read as being applicable to all forward-looking statements wherever they appear in this prospectus.

USE OF PROCEEDS

We estimate that the proceeds from the sale by us of the 3,500,000 shares of common stock offered in this offering at the initial public offering price of $23.00 per share, after deducting underwriting discounts and estimated offering expenses, will be approximately $72.8 million. The selling stockholders will receive $21.4 million from the sale of one million shares of common stock, after deducting underwriting discounts, and an additional $13.6 million if the underwriters' over-allotment option is exercised in full. We will not receive any proceeds from the sale of common stock by the selling stockholders. We intend to use all of the net proceeds from the offering for general corporate purposes, which may include online and traditional advertising programs designed to strengthen the Autobytel.com brand name, information technology investments to support and further develop our Web site and Dealer Real Time system and new products and services. We may use a portion of the proceeds from the offering for possible acquisitions of or investments in businesses and the introduction of products or technologies that expand, complement or are otherwise related to our current or planned services. We have no current plans, agreements or commitments with respect to any such transaction, and we are not currently engaged in any negotiations with respect to any such transaction. Pending such uses, we will invest the proceeds in short-term, investment grade, interest-bearing securities.

DIVIDEND POLICY

We have never declared or paid 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.

CAPITALIZATION

The following table sets forth the actual capitalization of Autobytel.com derived from our audited financial statements as of December 31, 1998. The as adjusted capitalization of Autobytel.com as of December 31, 1998 set forth in the following table reflects the conversion of all outstanding shares of preferred stock into 5,852,290 shares of common stock and the sale by us of 3,500,000 shares of common stock pursuant to the offering at the public offering price of $23.00 net of underwriting discounts and estimated offering expenses. The capitalization information set forth in the table below is qualified by the more detailed consolidated financial statements and related notes included elsewhere in this prospectus and should be read in conjunction with such consolidated financial statements and related notes. Our stated number of common shares outstanding does not include 2,859,340 shares of common stock issuable upon exercise of options at a weighted average exercise price of $10.87 per share and 773,133 shares of common stock issuable upon exercise of warrants outstanding at a weighted average exercise price of $13.12 per share.

	DECEMBER 31, 1998	
	ACTUAL	AS ADJUSTED
	(IN THOUSANDS)	
Cash and cash equivalents	$ 27,984	$100,802
Stockholders' equity:		
Convertible preferred stock, $0.001 par value; 11,445,187 shares authorized, 7,436,653 shares issued and outstanding, actual; 11,445,187 shares authorized, no shares issued and outstanding, as adjusted	7	--
Common stock, $0.001 par value; 50,000,000 shares authorized, 8,506,455 shares issued and outstanding, actual; 50,000,000 shares authorized, 17,858,745 shares issued and outstanding, as adjusted	8	18
Warrants	1,332	1,332
Additional paid-in capital	67,813	140,628
Cumulative translation adjustment	(19)	(19)
Accumulated deficit	(43,273)	(43,273)
Total stockholders' equity	25,868	98,686
Total capitalization	$ 25,868	$ 98,686

DILUTION

The pro forma net tangible book value of Autobytel.com as of December 31, 1998 was $25.8 million or $1.80 per share of common stock. Pro forma net tangible book value per share is equal to Autobytel.com's total tangible assets less its total liabilities, divided by the number of shares of common stock outstanding on a pro forma basis after giving effect to the conversion of the preferred stock into 5,852,290 shares of common stock concurrent with the closing of the offering. After giving effect to the sale of shares of common stock offered in this offering at the initial public offering price of $23.00 and the receipt by Autobytel.com of the estimated net proceeds from such sale, after deducting underwriting discounts and estimated offering expenses, the pro forma net tangible book value of Autobytel.com at December 31, 1998 would have been $98.6 million, or $5.52 per share. This represents an immediate increase in pro forma net tangible book value of $3.72 per share to existing stockholders and an immediate dilution of $17.48 per share to new investors. The following table illustrates this per share dilution:

Initial public offering price per share		$23.00
Pro forma net tangible book value per share before the offering	$1.80	
Increase per share attributable to purchases of common stock offered in this offering	3.72	
Pro forma net tangible book value per share after the offering		5.52
Dilution per share to purchasers of common stock offered in this offering		$17.48

The following table summarizes, as of December 31, 1998, the number of shares of common stock purchased from Autobytel.com, the total consideration paid to Autobytel.com and the average price per share paid by existing stockholders and by the investors purchasing shares of common stock in this offering, before deducting underwriting discounts and estimated offering expenses at the public offering price of $23.00 per share:

	SHARES PURCHASED		TOTAL CONSIDERATION		AVERAGE PRICE PER SHARE
	NUMBER	PERCENT	AMOUNT	PERCENT	
Existing stockholders	14,358,745	80.4%	$ 68,033,000	45.8%	$ 4.74
New investors	3,500,000	19.6	80,500,000	54.2	23.00
Total	17,858,745	100.0%	$148,533,000	100.0%	$ 8.32

SELECTED CONSOLIDATED FINANCIAL DATA
(IN THOUSANDS, EXCEPT PER SHARE DATA)

The following selected consolidated financial data should be read in conjunction with our consolidated financial statements and related notes and "Management's Discussion and Analysis of Financial Condition and Results of Operations" appearing elsewhere in this prospectus. The statement of operations data for the period from inception (January 31, 1995) to December 31, 1995, the years ended December 31, 1996, 1997 and 1998 and the balance sheet data as of December 31, 1995, 1996, 1997 and 1998 are derived from our consolidated financial statements which have been audited by Arthur Andersen LLP, independent auditors, and are included elsewhere in this prospectus. See "Management's Discussion and Analysis of Financial Condition and Results of Operations." We have calculated pro forma basic net loss per share assuming the conversion of the outstanding preferred stock on their issue date into common stock. The general and administrative expenses include a non-recurring $1.1 million charge associated with a proposed initial public offering that was withdrawn in April 1997.

	INCEPTION (JANUARY 31, 1995) TO DECEMBER 31,	YEARS ENDED DECEMBER 31,		
	1995	1996	1997	1998
STATEMENT OF OPERATIONS DATA:				
Revenues	$ 274	$ 5,025	$ 15,338	$ 23,826
Operating expenses:				
Sales and marketing	930	7,790	21,454	30,033
Product and technology development	99	1,753	5,448	8,528
General and administrative	275	1,641	5,851	5,908
Total operating expenses	1,304	11,184	32,753	44,469
Loss from operations	(1,030)	(6,159)	(17,415)	(20,643)
Other income, net	--	124	620	1,280
Loss before provision for income taxes	(1,030)	(6,035)	(16,795)	(19,363)
Provision for income taxes	--	--	15	35
Net loss	$(1,030)	$(6,035)	$(16,810)	$(19,398)
Basic net loss per share	$ (0.12)	$ (0.73)	$ (2.03)	$ (2.30)
Shares used in computing basic net loss per share	8,250	8,252	8,291	8,423
Pro forma basic net loss per share	$ (0.12)	$ (0.68)	$ (1.53)	$ (1.49)
Shares used in computing pro forma basic net loss per share	8,250	8,849	10,967	13,008

	DECEMBER 31,				DECEMBER 31, 1998
	1995	1996	1997	1998	AS ADJUSTED FOR THE OFFERING
BALANCE SHEET DATA:					
Cash and cash equivalents	$ 48	$ 9,062	$ 15,813	$ 27,984	$100,802
Working capital	(1,099)	5,977	10,938	23,436	96,254
Total assets	285	12,298	20,513	34,207	107,025
Accumulated deficit	(1,030)	(7,065)	(23,875)	(43,273)	(43,273)
Stockholders' equity (deficit)	(990)	7,996	13,259	25,868	98,686

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

The following discussion of the results of operations and financial condition of Autobytel.com should be read in conjunction with our consolidated financial statements and related notes included elsewhere in this prospectus. 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 set forth in the section entitled "Risk Factors" and elsewhere in this prospectus.

OVERVIEW

We are a leading, branded Internet site for new and pre-owned vehicle information and purchasing services connecting consumers to our network of 2,718 participating dealers, as of December 31, 1998, in the United States and Canada. Through our Web site, www.autobytel.com, consumers can research pricing, specifications and other information regarding new and pre-owned vehicles. When consumers indicate they are ready to buy, they can be connected to Autobytel.com's dealer network. In addition, we are continuing to develop ancillary programs for consumers such as financing, insurance and warranty services. We introduced our new vehicle marketing service in 1995, and in 1997 commenced our CyberStore program.

Our revenues have increased from $274,000 in 1995 to $23.8 million in 1998. We derive substantially all of our revenues from fees paid by subscribing dealers, and we expect to be primarily dependent on our dealer network for revenues in the foreseeable future. Dealers using our services pay an initial subscription fee, as well as ongoing monthly fees based on the aggregation and transmittal to them of purchase requests and through fiscal 1997, an annual fee. In January 1998, Autobytel.com started to eliminate annual fees and increase monthly fees to subscribing dealers. Average monthly program fees per dealer were $947, $785 and $557 in 1998, 1997 and 1996, respectively. We also derive some revenue on a per transaction basis by facilitating transactions between consumers and other third parties, primarily lenders and insurance companies. We reserve the right to raise our fees to dealers after 30 days notice.

Since the end of January 1999 and on a going forward basis we are converting our dealers to new contracts with one year terms. Initial subscription fees from dealers are recognized ratably over the first twelve months of each dealer's contract in order to match the costs of integrating and training dealers with revenues earned. Amortized revenues from initial subscription fees were $2.4 million, $3.8 million and $2.2 million in 1998, 1997 and 1996, respectively. We anticipate that our initial subscription fee amortization revenue will decline as a percentage of total revenue over time as monthly fee revenues continue to grow. As our dealer network grows in absolute terms, the number of new dealers added as a percentage of total dealers is growing at a slower pace. Therefore, initial subscription fee revenue is declining as a percentage of total revenue while monthly fee revenues are growing. Monthly fees are recognized in the period the service is provided. Monthly fee revenues were $18.2 million, $8.5 million, and $2.6 million in 1998, 1997 and 1996, respectively. Annual fees are recognized ratably over twelve months. Amortized revenues from annual fees were $2.3 million, $1.1 million and $103,000 in 1998, 1997 and 1996, respectively. Annual fee revenue will decline in 1999 because we discontinued the practice of charging annual fees in late 1998. From October 1996 to February 1998, our revenues also included revenues from sales of personal computers to our dealers, a practice we discontinued in the first quarter of 1998. Our financial statements include revenues derived from computer equipment sales of $197,000 in 1998, $1.5 million in 1997, and $147,000 in 1996. Excluding these revenues, our revenues would have been $23.6 million, $13.8 million and $4.9 million in 1998, 1997 and 1996, respectively.

Although we do not derive any direct revenue from the volume of purchase requests, we believe our ability to increase the number of subscribing dealers and the amount of fees paid by dealers is related to the volume of purchase requests routed through our Web site. Vehicle purchase requests routed through our online system increased from approximately 345,000 in 1996 to approximately 761,000 in 1997, an increase of 121%, and to 1.3 million in 1998, an increase of 71% over the previous year. Since inception we have directed approximately 2.5 million purchase requests to dealers.

We believe that our revenue growth has been and will continue to be primarily dependent on our ability to continue to drive a significant number of purchase requests to our dealer network, increase the number of dealers and increase the average fees paid by each dealer. Since inception, our dealer network has expanded in each quarter and as of December 31, 1998 there were 2,718 dealers. Of these dealers, 2,386 dealers, or 88% pay for our service and we call them core dealers. The remaining 332 dealers, or 12% do not pay for our service and we call them non-core dealers. Our non-core dealers are generally associated with lower volume vehicle manufacturers such as Jaguar or Suzuki or are located in remote, low volume territories and receive purchase request referrals without paying fees to us. We enter into agreements with non-core dealers to ensure the broadest geographic coverage possible for every make of vehicle. These agreements also allow us to increase consumer satisfaction by offering a complete selection of vehicle dealers throughout North America. However, our costs incurred from non-core dealers are not offset by revenues. Although the net number of our dealers in the United States increased by 51% during 1998, 556 of our dealers were terminated or canceled during the same period. We believe that the principal reasons for the dealer terminations were due to our enforcement of our dealer network agreements and the cancellation of our fax delivery of purchase requests in conjunction with the implementation of the Dealer Real Time system. Our inability or failure to reduce dealer turnover could have a material adverse effect on our business, results of operations and financial condition.

Because our primary revenue source is from program fees, our business model is significantly different from many existing Internet commerce sites. The automobiles requested through our site are sold by individual dealers; therefore we derive no direct revenue from the sale of a vehicle and have no significant cost of goods sold, no procurement, carrying or shipping costs and no inventory risk. The only cost of goods sold incurred by us since our inception was the cost of computer equipment sold to dealers. We discontinued selling computer equipment in the first quarter of 1998.

Sales and marketing costs consist primarily of promotion and advertising to build brand awareness and encourage potential customers to go to our Web site. Our sales and marketing expenses were $30.0 million, $21.5 million and $7.8 million in 1998, 1997 and 1996, respectively. We use Internet advertising, as well as traditional media, such as television, radio and print. The majority of our Internet advertising is comprised of sponsorship and partnership agreements with Internet portals and advertising and marketing affiliations with online automotive information providers. These internet portals and online information providers charge a combination of set-up, initial, annual, monthly and variable fees. Set-up fees are incurred for the development of the link between Autobytel.com and the internet portal or online information provider and are expensed in the period the link is established. Initial fees are prepaid annual fees, which are amortized over the period they relate to and monthly fees which are expensed in the month they relate to. Variable fees are fees paid for purchase requests and are expensed in the period the purchase requests are received. During 1998, total Internet marketing and advertising costs incurred were $11.1 million, including initial, annual, monthly and variable fees of $50,000, $3.0 million, $2.9 million and $5.2 million, respectively. There were no set-up fees incurred in 1998. Also included in the sales and marketing expenses are the costs associated 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. Sales and marketing expenses have historically fluctuated quarter-to-quarter due to varied levels of marketing and advertising and we believe this will continue in the future.

RESULTS OF OPERATIONS

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

	YEARS ENDED DECEMBER 31,		
	1996	1997	1998
STATEMENT OF OPERATIONS DATA:			
Revenues	100%	100%	100%
Operating expenses:			
Sales and marketing	155	140	126
Product and technology development	35	36	36
General and administrative	33	38	25
Total operating expenses	223	214	187
Loss from operations	(123)	(114)	(87)
Other income, net	2	4	5
Loss before provision for income taxes	(120)	(110)	(81)
Provision for income taxes	--	--	--
Net loss	(120)%	(110)%	(81)%

1998 COMPARED TO 1997

Revenues. Our revenues increased by $8.5 million, or 56%, to $23.8 million in 1998, compared to $15.3 million in 1997. The growth in revenue in 1998 was primarily attributable to an increase in the net core dealer count and $162, or a 21% increase in the average monthly program fee charged to subscribing dealers. The net number of core dealers increased by 743, or 45%, to 2,386 as of December 31, 1998, compared to 1,643 as of December 31, 1997. Our financial statements include revenues derived from computer sales, a practice we discontinued in the first quarter of 1998, of $197,000 in 1998 and $1.5 million in 1997. Excluding our revenue from the sale of computer equipment, our revenues increased by $9.8 million, or 71%, to $23.6 million in 1998 as compared to $13.8 million in 1997. In 1998, we launched additional ancillary services such as Web site advertising and warranties.

Sales and Marketing. Sales and marketing expenses primarily include 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 sales, training and support of our dealer network. Sales and marketing expense increased by $8.6 million, or 40%, to $30.0 million in 1998, compared to $21.5 million in 1997. The increase was primarily due to a $5.3 million or 91% increase in fees related to information search aggregators resulting from higher purchase requests and a $4.0 million, or 58% increase in other advertising and marketing expenses to build brand awareness. We expect to continue to increase our advertising and marketing budget in the foreseeable future.

Product and Technology Development. Product and technology development expense primarily includes personnel costs relating to enhancing the features, content and functionality of our Web site and Dealer Real Time system, as well as expenses associated with our telecommunications and computer infrastructure. Product and technology development expense increased by $3.1 million, or 57%, to $8.5 million in 1998, compared to $5.4 million in 1997. The increase was primarily due to the additional staff and expenses related to Auto-by-Tel UK Limited of $1.4 million in 1998.

General and Administrative. General and administrative expense primarily consists of executive, financial and legal personnel expenses and related costs. General and administrative expense was $5.9 million in 1998 and 1997. Excluding a non-recurring charge of $1.1 million associated with a proposed initial public offering withdrawn in April 1997, general and administrative expense increased by $1.1 million, or 23%, to $5.9 million in 1998, compared to $4.8 million in 1997. This increase is primarily due to additional executive and financial personnel and rent due to expansion of facilities.

Other Income. Other income consists primarily of interest income. Other income increased by $660,000, or 106%, to $1.3 million in 1998, compared to $620,000 in 1997. This increase is primarily due to a $1.4 million gain realized from the sale of Auto-by-Tel UK Limited to Inchcape Automotive Limited in November 1998, offset in part by a $792,000 charge for the value of warrants issued to Invision AG and Aureus Private Equity AG. Excluding these non-recurring items, other income increased by $44,000, or 7%, to $664,000 in 1998 as compared to $620,000 in 1997. Interest income increased due to higher cash balances from the sale of preferred stock in 1998.

Income Taxes. No provision for federal income taxes has been recorded as we incurred net operating losses through December 31, 1998. As of December 31, 1998, we had approximately $37.1 million of federal and $18.4 million of state net operating loss carry forwards that we believe are available to offset future taxable income; such carry forwards expire in various years through 2018. Under the Tax Reform Act of 1986, the amounts of and benefits from our net operating losses carry forwards will likely be limited upon the completion of the initial public offering due to a cumulative ownership change of more than 50% over a three year period. Based on preliminary estimates, we believe the effect of such limitation, if imposed, will not have a material adverse effect on our business, results of operations and financial condition.

1997 COMPARED TO 1996

Revenues. Our revenues increased by $10.3 million, or 206%, to $15.3 million in 1997, compared to $5.0 million in 1996. The significant growth in revenue in 1997 was primarily attributable to an increase in the net core dealer count and a $228, or 41% increase in the average monthly program fee charged to subscribing dealers. The number of core dealers increased by 437, or 36%, to 1,643 as of December 31, 1997, compared to 1,206 as of December 31, 1996. We started selling computer equipment to our dealers during the last quarter of 1996 and these revenues were $1.5 million in 1997 and $147,000 in 1996. Excluding our revenue from the sale of computer equipment, our revenues increased by $9.0 million, or 184%, to $13.8 million in 1997, compared to $4.9 million in 1996. Also, we launched several new ancillary services in 1997, including leasing, financing, credit union services and the Mobalist Rewards program, which cumulatively represented less than 3% of total revenues during 1997.

Sales and Marketing. Sales and marketing expense increased by $13.7 million, or 176%, to $21.5 million in 1997, compared to $7.8 million in 1996. This increase is attributable primarily to the increase in advertising and marketing costs associated with driving the growth of purchase requests. The number of purchase requests increased by approximately 416,000, or 121%, to approximately 761,000. To a lesser degree this increase was also due to growth in personnel and other expenses associated with sales training and maintenance of our dealer channel.

Product and Technology Development. Product and technology development expense increased by $3.7 million, or 206%, to $5.4 million in 1997, compared to $1.8 million in 1996. The increase in product and technology development expense was primarily associated with adding additional product and technical staff.

General and Administrative. General and administrative expense increased by $4.2 million, or 263%, to $5.9 million in 1997, compared to $1.6 million in 1996. The increase was primarily due to additional executive, financial and legal personnel and related costs, as well as a non-recurring $1.1 million charge associated with a withdrawn initial public offering in 1997. Excluding this non-recurring charge, general and administrative expense increased by $3.1 million, or 194%, to $4.8 million in 1997, compared to $1.6 million in 1996.

Other Income. Other income, which primarily consists of interest income, increased by $496,000, or 400%, to $620,000 in 1997, compared to $124,000 in 1996. Interest income increased due to higher cash balances from the sale of preferred stock in 1997.

QUARTERLY RESULTS OF OPERATIONS

The following table sets forth quarterly statement of operations data for the eight quarters ended December 31, 1998. This quarterly information has been derived from our unaudited financial statements and, in our opinion, includes all adjustments necessary for a fair presentation of the information for the periods covered. The quarterly data should be read in conjunction with our consolidated financial statements and related notes. The operating results for any quarter are not necessarily indicative of the operating results for any future period.

INCOME STATEMENT FOR THE THREE MONTHS ENDED
(unaudited in thousands)

	MAR. 31, 1997	JUNE 30, 1997	SEPT. 30, 1997	DEC. 31, 1997	MAR. 31, 1998	JUNE 30, 1998	SEPT. 30, 1998	DEC. 31, 1998
REVENUES	$ 3,063	$ 3,414	$ 4,293	$ 4,568	$ 4,632	$ 5,405	$ 6,462	$ 7,327
Operating expenses:								
Sales and marketing	6,675	4,683	4,436	5,660	8,459	5,470	8,320	7,784
Product and technology development	1,103	1,394	1,496	1,455	1,895	1,969	2,352	2,312
General and administrative	1,823	1,216	1,079	1,733	1,346	1,190	1,480	1,892
Total operating expenses	9,601	7,293	7,011	8,848	11,700	8,629	12,152	11,988
Loss from operations	(6,538)	(3,879)	(2,718)	(4,280)	(7,068)	(3,224)	(5,690)	(4,661)
Other income, net	165	114	147	194	185	163	153	779
Loss before provision for income taxes	(6,373)	(3,765)	(2,571)	(4,086)	(6,883)	(3,061)	(5,537)	(3,882)
Provision for income taxes	11	4	--	--	15	10	6	4
Net loss	$(6,384)	$(3,769)	$(2,571)	$(4,086)	$(6,898)	$(3,071)	$(5,543)	$(3,886)

PERCENTAGE OF REVENUE FOR THE THREE MONTHS ENDED
(unaudited)

	MAR. 31, 1997	JUNE 30, 1997	SEPT. 30, 1997	DEC. 31, 1997	MAR. 31, 1998	JUNE 30, 1998	SEPT. 30, 1998	DEC. 31, 1998
Revenues	100%	100%	100%	100%	100%	100%	100%	100%
Operating expenses:								
Sales and marketing	218	137	103	124	183	101	129	106
Product and technology development	36	41	35	32	41	36	36	32
General and administrative	60	36	25	38	29	22	23	26
Total operating expenses	313	214	163	194	253	160	188	164
Loss from operations	(213)	(114)	(63)	(94)	(153)	(60)	(88)	(64)
Other income, net	5	3	3	4	4	3	2	11
Loss before provision for income taxes	(208)	(110)	(60)	(89)	(149)	(57)	(86)	(53)
Provision for income taxes	--	--	--	--	--	--	--	--
Net loss	(208)%	(110)%	(60)%	(89)%	(149)%	(57)%	(86)%	(53)%

Revenues. Growth in our dealer network and increases in fees and the sale of ancillary products and services have resulted in a compounded quarterly growth in revenue of 13% over the last eight quarters of operations. Revenue growth is primarily associated with program fees and, to a lesser extent, new product offerings. Between the quarters ended December 31, 1996 and March 31, 1998, we recognized revenues associated with computer systems sold to dealers. After the introduction of the current Dealer Real Time system in February 1998, we discontinued the sale of computer equipment. Our financial statements include non-recurring revenue for the Dealer Real Time system hardware sales of $147,000 in 1996, $1.5 million in 1997, and $197,000 in 1998.

Sales and Marketing. We have increased spending on sales and marketing every year since our inception. The increase in sales and marketing spending accelerated after we completed our Series A preferred stock offering of $15.0 million in August 1996. We launched an aggressive advertising campaign, and in the quarters ended March 31, 1997 and 1998, we aired a television advertisement during the Super Bowl at a cost of approximately $1.3 million and $1.5 million, respectively. Additionally, in the quarter ended December 31, 1997, we entered into several Internet branding and purchase request generation contracts, including contracts with Excite. From October 1996 through February 1998, we incurred expenses of approximately $1.6 million associated with the sale of computer equipment to support the old Dealer Real Time system. Such expenses were included in sales and marketing. These computer sales were discontinued in February 1998. We have generally increased the number of sales and marketing personnel each quarter.

Product and Technology Development. Product and technology development has generally risen on a dollar basis since our inception. The primary cause for the increase in product and technology development expenses is the addition of personnel to develop the technology infrastructure and new programs for our dealers and Internet consumers.

General and Administrative. The quarter ended March 31, 1997 includes approximately $1.1 million in previously capitalized legal, accounting and other direct costs associated with a proposed initial public offering that was withdrawn in April 1997. In the quarter ended December 31, 1997, general and administrative expenses included legal, severance and bonuses incurred during the period.

To date, quarter to quarter growth in our revenues have offset any effects due to seasonality. However, we expect our business to experience seasonality as it matures, reflecting seasonal fluctuations in the automotive industry, Internet and commercial online service usage and advertising expenditures. We anticipate that purchase requests will typically increase during the first and third quarters when new vehicle models are introduced and will typically decline during the second and fourth quarters. Internet and commercial online service usage and the growth rate of such usage may be expected typically to decline during the summer. In addition, our advertising costs in traditional media, such as broadcast and cable television, generally decline in the first and third quarters of each year. Depending on the extent to which the Internet and commercial online services are accepted as an advertising medium, seasonality in the level of advertising expenditures could become more pronounced for Internet-based advertising. 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, operating results and financial condition.

STOCK OPTIONS GRANTED IN 1999

From January to March 1999, we 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 per share which were below the fair market value at the date of grant. In relation to these grants, we will recognize estimated compensation expense of approximately $2.7 million ratably over the vesting term of one to four years. Compensation expense of approximately $1,092,000, $537,000,

$537,000, $537,000 and $42,000 will be classified as operating expense in the years ending 1999, 2000, 2001, 2002 and 2003, respectively.

LIQUIDITY AND CAPITAL RESOURCES

Since inception, we have financed our operations primarily from the issuance of shares of preferred stock, which through December 31, 1998 totaled $67.9 million, comprised of $15.0 million raised in August 1996, $9.1 million raised in January 1997, $13.0 million raised in October 1997, $0.5 million issued in exchange for advertising in April 1998, $5.0 million raised in May 1998, $0.6 million issued in exchange for advertising in October 1998, $5 million raised in November 1998 and $19.7 million raised in December 1998. As of December 31, 1998, we had approximately $28.0 million in cash and cash equivalents.

Net cash used in operating activities increased to $16.3 million in 1998 from $13.5 million in 1997 and $3.6 million in 1996. The increases in the net cash used in operating activities resulted primarily from increased sales and marketing, product development and general and administrative expenditures related to expanding our infrastructure. Also, working capital was used to finance accounts receivable, prepaid expenditures and other assets, offset partially by increased deferred revenue.

Net cash used in investing activities decreased to $1.1 million in 1998 from $1.8 million in 1997 and increased to $1.8 million in 1997 from $1.5 million in 1996. The net cash used in investing activities resulted primarily from purchases of property and equipment consisting of computer hardware, telecommunications equipment, furniture and leasehold improvements.

Net cash provided by financing activities increased to $29.6 million in 1998 from $22.0 million in 1997 and $14.1 million in 1996. The net cash provided by financing activities resulted primarily from the issuance of preferred stock.

We believe our current cash and cash equivalents, excluding proceeds from this offering, will be sufficient to meet our anticipated cash needs for working capital and capital expenditures for at least the next 12 months. With respect to years beyond fiscal 1999, we may be required to raise additional capital to meet our long term operating requirements. Although we have grown our revenues consistently since inception, our expenses have continued to and in the foreseeable future are expected to exceed our revenues. Accordingly, we do not expect to be able to fund our operations from internally generated funds for the foreseeable future. Our cash requirements depend on several factors, including the level of expenditures on marketing and advertising, the rate of market acceptance, the ability to expand our customer base and increase the volume of purchase requests, the cost of contractual arrangements with online information providers, search engines and other referral sources, and other factors. The timing and amount of such working capital requirements cannot accurately be predicted. 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, we may be required to reduce the scope of our operations or our anticipated expansion, which could have a material adverse effect on our business, results of operations and financial condition.

YEAR 2000 ISSUES

Because many computer applications have been written using two digits rather than four to define the applicable year, some date-sensitive software may recognize a date using "00" as the year 1900 rather than the year 2000. This "Year 2000 issue" could result in system failures or miscalculations causing disruptions of operations, including disruptions of our Web site, the Dealer Real Time system or normal business activities.

The information technology systems pertain to software applications and database interface programs that support the consumer website, as well as the Dealer Real Time system that manages the inventory of pre-owned vehicles and purchase requests transmitted to our participating dealers.

Non-information technology systems include accounts receivable/payable, payroll, banking, 401k, postal bar code, and Federal Express software that support our daily business activities. Although we have not conducted a survey, we believe there is no material exposure to our non-information technology systems. We believe that we do not have any other non-information, embedded technology systems, with potential Year 2000 issues.

We do not believe that we have material exposure to the Year 2000 issue with respect to our own information systems since our existing systems correctly define the Year 2000 with four digits. We are currently taking two actions to mitigate the risk and exposure of the Year 2000 issue:

1. We are in the process of obtaining confirmation from all of our third-party vendors that they have resolved their Year 2000 issues. These third-party vendors can be categorized as follows:

   A. information technology systems

      - computer hardware vendors

      - computer software vendors

      - network communications vendors

      - data suppliers vendors

   B. non-information technology systems

      - landlord who oversees the facilities and utilities

      - building security company

   We expect to receive replies to our Year 2000 requests from third-party vendors by second quarter 1999. Approximately 35% of the third party vendors have responded. All of these vendors provided a statement of compliance either displayed on their website or furnished in hard copy format. These vendors who have already responded represent the most critical vendors in our business.

2. In March 1999, we implemented a test lab environment to simulate the Year 2000 rollover with hardware, software, network communications vendors and certain key data suppliers. We plan to make any modifications resulting from the test lab environment by the third quarter of 1999.

Based on the test results, if any vendor was found to be non-compliant, our contingency plan is to first attempt to find a replacement vendor, and if no replacement can be found, to assist such vendor in becoming Year 2000 compliant. If we cannot effectively assist such vendor in becoming Year 2000 compliant, we plan to set up a front-end application to screen all non-compliant data or to receive the data and modify it so that the data is Year 2000 compliant. We plan to establish our front-end application screen in the third quarter of 1999.

The worst-case scenario pertaining to Year 2000 issue would be an overall failure of the national Internet and telecommunications infrastructure. This may require alternative means for users to gain connection to our servers.

RECENT ACCOUNTING PRONOUNCEMENTS

In June 1997, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 130, "Reporting Comprehensive Income." This statement, adopted by us in the first quarter of 1998, requires companies to report a new measurement of income. Comprehensive income (loss) is to include foreign currency translation gains and losses and other unrealized gains and losses that have historically been excluded from net income (loss) and reflected instead in equity. Currently, no material differences exist between our net income or loss and comprehensive net income or loss.

In March 1998, the American Institute of Certified Public Accounts (AICPA) issued Statement of Position (SOP) 98-1, "Accounting for the Costs of Computer Software Developed or Obtained For Internal Use," which is effective for fiscal years beginning after December 15, 1998. SOP No. 98-1 provides guidance on accounting for the costs of computer software developed or obtained for internal use and defines specific criteria that determine when such costs are required to be expensed, and when such costs may be capitalized. Management believes the adoption of SOP 98-1 will not have a material effect on our consolidated financial statements.

In April 1998, the AICPA issued SOP 98-5, "Reporting the Costs of Start-up Activities," which will be adopted by us in the beginning of our fiscal year beginning January 1, 1999. SOP No. 98-5 provides guidance on the financial reporting of start-up costs and organization costs and requires such costs to be expensed as incurred. We believe the adoption of SOP 98-5 will not have a material effect on our financial statements.

In June 1998, the FASB issued SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities, which will be adopted by us in our fiscal year beginning January 1, 2000. SFAS No. 133 establishes accounting and reporting standards for derivative instruments by requiring every derivative instrument to be recorded in the balance sheet as a liability or an asset at fair market value. Any changes to a derivatives fair market value must be recognized currently in earnings unless specific hedge accounting criteria are met. We do not have any derivative instruments or undertake any hedging activities and do not anticipate doing so, therefore the adoption of SFAS No. 133 will not have a material effect on our financial statements.

LIMITATION ON NET OPERATING LOSS CARRYFORWARDS

We have approximately $37.1 million federal net operating loss carryforwards as of December 31, 1998 which may be available to reduce the amount of United States federal income taxes payable by us in the future. However, if we undergo an "ownership change" within the meaning of Section 382 of the Internal Revenue Code, an annual limitation will be imposed on our use of net operating loss carryforwards. If an "ownership change" occurs, Section 382 of the Internal Revenue Code limits the amount of net operating losses that may be utilized from pre-ownership change years to offset our taxable income in any post-ownership change year to an amount equal to:

- the value of Autobytel.com's capital stock, as adjusted, at the time of the ownership change, multiplied by

- the long-term tax exempt rate for the month of the ownership change.

We believe that this offering will result in an ownership change for purposes of Section 382 of the Internal Revenue Code. As a result, the use of our pre-ownership change net operating loss carryforwards will be limited annually by Section 382 of the Internal Revenue Code under the rules described above. Based on an estimated company value of $411 million, we will be permitted to offset against any taxable income $19 million of losses per year using pre-charge net operating losses based on a long-term tax exempt rate of 4.7% and a share price of $23.

BUSINESS

OVERVIEW

We are a leading, branded Internet site for new and pre-owned vehicle information and purchasing services. Through our Web site, www.autobytel.com, consumers can research pricing, specifications and other information regarding new and pre-owned vehicles. When consumers indicate they are ready to buy, they can be connected to Autobytel.com's network of over 2,700 participating dealers in North America, with each dealer representing a particular vehicle make. Dealers participate in our network by entering into non-exclusive contracts with us. We expect our dealers to promptly provide a haggle-free, competitive offer. In addition, consumers can apply for and receive insurance, financing, leasing and warranty proposals as well as other services and information through our Web site. We believe that our services provide benefits for consumers by supplying them with information to make an informed and intelligent vehicle purchasing decision and by directing consumers to dealers, whom we expect to provide a competitive price. In addition, our services are intended to reduce our dealers' costs by directing to them large volumes of purchase requests from potential consumers who have already indicated their intent to buy, thereby enabling dealers to lower their marketing, advertising and personnel costs while enhancing sales productivity. We provide our services free of charge to consumers and derive substantially all of our revenues from fees paid by participating dealers.

We introduced our new vehicle purchasing services in May 1995 and our Certified Pre-Owned CyberStore in April 1997. Our new vehicle purchasing service enables consumers to shop for and select a new vehicle through our Web site by providing research on new vehicles such as pricing, features, specifications and colors. When consumers indicate they are ready to buy, they can complete a purchase request online. The CyberStore allows consumers to search for a pre-owned vehicle according to the price, make, model, color, year and location of the vehicle. The CyberStore locates and displays the description, location and actual photograph of all vehicles that satisfy the consumer's search parameters. The dealers in our network use our online information platform, the Dealer Real Time system, which provides dealers with immediate purchase request information for new and pre-owned vehicles, the ability to track customers and purchase requests, and other value-added features, including automatic uploading of pre-owned vehicle inventory into our database. In addition, Autobytel.com offers a number of automotive finance and insurance services in conjunction with strategic partners, including automobile financing through Chase, GE Capital and Provident Bank, automotive insurance through member companies of the American International Group and extended warranty service through New Hampshire Insurance Company, a member company of the American International Group.

BACKGROUND

Growth of the Internet and Online Commerce. The Web and online services have emerged as significant global communications and commercial media enabling millions of people worldwide to share information, communicate and conduct business electronically. We believe that the number of Web users will grow based on a number of factors, including the large and growing base of installed personal computers in the home and workplace, the decreasing cost of personal computers, easier, faster and cheaper access to the Internet, the distribution of broadband applications, the proliferation of Internet content and the increasing familiarity and acceptance of the Internet by businesses and consumers.

The growth in the use of the Internet has also led to a rapid growth of online commerce. Web commerce sites are enabling businesses to target and manage a broad customer base and establish and maintain ongoing direct customer relationships. As a growing number of businesses and information providers have begun marketing on the Web, it has rapidly become a medium in which consumers can access a vast amount of information regarding the pricing, quality and specification of products. Additionally, online transactions can be faster, less expensive and more convenient than transactions conducted in person or even over the telephone.

The Automotive Vehicle Market. Automotive dealers operate in localized markets and face significant state regulations and increasing business pressures. These fragmented markets, with over 49,000 dealers in aggregate, 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.

In addition, 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. Buying a vehicle is considered to be one of the most significant purchases a United States consumer makes. According to CNW Marketing/Research, over $657 billion and $667 billion was spent on new and pre-owned vehicles in the United States representing the sale of over 60.0 and 60.3 million vehicles in 1997 and 1998, respectively. Although automotive retailing attracts significant consumer dollars, we believe that consumers associate the traditional vehicle buying experience with high-pressure sales tactics.

THE AUTOBYTEL.COM SOLUTION

We believe that our online products and services improve the vehicle purchasing process for both consumers and dealers. We offer consumers an information-rich Web site, numerous tools to configure this information, and a quality fulfillment experience. As part of the fulfillment experience, we expect our dealers to provide competitive price quotes for new and pre-owned vehicles. We believe our services enable dealers to reduce personnel and marketing costs, increase consumer satisfaction, increase customer volume, and expand dealer territories.

Benefits to Consumers. Our Web site provides 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 the AutoBuyTools(TM) services which consist of a lease calculator, a loan calculator to determine monthly payments and a lease or buy decision tool. Our database of articles allows consumers to perform online library research by accessing documents such as weekly automotive reports, consumer reviews and manufacturer brochures. Various automotive information service providers, such as Edmund's, Kelley Blue Book, Pace Publication's Carprice.com, and IntelliChoice, are also aggregated on Autobytel.com's Web site to assist consumers with specific vehicle and related automotive decisions such as insurance and financing. Armed with such information, the consumer should be more confident and capable of making an informed and intelligent vehicle buying decision.

We expect our dealers to provide competitive price quotes for new and pre-owned vehicles. By providing dealers with a large number of consumers through quality purchase requests, we believe that we can help our dealers to lower their operating costs due to higher sales volume. We believe that lowering their operating costs allows dealers to offer more competitive prices.

We believe we offer consumers a significantly different vehicle purchasing experience from that of traditional methods. Consumers using the Autobytel.com system 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 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 largest and highest quality dealers within defined territories. Our strategy to be the leading Internet-based vehicle information and purchasing service depends on our ability to provide consumers with a quality experience.

Benefits to Dealers. Autobytel.com benefits dealers by reducing the dealers' incremental personnel and marketing costs, increasing consumer satisfaction and increasing consumer volume. Through our investment in national advertising and brand recognition of Autobytel.com, we attract consumers to our Web site and direct them to dealers in their local area. We believe this provides dealers access to a larger number of prequalified consumers without increasing their advertising costs. Dealers' personnel costs should 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 Autobytel.com manager. Through our Dealer Real Time system, we provide dealers with on-site technology to better track sales, inventory, customer solicitations, responses and other communications.

By providing consumers a quality fulfillment experience, we seek to provide Autobytel.com dealers a large number of consumers, allowing them to compete more effectively. Our solution includes an expanding network of over 2,700 participating dealers in the United States and Canada representing every major domestic and imported make of vehicles and light trucks. Because a single dealership location may hold multiple manufacturer franchises, the dealership may represent more than one dealer in the Autobytel.com network.

To increase each dealer's incentive to participate in the Autobytel.com system, we allocate each dealer an exclusive geographic territory 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. By granting dealers exclusivity within a geographic area, we intend to assure dealers of a large enough volume of quality purchase requests to lower their operating costs.

Our Web Site. Because Web sites can be continually updated and provide a large quantity of quality information, we believe the Internet offers the most efficient medium for consumers to learn about and shop for vehicles. The Internet's global reach to consumers allows us to leverage our investment in branding and marketing across a very large national and international audience to create qualified purchase requests for vehicles.

For these reasons, we also believe that the Internet represents the most efficient method of directing purchase requests to local markets and dealers.

We currently provide the following services on our Web site:
[Chart depicting programs and services accessible to Internet consumers through Autobytel.com]

STRATEGY

Our primary objective is to be the leading global Internet brand for vehicle information and purchasing services. We intend to achieve this objective through the following principal strategies:

Continue to Build Brand Equity. We believe that due to our focus on both online and offline marketing, we have created one of the leading brand names in our sector. We intend to continue aggressively to market and advertise to enhance our brand recognition with consumers. We believe that continuing to strengthen brand awareness of the Autobytel.com name among consumers is critical to attract vehicle buyers, increase purchase requests and, in turn, increase the size of our dealer base. We intend to continue advertising on the Internet and through traditional media, such as television, radio and printed publications.

Ensure the Highest Quality Consumer Experience. We believe that consumer satisfaction and loyalty is heavily influenced by the consumer's experience with our site and with our dealers. In order to enhance our appeal to consumers, we intend to continue developing our Web site by enhancing vehicle information, as well as building new features such as personalization, auto maintenance reminders and consumer reviews. As part of our continuing effort to enhance our Web site technology and features, we have entered into strategic co-development relationships, with Intel and Cow Inc. to improve our interactive dealer training. In addition, we plan to continue compiling high quality content from third party sources on our site, including information from Edmund's, IntelliChoice, Carprices.com and Kelley Blue Book. 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.

Increase Purchase Requests. We believe that increasing the volume and quality of purchase requests directed from our Web site to our dealer network is crucial to the long-term growth and success of our business. By augmenting the volume of quality purchase requests, we expect to attract additional dealers to our network, increase fees paid by dealers, and solidify our relationships with participating dealers. Our strategy for increasing traffic to our site and the number of purchase requests includes forming and maintaining online sponsorships and partnerships with Internet portals, such as Excite, and with Internet automotive information providers, such as Edmund's. 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 site to insure that well informed, ready-to-buy consumers are directed to participating dealers.

Expand and Improve Dealer Network. We believe that strengthening the size and quality of our dealer network is important to the success and growth of our business. We believe our network of over 2,700 dealers is one of the largest in the Internet-based vehicle purchasing industry. Our strategy is to increase the size of our dealer network by attracting new dealers and strengthening relationships with existing dealers by:

- increasing the volume and quality of purchase requests,

- advertising in trade publications aimed at dealers and participating in industry trade shows,

- maintaining our extensive training and support program to participating dealers, and

- providing our Dealer Real Time system to all participating dealers.

Invest in Ancillary Online Services. We believe that expanding our services to both consumers and dealers will be critical to establishing ourselves as the premier provider of online automotive services in the future. Our strategy is to continue to invest in ancillary services, particularly in the CyberStore and warranty, finance and insurance services. We also intend to use the Dealer Real Time system to launch value added services for our dealer network, including allowing dealers to offer accessories and aftermarket products directly through the Autobytel.com Web site. We have recently begun to sell advertising on our Web site and expect to expand this business during 1999. We plan to launch an auction-based, online program for our dealers who sell pre-owned vehicles. We are also seeking opportunities to market the information contained in our databases.

Expand Internationally. We intend to continue our international expansion through licensing agreements and partnering with local strategic partners. We have established licensing arrangements with strategic partners such as Inchcape Motors and Bilia AB in the United Kingdom and Scandinavia, respectively. In addition, we have entered into agreements with Invision AG and Aureus Private Equity AG to obtain their assistance in meeting potential strategic partners who will assist us in establishing national operating companies throughout the rest of Europe using Autobytel.com vehicle marketing systems. We have also entered into agreements in Japan with e-solutions, Inc., Intec, Inc. and

Trans Cosmos, Inc. to form a joint venture. We are currently exploring additional opportunities in Asia and Latin America.

PRODUCTS, PROGRAMS AND SERVICES

New Vehicle Purchasing Service. Our new vehicle marketing service enables consumers to shop for and select a new vehicle through our Web site by providing research on new vehicles such as pricing, features, specifications, colors, etc. When consumers indicate they are ready to buy, a consumer can complete a purchase request online, which specifies the type of vehicle and accessories the consumer desires, along with the consumer's contact information. The purchase request is then routed by us to the nearest participating dealer that sells the type of vehicle requested, and we promptly return an e-mail message to the consumer with the dealership's name and phone number and the name of the Autobytel.com 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 a purchase, they usually take delivery of their vehicle at the dealership showroom. Generally, within ten 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.

The Autobytel.com network has grown to 2,718 dealers as of December 31, 1998. These dealers represent every major domestic and imported make of vehicle and light truck sold in the United States and Canada. Core dealerships are charged initial subscription fees and on-going fees, principally on a monthly basis, to participate in our dealer network.

Certified Pre-Owned CyberStore. We launched our CyberStore program in April 1997. The CyberStore allows consumers to search for a pre-owned vehicle according to specific search parameters such as the price, make, model, mileage, year and location of the vehicle. CyberStore locates and displays the description, location and actual digital photograph of all vehicles that satisfy the search parameters. The consumer can then complete a formal purchase request for a specific vehicle and is contacted by the dealer to conclude the sale. To be listed in the CyberStore a pre-owned vehicle must first pass a 135-point inspection, be covered by a 72-hour money-back guarantee and be covered by a three-month, 3,000-mile warranty, which is honored nationally by all CyberStore dealers. We charge each vehicle dealer that participates in the CyberStore program a separate additional monthly fee. The CyberStore program uses the Dealer Real Time 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.

Ancillary Customer Services. We offer a number of ancillary services that we market to consumers through our Web site and the linked Web sites of participating partners such as Chase, GE Capital, Provident Bank and member companies of the American International Group. We make purchase and lease financing available to consumers through various Autobytel.com financing programs offered by Chase, GE Capital and Provident Bank that allow consumers to research and apply for vehicle financing online in a secure manner. Consumers can apply for a loan or lease online at the time they submit their purchase request for either a new or pre-owned vehicle. Consumers are able to arrive at the dealership with their loan pre-approved, their credit verification documents in hand, and the loan paperwork waiting for them. We believe that the convenience of pre-approved purchase or lease financing, combined with a firm, competitive price, enables dealers more easily to consummate purchase requests. Lenders to whom Autobytel.com refers customers pay us an origination fee for most loans and the dealership is compensated by the lender for each loan made to an Autobytel.com consumer through either an origination fee or a limited rate participation fee. We currently market financing through Chase, GE Capital and Provident Bank.

We provide a link on our Web site to an online insurance application program offered by the American International Group on behalf of its member companies through which consumers submit requests for insurance quotes and obtain approval. The types of insurance products offered through this link include automobile liability and property damage coverage. Our agreement with the American International Group provides that we receive an advertising fee based on a percentage of the net premiums earned and collected by the member companies of the American International Group on all policies issued to Autobytel.com consumers who access the American International Group Web site through a link from our Web site.

We offer critical information concerning all aspects of owning and leasing new and pre-owned vehicles that we believe makes our Web site a valuable resource to consumers. AutoBuyTools(TM), a service on our Web site, consists of a lease calculator, a loan calculator to determine monthly payments and a lease or buy decision tool.

The Dealer Real Time System. In 1997, we launched a new, proprietary technology and software system called the Dealer Real Time system. The Dealer Real Time system is an Internet-based communications platform that gives dealers a competitive advantage compared to delivering purchase requests by fax. A fax-based system has the following inherent inefficiencies: it is susceptible to system delays, has a less effective purchase request and inventory tracking system and it is difficult to control the distribution of purchase requests. Such inefficiencies include the delay of delivering faxes to salesmen and the uncertainty of response time to consumers related to this delivery.

Using Internet technology, the Dealer Real Time system enables the dealer to:

- instantaneously access a consumer's vehicle purchase request as soon as the consumer submits it online,

- track all interaction with the consumer,

- send e-mail to consumers using a variety of predetermined templates,

- input used vehicle inventory information for immediate display to consumers on the Autobytel.com web page,

- track dealership performance through a series of reports available online,

- access Autobytel.com "news" and product information online, and

- contact Autobytel.com technical support personnel via e-mail links.

In March 1998, as part of our new Dealer Agreement, we began requiring our dealers to use the Dealer Real Time system, and have converted substantially all of our dealers to the Dealer Real Time system.

Loyalty Rewards Program (ABT Mobalist). To attract new customers prior to their next vehicle purchase and encourage repeat business from our existing customers, we began to offer consumers in April 1998 an affinity program called Mobalist Rewards. To date, our affinity marketing partners include Virtual Vineyards, Inc. and Uniglobe Travel Online, Inc. This program allows members to earn credits toward the purchase price of a new or pre-owned vehicle through our service. Members earn credits by purchasing products and services from Autobytel.com's retail partners and also by using a credit card co-branded with the Autobytel.com trademark to make purchases. We earn a commission each time these services or the affinity program services are used.

Planned Online Auction Services. We plan to launch an auction-based program designed to streamline the process of wholesale buying and selling of pre-owned vehicles over the next year. Through this program, we expect that our dealers will be able to place online bids for pre-owned vehicles directly to the wholesaler, eliminating associated distribution costs.

INTERNATIONAL ACTIVITIES

We intend to expand our new vehicle marketing service to foreign markets through licensing agreements and by establishing relationships with vehicle dealers and strategic partners located in foreign markets. As of December 31, 1998, approximately 161 Canadian dealerships belonged to our network. We have entered into a 20 year agreement with Auto-by-Tel UK Limited, an affiliate of Inchcape Motors, the United Kingdom's largest independent automobile distributor, to exclusively license our technology, business processes and trade names in the United Kingdom, as well as provide maintenance and development for such technology. We have also entered into a similar arrangement with a term of up to 10 years with Auto-By-Tel AB, an affiliate of Bilia AB, to exclusively license our technology, business processes, and trade names in Sweden, Norway, Denmark and Finland for which we will receive annual licensing and maintenance fees as well as an initial license fee. Under the terms of our agreement with Auto-by-Tel UK Limited we are entitled to receive minimum annual license and maintenance and support fees of $850,000 and $250,000, respectively, and will receive an initial license fee. We intend to enter into similar relationships with strategic partners in other countries that have attractive automobile markets. In addition, we have entered into agreements with Aureus Private Equity AG and Invision AG to obtain their assistance in meeting potential strategic partners who will assist us in establishing national operating companies throughout the rest of Europe using Autobytel.com vehicle marketing systems.

We intend to expand our operations to Japan and have entered into letter agreements with e-solutions, Inc., Intec, Inc. and Trans Cosmos, Inc. to form ABT Japan, a joint venture in which we will own a 33% interest. We will license our trade names, technology and business processes to ABT Japan. We expect ABT Japan to commence operations by the end of 1999. These companies have elected to invest $6 million in ABT Japan and to fund an additional $6 million to cover operating losses, if any, and we have agreed to incorporate ABT Japan with a capital contribution of $100,000. In addition, these companies have agreed to purchase 200,000 shares in this offering.

MARKETING AND SALES

Our ability to enhance our brand name recognition, domestically and internationally, and position ourselves as a leading Internet-based vehicle information and purchasing services provider is critical to our efforts to increase the number of vehicle purchase requests and requests for ancillary services, as well as the number and quality of subscribing dealerships. We have invested approximately $60 million to date in sales, marketing and communications activities. Over the past several years, we have been the subject of numerous newspaper, magazine, radio and television stories. Articles about our new vehicle program have appeared in Business Week, Fortune, Forbes, Time, and the Wall Street Journal, among other publications. Television stories featuring us have been aired nationally on NBC Today, NBC Nightly News and CNN. We believe that ongoing media coverage is an important element in creating consumer awareness of the Autobytel.com brand name and has contributed to dealership awareness of, and participation in, our programs.

We have established marketing and advertising programs with many of the leading automotive information providers on the Internet, including Edmund's, IntelliChoice and Kelley Blue Book which help direct traffic to our Web site and increase purchase requests. Our agreements with automotive information providers typically have terms ranging from one to five years. The agreement with Kelley Blue Book is for an indefinite term but can be terminated on 30 days' notice by either party. Our Kelly Blue Book agreement calls for a monthly payment based on the number of times their visitors click on our links. Our position with Kelly Blue Book is not an exclusive arrangement. Therefore, our competitors may have similar relationships with Kelley Blue Book.

Edmund's is our single largest referral service. In 1997 and 1998, approximately 49% and 34%, respectively, of our total purchase requests originated from Edmund's. This percentage decreased to 29% for the last quarter of 1998. Our agreement with Edmund's, pursuant to which we receive referrals from Edmund's Web site, is scheduled to expire July 31, 2000. Edmund's has agreed to recommend or refer visitors to its Web site only to us and no other competitive online marketing program with respect to new vehicles, although Edmund's may refer prospective buyers directly to automotive manufacturers' Web sites and dealer locator services. We expect Edmund's Web site to account for a significant number of purchase requests for the foreseeable future. We pay Edmund's a monthly fee based on a per purchase request basis. We pay IntelliChoice both a monthly fee for the use of its data and a fee for each purchase request. Our arrangement with them is not exclusive, as they provide data to other Web sites.

We endeavor to position ourselves as the leading vehicle and related services purchasing program by affiliating ourselves with online services and Internet portals. We believe that our presence on these Internet sites helps to increase purchase request volume and will remain a key element of our future business. For example, we have agreements with AT&T Corp., Classifieds2000, Excite and Lycos that provide as follows:

- We pay AT&T a monthly fee to insert our branded content on their site which includes a car purchasing link enabling their visitors to send us purchase requests. We also pay AT&T a fee for each purchase request it sends us. The agreement is not exclusive and is for an indefinite term which can be terminated on 30 days' notice by either party.

- Our contract with Classifieds2000 provides that we pay a monthly fee as well as a fee for each purchase request it sends us for the number of users who submit purchase requests after having visited its site. Moreover, it includes our pre-owned vehicle inventory in its classified listings. In return we provide it with a link on our site where owners can list their cars for sale directly. Our arrangement with Classifieds2000 is exclusive. The agreement is for an indefinite term which can be terminated on 30 days' notice by either party.

- Our agreement with Excite covering its auto channel provides that we pay Excite a set-up fee and an annual fee as well as a fee for each purchase request it sends us. The agreement provides us with exclusivity in their auto channel and is for a term of 3 years but can be terminated by us if the number of purchase requests does not meet specified threshold for each year of the term of the agreement. The agreement with Excite precludes us from providing supplementary automobile research information to other search engines. Our agreement with Netscape's NetCenter auto channel is through Excite which manages NetCenter for Netscape. The agreement provides for an annual fee as well as a fee for each purchase request it sends us. The agreement with NetCenter is exclusive and has a two year term.

- Our agreement with Lycos in its "New" automotive channel is based on an initial fee as well as a fee for each purchase request it sends us. The agreement provides us with exclusivity in their "New" automotive area. The agreement is for a term of one year.

As of December 31, 1998, our Internet marketing agreements with our two largest search engines, NetCenter and Excite, required us to make aggregate minimum future payments of $9.1 million and provide up to three new vehicles to each in a 12 month period. As of December 31, 1998, our agreements with automotive information providers require aggregate minimum future commitments of $0.7 million.

During 1998, total Internet marketing and advertising costs incurred were $11.1 million, including initial, annual and monthly fees of $50,000, $3.0 million and $2.9 million, respectively. No set-up fees were incurred in 1998 and variable fees were $5.2 million.

We are also working with MediaOne to develop and deliver our broadband service offering. Broadband allows the Internet to deliver content and services at faster speeds through high capacity coaxial cable networks. We believe that the broadband opportunity is becoming an increasingly important focus within the Internet industry, and we intend to enhance our presence using this technology.

We supplement our Internet presence with television and traditional print advertising. Our initial marketing focus was on computer user and hobbyist publications and major automotive magazines. In late 1996, we began to broaden our marketing efforts with a campaign to accelerate consumer awareness of the Autobytel.com brand name and drive traffic to our Web site through cable television advertisements featured on CNN and CNET, Inc. and network television advertisements featured on NBC and MSNBC. As part of our branding efforts, we aired a 30-second commercial during the broadcast of the Super Bowl in both 1997 and 1998. We expect to continue to use television advertising to strengthen our brand awareness. As of December 31, 1998, the aggregate future minimum payments we are required to make for television advertising was $1.7 million.

In addition to our consumer-oriented marketing activities, we also market our programs directly to dealerships, participate in trade shows, advertise in trade publications and major automotive magazines and encourage subscribing dealerships to recommend our program to other dealerships.

INTELLECTUAL PROPERTY

We have the registered service mark Auto-By-Tel and have applied for the registered service marks Autobytel.com, AutoBuyTools, Certified Pre-Owned CyberStore, Kre8.net and Dealer Real Time. The Autobytel.com logo is a service mark and trademark for which we have applied for federal registration.

DEALER RELATIONSHIPS AND SERVICES

Dealer Network. Dealers participate in our network by entering into contracts with us. Prior to January 1998, substantially all of the dealer contracts we entered into were terminable by either party at its sole discretion with 30 days notice. Since the end of January 1999 and on a going forward basis we are converting our dealers to new contracts with one year terms that are also terminable on 30 days' notice by either party. Our dealerships are located in most major metropolitan areas in the United States and Canada and we believe they are generally leaders in their respective markets. As of December 31, 1998, our participating dealership base totaled 2,718 dealers, of which 2,386, or 88%, are core dealers and 332, or 12%, are non-core dealers. Core dealerships are franchises with typically high volume vehicle sales such as Ford or Toyota. These dealerships pay initiation and monthly fees to subscribe to our 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 raise our fees to dealers after 30 days notice. Non-core dealers are typically franchises of lower-volume vehicle manufacturers such as Jaguar or Suzuki or are located in remote, low volume territories, and receive purchase request referrals from us without paying us either initial or monthly subscription fees. We enter into agreements with non-core dealers to ensure the broadest geographic coverage possible for the make of vehicle represented by the non-core dealer. These agreements also allow us to increase consumer satisfaction by offering a complete selection of vehicle dealers throughout North America. However, our costs incurred from non-core dealers are not offset by revenues. We do not prevent dealers from entering into agreements with our competitors.

Customer Support. We actively monitor subscribing dealers through ongoing customer surveys, and research conducted by our internal dealer support group. Generally, within ten days after a consumer submits a purchase request through our Web site, we re-contact the consumer by e-mail requesting completion of a quality assurance survey on our Web site that allows us to evaluate the sales process at participating dealers. Dealerships that fail to abide by our program guidelines or who receive repeated consumer complaints are generally reviewed and, if appropriate, terminated. In return for requiring a high level of consumer service, we assign participating dealerships exclusive territories. We try to assign dealers attractive territories in order to increase participation in our program.

Our dealer agreements are cancelable by either party on 30 days notice. Each dealer agreement obligates the dealers to adhere to our policy of providing prompt responses to customers, no haggle pricing practices and full disclosure regarding vehicle availability, add-ons and related matters. We require each dealer to have an Autobytel.com manager whose principal responsibility is supervising our system, similar to the way in which most dealers have a new vehicle sales manager, pre-owned vehicle sales manager and service and parts department managers who are responsible for those dealership functions. We reserve the right to reduce or modify each dealer's assigned territory after the first six months, although there can be no assurance that a dealer whose territory is reduced or modified will not contest such a change or terminate its subscription. In addition, dealers whose territories are reduced or modified by us may sue us in an effort to prevent the change or recover damages. We have experienced one such suit. See "-- Litigation."

Training. We believe that traditional dealers and their employees require specialized training to learn the skills necessary to serve the Internet user and take full advantage of our proprietary Dealer Real Time system. Therefore, we have developed an extensive training program for our dealers. We believe that this training is critical to enhancing the Autobytel.com brand 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. Training is currently provided to the dealers at no additional cost. In training our dealers, we de-emphasize traditional vehicle selling techniques and emphasize the Autobytel.com approach. To increase consumer satisfaction and reduce costs, we seek to discourage dealerships from using commissioned and multiple salespersons to interface with our customers.

COMPETITION

We believe that the principal competitive factors affecting the market for Internet-based vehicle marketing services include:

- successful marketing and establishment of national brand name recognition,

- ease of use, speed and quality of service execution,

- the size and effectiveness of the participating dealership base,

- the volume and quality of traffic to and purchase requests from a Web site,

- the ability to introduce new services in a timely and cost-effective manner.

- technical expertise,

- customer satisfaction, and

- competitive dealer pricing.

Our vehicle purchasing services compete against a variety of Internet and traditional vehicle buying services and automotive brokers. In the Internet-based market, we compete with other entities which maintain similar commercial Web sites including Autoweb.com, Cendant's AutoVantage, General Motors' BuyPower, Microsoft's CarPoint and Stoneage Corporation. Republic Industries has also announced its intention to create 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.

We compete with vehicle insurers, lenders and lessors as well as individual dealerships. Such companies may already maintain or may introduce Web sites which compete with ours. We cannot assure that we can compete successfully against current or future competitors, many of which have substantially more capital, resources and access to additional financing than we do, nor can there be any assurance that competitive pressures faced by us will not result in increased marketing costs, decreased Web site traffic or loss of market share or otherwise will not materially and adversely affect our business, results of operations and financial condition. We compete primarily on brand name recognition acquired through early entry into the Internet-based automotive purchase referral market and through customer and dealer satisfaction.

OPERATIONS AND TECHNOLOGY

We believe that our future success is significantly dependent upon our ability to continue to deliver a high-performance and reliable Web site, enhance consumer/dealer communications, maintain the highest levels of information privacy and ensure transactional security. We host our Web site at our corporate headquarters in Irvine, California. We currently contract the services of two nationally established Internet service providers to connect our systems with the Internet. Our primary provider supplies two-thirds of our capacity to connect with the Internet and our secondary provider supplies the remaining third. Our primary servers are housed in one climate-controlled, raised floor computer room with back-up power systems. We use industry-standard computers and equipment in our network. Network security is provided by utilizing standard products.

System enhancements are primarily intended to accommodate increased traffic across our Web site, 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.

FACILITIES

Our operations are principally located in a single office building in Irvine, California. We occupy three full floors, each consisting of approximately 12,000 square feet, which are leased through August 2001. We have options to renew the leases on each floor for an additional 5-year term. We also lease office space in Houston, Texas, consisting of less than 5,000 square feet through one of our subsidiaries, Kre8.net, Inc., an Internet software company for dealer Web site design and systems backup. In order to replace their existing leased space, we have recently entered into a lease agreement for office space in Houston consisting of 9,000 square feet, which Kre8.net plans to move into in the second quarter of 1999.

GOVERNMENT REGULATION

Currently few laws or regulations have been adopted that apply directly to Internet business activities. The adoption of additional local, state, national or international 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 federal and state franchise, motor vehicle dealer, or vehicle broker licensing laws applicable to us. However, if individual state regulatory requirements 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.

If we are required by a state to be licensed as a vehicle broker and we determine that the licensing and related requirements are overly burdensome, we may elect to terminate operations in such a state.

In the event a state deems that we are acting as a vehicle broker, we may be required to comply with burdensome licensing requirements of such state or terminate operations in such state. As we introduce new services, we may need to comply with additional licensing regulations and regulatory requirements.

Our marketing service may result in changes in the way vehicles are currently sold or may be viewed as threatening by new and pre-owned vehicle dealers who do not subscribe to the Autobytel.com program. 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, which our service promotes.

We expect to expand our operations to other countries that may have laws or be subject to treaties that regulate the marketing, distribution, and sale of vehicles. As we consider specific foreign operations, we will need to determine whether the laws of the countries in which we seek to operate require us to modify our program or otherwise change the Autobytel.com system or prohibit the use of the system in such country entirely. In addition, the laws of a foreign country may impose licensing, bonding or similar requirements on us as a condition to doing business there.

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 agreement with our dealers was 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 have an adverse affect on our results of operations. As an additional risk, if our dealer relationship or subscription agreement is 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 subscribing dealers nor our dealer subscription agreements themselves constitute "franchises" under federal or state franchise laws. This belief has been challenged but upheld by a Federal District 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. If government licensing and enforcement authorities determine that state motor vehicle brokering laws apply to our business operations, we may be required to apply for and obtain a motor vehicle brokers license. As additional risk, we may be required to pay administrative fees, fines, and penalties for failure to comply with such licensing requirements.

We believe that state motor vehicles dealer or broker licensing laws do not apply to us. We believe that our dealer marketing service model does not qualify as an automobile brokerage activity and therefore state broker licensing requirements do not apply to us.

In response to concerns about our marketing program raised by the Texas Department of Transportation, we modified our marketing program in that state to achieve compliance. These modifications included a unique pricing model under which all subscribing dealerships in Texas are charged uniform fees based on the population density of their particular geographic area 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 which 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 site 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. We do receive fees from participating lenders. We currently hold financial broker licenses in the states of Florida, Indiana, Rhode Island, and Wisconsin and have applied for renewals in California and Colorado. In the event other states require us to be licensed, 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 finance operations in those states.

Insurance Related Activities. We provide access through a link from our Web site to a Web site owned and maintained by American International Group. Persons visiting our Web site who access the Web site maintained by American International Group may obtain insurance directly from its member companies. We receive fees from American International Group for allowing the American International Group's Web site to be accessed from ours. We receive no premiums from consumers nor do we charge consumers fees for our services. All applications are completed on American International Group's Web site and at no time do we receive the secure data found on the applications.

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 aforementioned uncertainty, we elected to proactively apply for and currently hold insurance agent licenses in California, Indiana, Nebraska, New Jersey, and Utah. We have also applied for insurance agent licenses in all remaining states that license corporations as insurance agents and are awaiting approvals.

EMPLOYEES

As of December 31, 1998, we had a total of 180 employees. We also utilize independent contractors for software and hardware development and certain administrative activities. 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.

LITIGATION

Jerome-Duncan Ford, a Michigan dealership, first subscribed to our new vehicle marketing program in June 1996. In January 1997, we sought to replace the existing agreement with our new standard subscription services agreement and realign Jerome-Duncan Ford territory. Jerome-Duncan Ford objected to the realignment and ceased payment of its monthly subscription fee to us. Unable to resolve the matter, we terminated Jerome-Duncan Ford's subscription dealer agreement. Jerome-Duncan Ford then sued us in Michigan State Court and sought an injunction to prevent us from cancelling Jerome-Duncan Ford's subscription services agreement. Jerome-Duncan Ford based its action on Michigan franchise law which prohibits a franchiser from terminating a franchisee without good cause. We removed the case to federal court. In late June 1997, the federal district court ruled in favor of us and denied the injunction. The court held that Jerome-Duncan Ford showed insufficient evidence of a likelihood of success on the merits involving claims of breach of Michigan franchise law. The court found that no franchise existed. We thereafter moved for summary judgment on the franchise issues.

In late 1997, the court granted our motion for summary judgment and held that our subscription services agreement and method of operation did not constitute a franchise under Michigan state law. The plaintiffs have appealed the ruling.

Halrec, Inc., a California based Toyota dealership, first subscribed to our new vehicle marketing program in October 1996 and subsequently to our financing program. On November 13, 1998, Halrec sued us in Superior Court, County of Santa Clara, California for, among other things, restraint of trade, intentional misrepresentation and unfair competition claiming that we wrongfully awarded to other car dealers geographic territories that were contractually the property of Halrec. We believe Halrec's claims are without merit and are vigorously defending ourselves against their claims.

From time to time, we are involved in other litigation matters relating to claims arising out of the ordinary course of business. We are involved in at least one such case currently, including one seeking punitive damages in an unspecified amount. 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 that include punitive damages, such ruling could have a material and adverse effect on our business, results of operations and financial condition.

MANAGEMENT

EXECUTIVE OFFICERS AND DIRECTORS

The following table sets forth certain information regarding the executive officers and directors of Autobytel.com. Our audit committee consists of Mr. Fuchs, Mr. Coats and Mr. Kaplan. Our compensation committee consists of Mr. Fuchs, Mr. Coats and Mr. Orton.

OFFICERS AND DIRECTORS	AGE	POSITION
Michael J. Fuchs	52	Chairman of the Board and Director
Mark W. Lorimer	39	Chief Executive Officer, President and Director
Robert S. Grimes	54	Executive Vice President and Director
Hoshi Printer	57	Senior Vice President and Chief Financial Officer
Ann M. Delligatta	51	Executive Vice President and Chief Operating Officer
Ariel Amir	39	Vice President and General Counsel
Jeffrey H. Coats	41	Director
Mark N. Kaplan	69	Director
Kenneth J. Orton	47	Director
Peter Titz	45	Director
Richard A. Post	40	Director

Michael J. Fuchs was elected as a director of Autobytel.com in September 1996 and became Chairman in June 1998. Mr. Fuchs was Chairman and Chief Executive Officer of Home Box Office, a Division of TimeWarner Entertainment Company, L.P., a leading pay-television company, from October 1984 until November 1995, and Chairman and Chief Executive Officer of Warner Music Group, a Division of Time Warner Inc., from May 1995 to November 1995. Mr. Fuchs holds a B.A. from Union College and a J.D. from the New York University School of Law. Mr. Fuchs is a member of the board of directors of IMAX Corp., Wink Communications, Inc. and Consolidated Cigar Holdings Inc.

Mark W. Lorimer joined Autobytel.com in December 1996 as Vice President, General Counsel and Secretary, and was promoted to Executive Vice President and Chief Operating Officer in May 1997. In May 1998, Mr. Lorimer was promoted to President. He was elected a director and appointed Chief Executive Officer of Autobytel.com in June 1998. From January 1996 to November 1996, Mr. Lorimer was a partner and, from March 1989 to January 1996, was an associate with the law firm of Dewey Ballantine LLP. Mr. Lorimer is a member of the board of directors of IMC Mortgage Company. Mr. Lorimer holds a B.S. in Speech from Northwestern University and a J.D. from the Fordham University School of Law.

Robert S. Grimes has been a director of Autobytel.com since inception and has served as Executive Vice President since July 1996. Since September 1987, Mr. Grimes has been President of R.S. Grimes & Co., Inc., a private investment company. From April 1981 to March 1987, Mr. Grimes was a partner with the investment firm of Cowen & Company. Mr. Grimes holds a B.S. from the Wharton School of Commerce and Finance at the University of Pennsylvania and an L.L.B. from the University of Pennsylvania Law School. Mr. Grimes has served on the board of directors of Philips International Realty Corp., a New York Stock Exchange listed company, since April 1998.

Hoshi Printer joined Autobytel.com in January 1999 as Senior Vice President and Chief Financial Officer. From June 1996 to December 1998, Mr. Printer served as Vice President, Finance and Administration, Chief Financial Officer and Secretary of Peerless Systems Corporation, a software technology company. From July 1995 to May 1996, Mr. Printer was Chief Financial Officer of Neuron Data Inc., a software technology company. From July 1994 to June 1995 Mr. Printer served as Chief Financial Officer of Soane Technologies Inc., a polymer technology company. From January 1990 to June 1994, Mr. Printer was Chief Financial Officer of Catalytica Inc., an environmental technology company. Mr. Printer also worked at Xerox Corporation for over 17 years as Vice President of Finance and in 1976 served as a consultant to the White House for the President's Reorganization project on cash management. Mr. Printer holds a B.E. in mechanical engineering and a B.E. in electrical engineering from Poona University in India, an M.S. in industrial engineering from Oklahoma State University and an M.B.A. from Stanford University.

Ann M. Delligatta joined Autobytel.com in June 1997 as Senior Vice President and Chief Technology Officer and was promoted to Executive Vice President and Chief Operating Officer in July 1998. From September 1996 to June 1997, Ms. Delligatta was President and Chief Executive Officer of the Pharos Group, an information technology consulting organization. From January 1987 to September 1996, Ms. Delligatta held a number of managerial positions at TRW Inc.'s TRW Information Systems and Services Group, most recently as Vice President and General Manager/Information Technology Services. Ms. Delligatta attended Mount St. Mary's College and was named by McGraw-Hill Companies as one of the "Top 100 Women in Computing in 1996" in recognition of her success in the alignment of business and technology strategies.

Ariel Amir joined Autobytel.com as Vice President and General Counsel in March 1999. Mr. Amir was Vice President of Security Capital U.S. Realty from February 1998 until March 1999, where he was responsible for mergers and acquisitions and relations with strategic investees. Mr. Amir was Vice President of Security Capital Group Incorporated, where he provided securities offering and corporate acquisitions services from June 1994 until January 1998. Prior to joining Security Capital Group, Mr. Amir was an attorney with the law firm of Weil, Gotshal & Manges in New York where he practiced securities and corporate law from September 1985 until April 1994. Mr. Amir received his law degree from Georgetown University Law Center, an M.S. in industrial administration from Carnegie-Mellon University Graduate School of Industrial Administration and an A.B. in Economics, with honors, from Washington University in St. Louis.

Jeffrey H. Coats was elected a director of Autobytel.com in August 1996. Mr. Coats has served as Managing Director of GE Equity Capital Group, Inc., a wholly-owned subsidiary of General Electric Capital Corporation, a significant stockholder in us, since April 1996. He has also held various positions, most recently as Managing Director, of GE Capital Corporate Finance Group, Inc., a wholly-owned subsidiary of General Electric Capital Corporation, from June 1987 to April 1993. From March 1994 to April 1996, Mr. Coats served as President of Maverick Capital Equity Partners, LLC, and from April 1993 to January 1994, Mr. Coats was a partner with Veritas Capital, Inc., both of which are investment firms. Mr. Coats holds a B.B.A. in Finance from the University of Georgia and a Masters in International Management in Finance from the American Graduate School of International Management. Mr. Coats is a director and Chairman of the Board of The Hastings Group, Inc., a privately-held clothing retailer, which on October 23, 1995, filed a voluntary petition under Chapter 11 of the Bankruptcy Code and confirmed a plan of liquidation in late 1997. Mr. Coats became a director of The Hastings Group in connection with Maverick Capital Equity Partners' purchase of the assets of the predecessor of The Hastings Group in a previous bankruptcy proceeding. Maverick Capital Equity Partners was not able to make the business of The Hastings Group, Inc. profitable after it purchased the business in a previous bankruptcy proceeding and accordingly, The Hastings Group, Inc. filed for bankruptcy after Maverick Capital Equity Partners determined not to continue to fund its operating losses. Mr. Coats is a member of the board of directors of Wink Communications, Inc. and of Krause's Furniture, Inc., a publicly-held company.

Mark N. Kaplan was elected as a director of Autobytel.com in June 1998. Mr. Kaplan has been a member of the law firm of Skadden, Arps, Slate, Meagher & Flom LLP since 1979. Mr. Kaplan serves on the board of directors of the following companies whose shares are publicly traded: American Biltrite, Inc., Congoleum Corporation, Inc., DRS Technologies, Inc., Grey Advertising, Inc., MovieFone, Inc., REFAC Technology Development Corporation, and Volt Information Services, Inc. Mr. Kaplan holds an A.B. from Columbia College and a J.D. from Columbia Law School.

Kenneth J. Orton was elected a director of Autobytel.com in June 1998. Mr. Orton is currently a director, and through February 1999 Mr. Orton was the President and Chief Executive Officer, of Preview Travel, Inc., which he joined in April 1994 as President and Chief Operating Officer. From September 1989 to March 1994, Mr. Orton was Vice President and General Manager of the San Francisco division of Epsilon, a database marketing firm and a wholly owned subsidiary of American Express Company. Prior to his employment with Epsilon, Mr. Orton was Vice President of MARC Inc., a market research and database marketing company, and Vice President of Sales and Marketing for Future Computing. Mr. Orton also serves as a director of ONSALE, Inc., a publicly-held company. Mr. Orton received a B.A. from California State University, Fullerton.

Peter Titz was elected a director of Autobytel.com in January 1999. Mr. Titz is a manager of Metro International Dienstleistung Beteiligungs AG and Invision AG. Before joining Metro and Invision AG in 1989, Mr. Titz was managing director of various institutions in the financial service sector including American Express in Frankfurt where he was responsible for the introduction of automatic teller machines and the installation of POS systems in Europe. Mr. Titz received a degree in engineering from the University of Aachen and a degree in economics from the University of Bonn. Mr. Titz is President of the board of directors of Aureus Private Equity AG and Deutsche Media AG and is a member of the board of directors of Teleclip AG.

Richard A. Post was elected a director of Autobytel.com in February 1999. Mr. Post is Executive Vice President and Chief Financial Officer of MediaOne Group, Inc. and president of MediaOne Capital Corp., a subsidiary of MediaOne Group, Inc. Mr. Post joined US WEST Financial Services in April 1988 as manager of Corporate Development and was promoted in 1990, first to executive director, and then to vice president, responsible for all Capital Asset Group businesses. From June 1996 to January 1997, he was president of Corporate Development at US WEST, Inc. where he had responsibility for corporate development efforts at US WEST Communications, as well as US WEST, Inc. US WEST, Inc. has since split into two separate corporations, MediaOne Group, Inc. and US WEST. From December 1995 to June 1996, he served as vice president of Corporate Development for US WEST Media Group, a division of the former US WEST, Inc. Mr. Post holds both a business administration degree and an MBA from Delta State University. Mr. Post is a member of the board of directors of Financial Security Assurance Holdings, Inc., a financial guaranty company based in New York.

BOARD COMPOSITION

The board of directors has currently authorized eight members of whom two are to be elected by the holders of series A preferred stock pursuant to Autobytel.com's certificate of incorporation. Mr. Coats and Mr. Fuchs are the designees of the series A preferred stock to the board of directors. The rights of the series A preferred stockholders will expire upon the closing of this offering. Members of the board of directors are elected each year at our annual meeting of stockholders, and serve until the following annual meeting of stockholders or until their respective successors have been elected and qualified.

In accordance with the terms of Autobytel.com's restated certificate of incorporation, effective upon the closing of this offering, the terms of office of the board of directors will be divided into three classes: the Class I term will expire at the annual meeting of stockholders to be held in 1999; the Class II term will expire at the annual meeting of stockholders to be held in 2000; and the Class III term will expire at the annual meeting of stockholders to be held in 2001. The Class I directors will be Mr. Lorimer, Mr. Titz and Mr. Post, the Class II directors will be Mr. Kaplan and Mr. Orton and the Class III directors will be Mr. Grimes, Mr. Fuchs and Mr. Coats. At each annual meeting of stockholders after the initial classification, the successors to directors whose term will then expire will be elected to serve from the time of election and qualification until the third annual meeting following election. In addition, our restated certificate of incorporation provides that the authorized number of directors shall be designated by the bylaws of Autobytel.com. Any additional directorships resulting from an increase in the number of directors will be distributed among the three classes so that, as nearly as possible, each class will consist of one-third of the directors. This classification of the board of directors may have the effect of delaying or preventing changes in control or management of Autobytel.com. Directors of Autobytel.com may be removed, with or without cause, by the affirmative vote of the holders of a majority of the shares entitled to vote at an election of directors. There are no family relationships among any of the directors and executive officers of Autobytel.com.

BOARD COMMITTEES

The audit committee consists of Mr. Coats, Mr. Fuchs and Mr. Kaplan. The audit committee makes recommendations to the board of directors regarding the selection of independent public accountants, reviews the results and scope of the audit and other services provided by Autobytel.com's independent public accountants and reviews and evaluates our control functions.

The compensation committee consists of Mr. Coats, Mr. Fuchs and Mr. Orton. The compensation committee administers the issuance of stock under Autobytel.com's 1996 Stock Incentive Plan, 1996 Stock Option Plan, 1996 Employee Stock Purchase Plan, 1998 Stock Option Plan and 1999 Stock Option Plan, makes recommendations regarding various incentive compensation and benefit plans and determines salaries for the executive officers and incentive compensation for employees and consultants of Autobytel.com.

DIRECTOR COMPENSATION

Our non-employee directors do not currently receive any cash compensation for service on Autobytel.com's board of directors or any committee thereof, but directors may be reimbursed for expenses incurred in connection with attendance at board and committee meetings. Our 1999 Stock Option Plan provides for automatic grants of stock options to non-employee directors. See "Stock Plans -- 1999 Stock Option Plan."

We have entered into indemnification agreements with each member of the board of directors and our officers providing for the indemnification of such person to the fullest extent authorized, permitted or allowed by law.

EXECUTIVE COMPENSATION

The following table sets forth information regarding the compensation (rounded to the nearest thousand) paid during each of our last three completed fiscal years to our Chief Executive Officer and each of our other five most highly compensated executive officers as of December 31, 1998. Mr. Ellis resigned as our Chief Executive Officer in June 1998.

SUMMARY COMPENSATION TABLE

NAME AND PRINCIPAL POSITION	FISCAL YEAR ENDED DECEMBER 31,	ANNUAL COMPENSATION SALARY	ANNUAL COMPENSATION BONUS	OTHER ANNUAL COMPENSATION	LONG-TERM COMPENSATION AWARDS SECURITIES UNDERLYING OPTIONS(#)
Peter R. Ellis.............	1998	$219,000	$ --	$522,000(1)	--
Former Chief Executive	1997	275,000	100,000	15,000	--
Officer and President	1996	123,000	321,000	11,000	--
Mark W. Lorimer............	1998	316,000	150,000	9,000	750,000(2)
Chief Executive Officer and	1997	200,000	100,000	70,000(3)	100,000
President	1996	8,000	--	--	333,333
Robert S. Grimes...........	1998	220,000	75,000	--	125,000
Executive Vice President	1997	180,000	--	--	116,667
	1996	90,000	--	--	166,667
Ann M. Delligatta..........	1998	177,000	100,000	--	316,667(4)
Executive Vice President and Chief Operating Officer	1997	88,000	--	--	83,334
Michael J. Lowell..........	1998	190,000	--	--	16,667
Senior Vice President,	1997	139,000	50,000	--	50,000
Development	1996	15,000	--	--	111,111
Anne Benvenuto.............	1998	150,000	--	--	16,667
Senior Vice President, Marketing	1997	13,000	5,000	15,000(3)	33,333

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(1) Represents a one-time payment of $500,000, $14,000 car allowance and $8,000 legal expenses. See "Certain Transactions."

(2) 500,000 shares of such securities underlying options are contingent on the performance of our market trading price after the closing of the offering.

(3) Relocation expense reimbursement.

(4) 200,000 shares of such securities underlying options are contingent on the performance of our market trading price after the closing of the offering.

OPTION GRANTS DURING 1998

The following table sets forth the five most highly compensated officers and certain information concerning stock options granted to them during 1998. We have never issued stock appreciation rights. Options were granted at an exercise price equal to the fair market value of the common stock at the date of grant. In determining the fair market value of the common stock, the board of directors considered various factors, including recent arms' length transactions, our financial condition and business prospects, operating results, the absence of a market for the common stock and the risks normally associated with investments in companies engaged in similar businesses. The term of each option granted is generally ten years from the date of grant. Options may terminate before their expiration dates, if the optionee's status as an employee or a consultant is terminated or upon the optionee's death or disability. We have not included disclosure on Mr. Ellis as he resigned as our Chief Executive Officer in June 1998 and did not receive any option grants in 1998.

	INDIVIDUAL GRANTS				POTENTIAL REALIZABLE VALUE OF ASSUMED ANNUAL RATES OF STOCK PRICE APPRECIATION FOR OPTION TERM(3)	
NAME	NUMBER OF SECURITIES UNDERLYING OPTIONS GRANTED(#)(1)	PERCENT OF TOTAL OPTIONS GRANTED TO EMPLOYEES IN 1998(2)	EXERCISE PRICE ($/SHARE)	EXPIRATION DATE(4)	5%($)	10%($)
Mark W. Lorimer......	200,000	12.3%	$13.20	12/17/08	$1,660,282	$ 4,207,480
	500,000	30.7%	13.20	12/17/08	4,150,705	10,518,700
	50,000	3.1%	13.20	06/21/08	415,070	1,051,870
Robert S. Grimes.....	125,000	7.7%	13.20	12/17/08	1,037,676	2,629,675
Ann M. Delligatta....	100,000	6.1%	13.20	12/17/08	830,141	2,103,740
	200,000	12.3%	13.20	12/17/08	1,660,282	4,207,480
	16,667	1.0%	13.20	06/21/08	138,360	350,630
Anne Benvenuto.......	16,667	1.0%	13.20	06/21/08	138,360	350,630
Michael J. Lowell....	16,667	1.0%	13.20	06/21/08	138,360	350,630

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(1) Represents options granted under our Amended and Restated 1996 Stock Incentive Plan and the 1998 Stock Option Plan.

(2) Based on an aggregate 1,630,340 shares of our common stock subject to options granted to employees during fiscal 1998.

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

AGGREGATED OPTION EXERCISES IN 1998 AND YEAR-END OPTION VALUES

The following table sets forth for each of the five most highly compensated officers certain information concerning options exercised during fiscal 1998 and the number of shares subject to both exercisable and unexercisable stock options as of December 31, 1998. The values for "in-the-money" options are calculated by determining the difference between the fair market value of the securities underlying the options as of December 31, 1998 ($13.20 per share as determined by the board of directors) and the exercise price of the officer's options. In determining the fair market value of the common stock, the board of directors considered various factors, including recent arms' length transactions, our financial condition and business prospects, its operating results, the absence of a market for the common stock and the risks normally associated with investments in companies engaged in similar businesses. Autobytel.com has never issued stock appreciation rights. We have not included disclosure on Mr. Ellis as he resigned as our Chief Executive Officer in June 1998 and holds no options.

NAME	NUMBER OF SHARES ACQUIRED ON EXERCISE(#)	VALUE REALIZED($)	NUMBER OF SECURITIES UNDERLYING UNEXERCISED OPTIONS AT DECEMBER 31, 1998		VALUE OF UNEXERCISED IN-THE-MONEY OPTIONS AT DECEMBER 31, 1998($)	
			EXERCISABLE	UNEXERCISABLE	EXERCISABLE	UNEXERCISABLE
Mark W. Lorimer........	--	$ --	209,999	973,334	$1,609,491	$1,290,506
Michael J. Lowell......	--	--	104,861	72,917	725,006	241,660
Robert S. Grimes.......	--	--	245,834	162,500	2,060,004	--
Ann M. Delligatta......	--	--	29,165	370,836	--	--
Anne Benvenuto.........	--	--	8,333	41,667	--	--

STOCK PLANS

Since our inception the board of directors has granted stock options in order to attract, retain and motivate employees. Our board of directors considers many factors in granting stock options. For example, among other factors, our board of directors considers competitive market conditions for employees and the risk associated with working for a development stage Internet company.

1996 Stock Option Plan. Autobytel.com's 1996 Stock Option Plan was approved by the board of directors on May 18, 1996 and the stockholders on May 31, 1996. The 1996 Option Plan was terminated by a resolution of the board of directors on October 23, 1996, at which time over 800,000 options had been issued.

The 1996 Option Plan provided for the granting to employees and directors of stock options intended to qualify as incentive stock options within the meaning of Section 422 of the Internal Revenue Code of 1986, as amended, and for the grant to employees, consultants and directors of nonstatutory stock options. Autobytel.com reserved 1,194,444 shares of common stock for issuance under the 1996 Option Plan. Under the 1996 Option Plan, the exercise price of any incentive stock options granted under the 1996 Option Plan were not less than the fair market value of the common stock on the date of grant, and the exercise price of any non-statutory stock option granted under the 1996 Option Plan were not less than 85% of the fair market value of the common stock at the date of grant. The term of all options granted under the 1996 Option Plan did not exceed 10 years. The administrator of the options granted under the 1996 Option Plan is the board of directors or a committee of the board of directors. Any options granted under the 1996 Option Plan are exercisable at such times as determined by the administrator, but in no case at a rate of less than 20% per year over five years from the grant date. A majority of the outstanding options vest and became exercisable as to one third of the grant on October 31, 1996, and as to an additional one third of the grant at each successive October 31. Options granted under the 1996 Option Plan generally must be exercised within 30 days following termination of the optionee's status as an employee, director or consultant of Autobytel.com, or within 12 months following such optionee's termination by death or disability. Any optionee holding options granted under the 1996 Option Plan cannot sell or transfer any shares of common stock during the 180 day period following the effective date of the registration statement relating to an initial public offering of securities filed pursuant to the Securities Act.

1996 Stock Incentive Plan. The Incentive Plan was approved by the board of directors on October 23, 1996, amended and restated by the board of directors on November 24, 1996 and approved by the stockholders on January 16, 1997. The 1996 Stock Incentive Plan provides for the granting to employees and directors of stock options intended to qualify as 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.

As approved by the stockholders, Autobytel.com reserved 833,333 shares of common stock for issuance under the Incentive Plan. Options with respect to all of the common stock reserved for issuance have been issued and are either incentive stock options or nonstatutory stock options.

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

The board of directors determined the exercise price of nonstatutory stock options granted under the Incentive Plan, and in all cases, the exercise price was the fair market value of the common stock on the date of grant. The term of all options granted under the Incentive Plan did not exceed ten years. Stock options granted under the Incentive Plan vest according to vesting schedules determined by the administrator.

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

From October 1996 through January 1999, we purported to grant incentive stock options to employees, of which 689,406 shares granted exceeded the Incentive Plan limit of 833,333 shares. As of January 29, 1999, 688,921 options, and 485 shares that were acquired upon the exercise of excess options were outstanding in excess of the Incentive

Plan limit. Because these grants exceed the plan's limit, they did not qualify as incentive stock options, which have more favorable tax treatment for employees than nonqualified stock options. In connection with these matters, on January 29, 1999, we filed an application with the California Department of Corporations for approval of a rescission offer to those affected optionholders holding options covering 689,406 shares of common stock. The Department of Corporations approved the rescission offer on February 12, 1999. The rescission offer allowed each affected optionholder to choose between a cash payment or a new grant of incentive stock options under the 1999 Stock Option Plan. The offer for a cash payment was for 10% of the aggregate exercise price per share of the option plus 7% statutory interest since the date of grant of the option. The terms of the options granted under the 1999 Stock Option Plan are similar to the terms of the original stock options, with an exercise price equal to the fair market value on the date of regrant. In addition, optionholders who chose new grants under the 1999 Stock Option Plan were granted additional options based on the length of time the original options were held. The aggregate maximum number of additional shares of common stock issuable under this choice for all those optionholders were 35,000 shares. All the affected optionholders participated in the rescission offer and we paid $8,000 to four optionholders who chose the cash alternative.

1996 Employee Stock Purchase Plan. Autobytel.com's 1996 Employee Stock Purchase Plan was adopted by the board of directors on November 18, 1996 and approved by the stockholders on January 16, 1997. The maximum number of shares of common stock available for sale is 444,444. Currently the plan has not been implemented. The Purchase Plan, which is intended to qualify under Section 423 of the Code, permits eligible employees of Autobytel.com to purchase shares of common stock through payroll deductions of up to ten percent of their compensation for all purchase periods ending within any calendar year.

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

The price of common stock purchased under the Purchase Plan will be 85% of the lower of the fair market value of the common stock on the first or last day of each six month purchase period. Employees may end their participation in the Purchase Plan at any time during an offering period, and they will be paid their payroll deductions to date. Participation ends automatically upon termination of employment with Autobytel.com. Rights granted under the Purchase Plan are not transferable by a participant other than by will, the laws of descent and distribution, or as otherwise provided under the plan.

The Purchase Plan will be administered by the board of directors or by a committee appointed by the board of directors. The board of directors may amend or modify the Purchase Plan at any time. The Purchase Plan will terminate 10 years from the date of its adoption.

1998 Stock Option Plan. Our 1998 Stock Option Plan was adopted by the board of directors in December 1998. The Plan provides that an aggregate of 1,500,000 shares of our common stock is available to be granted to key employees of Autobytel.com and its parent or subsidiary corporations, if any. If any stock option expires or terminates for any reason without having been exercised in full, new stock options may be granted covering the shares of our common stock originally set aside for the unexercised portion of such expired or terminated stock option.

Under the 1998 Option Plan, eligible key employees of Autobytel.com may receive incentive stock options within the meaning of Section 422 of the Code or nonstatutory stock options. No eligible employee shall receive stock options with respect to more than 700,000 shares of our common stock during any one calendar year. Incentive stock options granted under the 1998 Option Plan must have an exercise price that is no less than the fair market value of our common stock as of the time the option is granted and generally may not be exercised more than ten years after the date of grant. Any incentive stock option that is granted to any option holder who beneficially owns more than 10% of the total combined voting power of all classes of outstanding shares of capital stock of Autobytel.com must have an exercise price that is no less than 110% of the fair market value of our common stock as of the time the option is granted and may not be exercised more than five years after the date of grant. To the extent that the aggregate fair market value of stock exercisable by an optionee for the first time in any one calendar year under incentive stock options granted under the 1998 Option Plan and all other stock plans of Autobytel.com exceeds $100,000, options for such shares shall not be considered incentive stock options but instead shall be considered nonstatutory stock options.

Nonstatutory stock options granted under the 1998 Option Plan must have an exercise price that is no less than 85% of the fair market value of our common stock as of the time the option is granted and may not be exercised more than 10 years after the date they are granted. Under the 1998 Option Plan, nonstatutory stock options vest over a time period determined by the administrator, however, the vesting could accelerate based on the performance of our common stock. All other stock options granted under the 1998 Option Plan vest according to time-based vesting schedules determined by the administrator. In addition, an option holder who is not an officer, director or consultant shall have the right to exercise at least 20% of the options granted per year over 5 years from the date of grant. Options granted under the 1998 Option Plan are nontransferable, other than by will or the laws of descent and distribution.

The 1998 Option Plan provides that, unless otherwise stated in a stock option agreement, upon any merger, consolidation, or sale or transfer of all or any part of our business or assets, any option shall vest and may be exercised immediately unless any party to these transactions specifically assumes our obligations under the 1998 Option Plan. In addition, unless otherwise provided in the stock option agreement for any given option, upon any liquidation or dissolution of Autobytel.com, all rights of the option holder with respect to the unexercised portion of any option will terminate and all options will be canceled unless the plan under which such liquidation or dissolution is effected makes specific provisions regarding the 1998 Option Plan. The holder of any option granted under the 1998 Option Plan has the right immediately prior to the effective date of a merger, consolidation or sale of all or any part of our business or assets or a liquidation or dissolution to exercise such option without regard to any time vesting provision of such option. In no event may any incentive stock options be exercised later than the date preceding the tenth anniversary date of the grant.

The 1998 Option Plan will be administered by the board of directors or by a committee of the board of directors acting as the administrator. The administrator shall select the eligible key employees who are to be granted options, determine the number of shares to be subject to options to be granted to each eligible key employee and designate such options as incentive stock options or nonstatutory stock options. The board of directors may at any time amend or modify the 1998 Option Plan, except that the board of directors may not, without approval of the stockholders of Autobytel.com:

- increase the number of shares issued under the 1998 Option Plan,

- modify the requirements as to eligibility for participation in the 1998 Option Plan or

- change the option price provisions of the 1998 Option Plan so as to have a material adverse effect on Autobytel.com other than to conform with any applicable provisions of the Code or regulations or rulings.

Unless terminated earlier, the 1998 Option Plan terminates ten years from the date it was adopted by the board of directors.

1999 Stock Option Plan. Our 1999 Stock Option Plan was adopted by the board of directors on January 14, 1999. The plan provides that an aggregate of 1,800,000 shares of our common stock are available to our employees; provided that after March 31, 1999, we may not grant more than 1,000,000 options under the plan. Unless otherwise provided in the stock option agreement, upon any merger, consolidation, or sale or transfer of all or any part of our business or assets, any option under the plan shall immediately vest and be exercisable unless any party to such a transaction specifically assumes the obligations of Autobytel.com under the 1999 Option Plan.

Non-employee directors are entitled to participate in our 1999 Stock Option Plan. The 1999 Stock Option Plan provides for an automatic grant of a first 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; provided, that if any person serving as a non-employee director before January 14, 1999 received options for less than 20,000 shares on the date such person became a member of the board of directors, such person will be granted an option to purchase a number of shares equal to the difference between 20,000 shares and the shares actually granted. After the first option is granted to the non-employee director, he or she will automatically be granted a subsequent option to purchase 5,000 shares on November 1 of each subsequent year provided he or she is then a non-employee director and, provided further, that on such date he or she has served on the Board for at least six months. First options and each subsequent option will have a term of ten years. The shares related to the first option and each subsequent option vest in their entirety and becomes exercisable on the first anniversary of the grant date, provided that the option holder continues to serve as a director on such dates. The exercise price of shares subject to the first option and each subsequent option shall be 100% of the fair market value per share of the common stock on the date of the grant of the option.

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

401(K) PLAN

All employees of Autobytel.com over age 21 who have completed three months of service with Autobytel.com are eligible to participate in the Auto-By-Tel Retirement Savings Plan, a defined contribution plan effective September 1, 1997 and intended to qualify under Section 401 of the Internal Revenue Code. Eligible employees may enter the savings plan as of the first day of January or July following the date on which they have met the savings plan's eligibility requirements. Participants may make pre-tax contributions to the savings plan of up to 15 percent of their eligible earnings, but not in excess of a statutory annual limit. Autobytel.com may make discretionary matching contributions to the savings plan. For the year ended December 31, 1998, Autobytel.com made no matching contributions to each eligible participant's contributions. Each participant in the savings plan is fully vested in his or her contributions and the investments earnings on these contributions. Participants vest in matching contributions made on their behalf, and the investment earnings on these contributions at the rate of 20 percent per year and are thus 100 percent vested in their employer matching contribution accounts after five years of service. Contributions by the participants or Autobytel.com and the income earned on such contributions are not taxable to the participants until withdrawn. Contributions by Autobytel.com, if any, are deductible by it when made. Contributions are held in trust as required by law. Individual participants may direct the trustee to invest their accounts in authorized investment alternatives.

COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

No interlocking relationship exists between the board of directors or compensation committee and the board of directors or compensation committee of any other company, nor has any such interlocking relationship existed in the past. The compensation committee of the board of directors currently consists of Mr. Fuchs, Mr. Coats and Mr. Orton.

EMPLOYMENT AGREEMENTS

On July 1, 1998, we entered into a three year employment agreement with Mr. Mark W. Lorimer, our President and Chief Executive Officer. Under this agreement, Mr. Lorimer is entitled to a base salary of $325,000 and a bonus as determined by the board of directors from time to time. Mr. Lorimer is also entitled to 200,000 options which vest over two years, 500,000 performance options which vest over seven years, unless accelerated upon the earlier accomplishment of stock price goals. In addition, Mr. Lorimer may participate in any medical, dental welfare plans, insurance coverages and any death benefit and disability benefit plans afforded to executive employees of Autobytel.com.

If Mr. Lorimer's employment is terminated without cause or if Mr. Lorimer terminates his employment with good reason, Mr. Lorimer is entitled to a lump sum payment equal to the highest annual base salary in effect for the term of the agreement multiplied by the greater of (1) the remaining balance of the three year term or longer if there is a change of control or (2) two years. In the event of a change of control of Autobytel.com prior to January 1, 2000, and while Mr. Lorimer remains employed by Autobytel.com, the term of the agrement shall automatically extend for a period of three years from the date of the change of control.

In addition to the above, in the event Lorimer's employment is terminated during the six month period prior to (or the first thirty-six months following) a change of control by Mr. Lorimer for good reason or by Autobytel.com other than for cause, disability or death, Mr. Lorimer is entitled to a lump sum payment equal to twice the highest bonus paid to Mr. Lorimer in the last three fiscal years plus the amount of the cost of all benefits for the greater of the remaining balance of the term or two years.

In the event of a change of control while Mr. Lorimer is employed by Autobytel.com or if Lorimer's employment is terminated by Autobytel.com without cause or by Mr. Lorimer for good reason during the six month period prior to a change of control, unvested time based options shall become vested and exercisable and unvested performance-based options shall become vested and exercisable to the extent performance targets are met. In the event of the death or disability of Mr. Lorimer during the term of this employment agreement, Autobytel.com shall provide Mr. Lorimer or his successors, heirs or designees, with continued payment of Mr. Lorimer's then current base salary and all benefits for a period of two years. If Mr. Lorimer's severance benefits are parachute payments under the Internal Revenue Code, we have agreed to make additional payments to him to compensate for his additional tax obligations.

On December 17, 1998, Autobytel.com entered into a three year employment agreement with Ms. Ann Marie Delligatta, our Executive Vice President and Chief Operating Officer. Under this agreement, Ms. Delligatta is entitled to a base salary of $225,000, a bonus in such amounts and based on such criteria as may be established by the board of directors from time to time. Ms. Delligatta is also entitled to 100,000 options which vest fully by December 17, 2000 and 200,000 performance options which vest over seven years unless accelerated upon the earlier accomplishment of stock price goals. In addition, Ms. Delligatta may participate in any medical, dental welfare plans, insurance coverages and any death benefit and disability benefit plans afforded to executive employees of Autobytel.com. If Ms. Delligatta's employment is terminated without cause or if Ms. Delligatta terminates her employment for good reason, Ms. Delligatta is entitled to a lump sum payment equal to the base salary that would have been received by Ms. Delligatta if she had remained employed by Autobytel.com for the remaining balance of the three year term. Ms. Delligatta's employment with Autobytel.com shall terminate automatically in the event of death or upon 30 days' written notice of termination by Autobytel.com in the event of a disability.

On March 4, 1999, we entered into an employment and severance agreement with Mr. Michael J. Lowell, our Senior Vice President, Development. Under this agreement, Mr. Lowell is entitled to a base salary of $140,000 per year and to all ordinary and customary perquisites such as any medical, dental welfare plans, insurance coverages and any death benefit and disability benefit plans afforded to executive employees of Autobytel.com. If Mr. Lowell's employment is terminated without cause, he is entitled to a lump sum severance payment in varying amounts depending on the date of termination. The maximum severance payment is $232,501, payable if the effective date of termination occurs during March 1999, and the minimum severance payment is $90,000, payable if the effective date of termination occurs after January 2000.

Under a letter agreement dated December 18, 1998, Hoshi Printer, our Senior Vice President and Chief Financial Officer, is entitled to a base salary of $150,000, a $50,000 bonus payable upon closing of the offering, 150,000 options which vest fully by January 2003 and employee benefits such as health and insurance.

Under a letter agreement dated March 7, 1999, Ariel Amir, our Vice President and General Counsel, is entitled to a base salary of $175,000, 125,000 options which vest fully by March 2003 and employee benefits, including health and insurance. If Mr. Amir's employment is terminated without cause during the first year of employment, Mr. Amir is entitled to one year's base salary payable monthly. If Mr. Amir's employment is terminated without cause thereafter, he is entitled to six month's base salary payable monthly.

INDEMNIFICATION AND LIMITATION OF DIRECTOR AND OFFICER LIABILITY

We have entered into agreements to indemnify our directors and officers, in addition to the indemnification provided for in our bylaws. These agreements, among other things, indemnify our directors and officers for expenses including attorneys' fees, judgments, fines and settlement amounts incurred by any such person in any action or proceeding arising out of such person's services as an officer or director of us.

In any event, our directors and officers shall not be entitled to indemnity under these agreements if a reviewing party appointed by the board of directors determines that such person is not entitled to be indemnified thereunder under applicable law. In addition, our directors and officers may not be indemnified for expenses reasonably incurred, regarding any claim related to the fact that such person was a director or officer of Autobytel.com:

- if the expenses result from acts, omissions or transactions for which such person is prohibited from receiving indemnification;

- if the claims were initiated or brought voluntarily by one of our directors or officers and not by way of defense, counterclaim or cross claim; or

- if a claim instituted by one of our directors or officers or by us to enforce or interpret the indemnity agreement was found to be frivolous or made in bad faith by a court having jurisdiction over such matter.

We believe that these agreements are necessary to attract and retain qualified directors and officers.

To the extent indemnification for liabilities arising under the Securities Act may be permitted to directors, officers or persons controlling us as discussed above, we have been informed that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Securities Act and is therefore unenforceable.

FINANCINGS AND RELATED PARTY TRANSACTIONS

Series A Preferred Stock

On August 23, 1996, in a private placement transaction, we issued 1,500,000 shares of series A preferred stock at $10.00 per share convertible into common stock at the conversion price per share of $9.00. The number of shares of common stock into which each share of series A preferred stock will convert is 1.11 shares. The holders of such series A preferred stock are entitled to registration rights regarding the shares of common stock issued or issuable upon conversion. See "Description of Capital Stock--Registration Rights." The holders of outstanding shares of series A preferred stock are entitled to receive, when and as declared by the board of directors, dividends in cash at an annual rate of $0.80 per share of series A preferred stock. Such dividends, if any, are payable in preference and in priority to any declaration or payment of any dividend on the series B preferred stock or common stock. We have never declared or paid dividends on the series A preferred stock. All shares of series A preferred stock will automatically convert into shares of common stock upon the closing of the offering.

From July 9, 1996 through August 13, 1996, Mr. Fuchs made loans to us in the aggregate principal amount of $500,000. These loans, along with accrued interest, converted into series A preferred stock on August 23, 1996 at $10.00 per share. In September 1996, Mr. Fuchs was appointed to our board of directors.

The holders of series A preferred stock have the right to elect two members of the board of directors. Because General Electric Capital Corporation holds more than a majority of the shares of series A preferred stock it has the right to designate on behalf of all holders of series A preferred stock such directors. To date, General Electric Capital Corporation has designated Mr. Fuchs and Mr. Coats to the board of directors.

Series B Preferred Stock

On January 30, 1997, in a private placement transaction we issued 967,915 shares of series B preferred stock at $9.35 per share convertible into common stock at the conversion price per share of $10.37. The number of shares of common stock into which each share of series B preferred stock will convert is 0.90 shares. The holders of such series B preferred stock are entitled to registration rights with respect to the shares of common stock issued or issuable upon conversion. See "Description of Capital Stock--Registration Rights." The holders of outstanding shares of series B preferred stock are entitled to receive, when and as declared by the board of directors, dividends in cash at an annual rate of $0.80 per share of series B preferred stock. Such dividends, if any, are payable in preference and in priority to any declaration or payment of any dividend on the common stock. We have never declared or paid dividends on the series B preferred stock. All shares of series B preferred stock will automatically convert into shares of common stock upon the closing of the offering.

Series C Preferred Stock

On October 21, 1997, April 30, 1998, May 7, 1998, October 30, 1998, November 10, 1998, December 16, 1998, December 21, 1998 and December 24, 1998, in private placement transactions, we issued a total of 4,968,738 shares of series C preferred stock at $8.80 per share convertible into common stock at the conversion price per share of $13.20.

The number of shares of common stock into which each share of series C preferred stock will convert is 0.67 shares. The holders of such series C preferred stock are entitled to registration rights with respect to the shares of common stock issued or issuable upon conversion. See "Description of Capital Stock--Registration Rights". The holders of outstanding shares of series C preferred stock are entitled to receive, when and as declared by the board of directors, dividends in cash at an annual rate of $0.80 per share of series C preferred stock. Such dividends, if any, are payable in preference and in priority to any declaration or payment of any dividend on the series A preferred stock, series B preferred stock or common stock. We have never declared or paid dividends on the series C preferred stock. All shares of series C preferred stock will automatically convert into shares of common stock upon the closing of the offering. National Broadcasting Company acquired its shares by providing national spot advertising to Autobytel.com.

The following chart lists the holders of Autobytel.com's preferred stock and the number and class of shares held by such holders as of March 1, 1999.

NAME OF STOCKHOLDER	SERIES A PREFERRED STOCK	SERIES B PREFERRED STOCK	SERIES C PREFERRED STOCK
General Electric Capital Corporation..........................	800,000	534,760	681,819
National Union Fire Insurance Company of Pittsburgh, PA, an affiliate of American International Group.........	400,000	267,380	227,273
ContiTrade Services L.L.C...........	200,000	133,690	
Michael Fuchs.......................	100,000	32,085	
Tozer Kemsley and Millbourn Automotive, Ltd., a unit of Inchcape Motors..............................			568,182
Bilia AB............................			568,182
National Broadcasting Company, Inc., an affiliate of General Electric Capital Corporation..................			121,009
Invision AG.........................			568,182
Aureus Private Equity AG............			1,097,727
MediaOne Interactive Services, Inc.................................			1,136,364

Loans

From time to time, Autobytel.com has advanced funds to Peter R. Ellis, the former Chairman of the board of directors and Chief Executive Officer of Autobytel.com. As of December 31, 1998, Mr. Ellis was indebted to us in the amount of $250,000 plus accrued interest at the rate of 8% per year compounded quarterly. The principal amount of the loan is due and payable on or before March 1, 2003. We received a pledge of 100,657 of Mr. Ellis' shares of common stock to secure this loan.

Severance and General Release Agreement

Autobytel.com and John M. Markovich, our former Senior Vice President and Chief Financial Officer, are parties to a severance and general release agreement dated January 30, 1998. Under the terms of the severance agreement regarding his resignation from Autobytel.com, we paid to Mr. Markovich a severance payment of $75,000, extended Mr. Markovich's health coverage through July 30, 1998, paid certain outplacement expenses of $10,000 and granted Mr. Markovich a warrant to purchase 33,333 shares of common stock at $11.25 per share. The warrant granted to Mr. Markovich expires on January 30, 2003.

Advisory Agreement

Autobytel.com and Mr. Ellis, our former Chief Executive Officer and Chairman of the board of directors, are parties to a two year advisory agreement dated as of August 20, 1998. Under the advisory agreement, Mr. Ellis received $500,000 on the date of execution. Commencing on the thirteenth month anniversary of this agreement, Mr. Ellis is entitled to receive $5,000 per month. Mr. Ellis is entitled to participate in all employee health plans and receives a car allowance of $1,000 per month until April 30, 1999. The advisory agreement may be terminated by us for cause or upon 30 days prior written notice without cause. In the event the advisory agreement is terminated without cause by Autobytel.com or due to his death or disability, Mr. Ellis will still be entitled to receive his base salary and health benefits through the remainder of the term of the of the agreement. Mr. Ellis has the right to terminate the advisory agreement on 90 days prior written notice to Autobytel.com. A majority of disinterested directors approved the advisory agreement and the loans made to Mr. Ellis from time to time.

Voting Proxy

In addition, on January 11, 1999, in consideration of us waiving our right of first refusal permitting the sale of $1.4 million of our common stock by Mr. Ellis to "accredited investors" as such term is defined under Rule 501 of the Securities Act, Mr. Ellis transferred to us the voting power of 593,175 shares of common stock of Autobytel.com owned by Mr. Ellis for a period that is the earlier of five years from such date or until such time as Mr. Ellis sells the shares to a person not affiliated with Mr. Ellis. Mr. Ellis sold these shares at $11.88 per share.

Marketing Agreement

Auto-By-Tel Acceptance Corporation, member companies of the American International Group, and Autobytel.com entered into a marketing agreement dated July 22, 1996. Under this agreement, Autobytel.com, through Auto-By-Tel Acceptance Corporation, authorizes and provides the American International Group access to its Internet server, for the publication, display, and exhibition of the American International Group's member companies' direct response automobile insurance sales materials. In return, Auto-By-Tel Acceptance Corporation is paid compensation based on a flat fee on the basis of the premiums collected from our consumers.

Under a marketing and application processing agreement dated February 1, 1997, among GE Capital, Auto-By-Tel Acceptance Corporation and Autobytel.com, Auto-By-Tel

Acceptance Corporation and Autobytel.com agreed to refer customers seeking vehicle financing with favorable credit ratings to GE Capital. In return, GE Capital agreed to pay Auto-By-Tel Acceptance Corporation a marketing fee of $100.00 for each financing consummated by GE Capital under this agreement. GE Capital is an affiliate of General Electric Capital Corporation, which beneficially owns 1,831,903 shares of common stock. As of December 31, 1998, Auto-By-Tel Acceptance Corporation had referred customers to GE Capital to whom GE Capital extended financing in an aggregate amount of approximately $307,000 and received approximately $1,200 in marketing fees since the inception of this relationship.

In addition, General Electric Capital Services, Inc., an affiliate of General Electric Capital Corporation, indirectly beneficially owns approximately 22% of the issued and outstanding common stock of PaineWebber Group, Inc., which is the parent holding company of PaineWebber Incorporated, one of the underwriters taking part in this offering. As a result, BT Alex. Brown Incorporated will act as a qualified independent underwriter to establish the price of the shares offered by this prospectus.

Issuance of Warrants

On November 10, 1998, we issued to Invision AG a warrant to purchase an aggregate of 150,000 shares of our common stock at an exercise price of $13.20 per share. This warrant is exercisable as of such date and expires on November 10, 2001.

On December 16, 1998 and December 23, 1998, we issued to Aureus Private Equity AG warrants to purchase 169,800 and 120,000 shares, respectively, of our common stock at an exercise price of $13.20 per share. These warrants are exercisable as of such date and expire on December 16, 2001 and December 23, 2001, respectively. In January 1999, Peter Titz, a manager of Invision AG and a director of Aureus Private Equity AG, was appointed to our board of directors.

On December 21, 1998, we issued to MediaOne Interactive Services, Inc. a warrant to purchase an aggregate of 300,000 shares of common stock of Autobytel.com at an exercise price of $13.20 per share. This warrant is exercisable as of such date and expires on December 21, 2001. In February 1999, Richard Post, a director of MediaOne Interactive Services, Inc., was appointed to Autobytel.com's board of directors.

Approval Procedure for Related Party Transactions

All future transactions between Autobytel.com and interested directors and stockholders, if any, will be approved by the disinterested directors or stockholders, as appropriate in accordance with Delaware law and our certificate of incorporation and bylaws.

PRINCIPAL AND SELLING STOCKHOLDERS

The following table sets forth information with respect to the beneficial ownership of the common stock as of March 15, 1999, as adjusted to reflect the conversion of the preferred stock into common stock concurrently with the offering and sale of common stock offered in this offering for:

- each person or entity who is known by Autobytel.com to beneficially own five percent or more of the outstanding common stock,

- each of our directors,

- each of the five most highly compensated officers in 1998,

- each stockholder who is selling shares of common stock in this offering, and

- all directors and executive officers of Autobytel.com as a group.

As of March 15, 1999, there were 14,372,783 shares of common stock outstanding.

Beneficial ownership is determined in accordance with the rules of the Securities and Exchange Commission. In computing the number of shares beneficially owned by a person and the percentage ownership of that person, shares of common stock subject to options or warrants held by that person that are currently exercisable or exercisable within 60 days of March 15, 1999, are deemed outstanding. Such shares, however, are not deemed outstanding for the purposes of computing the percentage ownership of each other person. Except as indicated in the footnotes to this table and under applicable community property laws, each stockholder named in the table has sole voting and investment power with respect to the shares set forth opposite such stockholder's name. The following table assumes no exercise of the underwriters' over-allotment option.

	SHARES BENEFICIALLY OWNED PRIOR TO OFFERING		NUMBER OF SHARES BEING	SHARES BENEFICIALLY OWNED AFTER OFFERING	
	NUMBER	PERCENT	OFFERED	NUMBER	PERCENT
Peter R. Ellis(1) c/o Autobytel.com 18872 MacArthur Boulevard Irvine, California 92612-1400	3,877,032	27.0%	500,000	3,377,032	18.9%
John C. Bedrosian(2) c/o Autobytel.com 18872 MacArthur Boulevard Irvine, California 92612-1400	3,569,445	24.8%	500,000	3,069,445	17.2%
General Electric Capital Corporation(3) 260 Long Ridge Road Stamford, Connecticut 06927	1,832,022	12.7%		1,832,022	10.2%
Peter Titz(4) c/o Aureus Private Equity AG Zugerstrasse 76b CH-6340 Baar Switzerland	1,550,406	10.5%		1,550,406	8.5%
MediaOne Interactive Services, Inc.(5) 9000 E. Nichols Avenue Englewood, Colorado 80112	1,057,576	7.2%		1,057,576	5.8%
Aureus Private Equity AG(4) Zugerstrasse 76b CH-6340 Baar Switzerland	1,021,618	7.0%		1,021,618	5.6%
National Union Fire Insurance Company of Pittsburgh, PA(6) 200 Liberty Street New York, New York 10281	837,157	5.8%		837,157	4.7%

	SHARES BENEFICIALLY OWNED PRIOR TO OFFERING		NUMBER OF SHARES BEING OFFERED	SHARES BENEFICIALLY OWNED AFTER OFFERING	
	NUMBER	PERCENT		NUMBER	PERCENT
Robert S. Grimes(7) c/o R.S. Grimes & Co., Inc. 152 West 57th Street New York, NY 10019	809,493	5.5%		809,493	4.5%
Mark W. Lorimer(8)	296,412	2.0%		296,412	1.6%
Michael J. Fuchs(9)	146,249	1.0%		146,249	*
Michael J. Lowell(10)	110,280	*		110,280	*
Ann M. Delligatta(11)	40,704	*		40,704	*
Anne Benvenuto(12)	12,472	*		12,472	*
Mark N. Kaplan	1,000	*		1,000	*
Kenneth J. Orton	--	*		--	*
Hoshi Printer	--	*		--	*
Ariel Amir	--	*		--	*
All directors and executive officers as a group (14 persons)(13)	9,733,646	61.5%		9,233,646	47.7%

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* Less than 1%

(1) Includes 46,110 shares held by trusts established for family members of Mr. Ellis as to which Mr. Ellis' spouse maintains sole voting power. Also includes 593,175 shares as to which Mr. Ellis granted voting power to Autobytel.com under a voting proxy dated January 11, 1999. See "Certain Transactions." If the underwriters' over-allotment option were exercised in full, the number of shares beneficially owned by Mr. Ellis after the offering would be 3,058,282 and the percentage would be 17.1%.

(2) 2,569,445 shares are held in the John C. Bedrosian and Judith D. Bedrosian Revocable Trust in which Mr. Bedrosian maintains shared voting powers. 1,000,000 shares are held by the Bedrosian Investment Group, Ltd., of which Mr. Bedrosian and his spouse are general partners. If the underwriters' over-allotment option were exercised in full, the number of shares beneficially owned by Mr. Bedrosian after the offering would be 2,750,695 and the percentage would be 15.4%.

(3) Mr. Jeffrey Coats is a managing director of GE Equity Capital Group, Inc., an affiliate of General Electric Capital Corporation, and is a director of Autobytel.com. Includes 888,889 shares held by General Electric Capital Corporation (GE) following the conversion of the series A preferred stock, 482,393 shares held by GE following the conversion of the series B preferred stock, and 454,546 shares held by GE following the conversion of the series C preferred stock. Also includes 6,194 shares issuable upon exercise of options exercisable within 60 days of March 15, 1999 which were granted to Mr. Coats, and subsequently assigned to GE. Mr. Coats disclaims beneficial ownership of such 6,194 shares.

(4) Mr. Peter Titz is a director of Aureus Private Equity AG, a manager of Invision AG, and a director of Autobytel.com. Includes 731,818 shares following the conversion of the series C preferred stock and 289,800 shares issuable upon exercise of warrants held by Aureus Private Equity AG. Also includes 378,788 shares following the conversion of the series C preferred stock and 150,000 shares issuable upon exercise of warrants held by Invision AG.

(5) Mr. Richard Post is a director of MediaOne Interactive Services, Inc. and a director of Autobytel.com. Includes 757,576 shares held by MediaOne Interactive Services, Inc. following the conversion of the series C preferred stock and 300,000 shares issuable upon exercise of warrants. MediaOne Interactive Services, Inc. is an indirect wholly owned subsidiary of MediaOne Group, Inc. As a result, MediaOne Group, Inc., may be deemed to indirectly, beneficially own the shares reported as being directly beneficially owned by MediaOne Interactive Services, Inc. MediaOne Group, Inc., disclaims such beneficial ownership.

(6) Represents 444,445 shares following the conversion of the series A preferred stock, 241,197 shares following the conversion of the series B preferred stock, and 151,515 shares following the conversion of the series C preferred stock.

(7) Includes an aggregate of 5,554 shares held in irrevocable trusts as to which Mr. Grimes' spouse maintains sole voting power. Includes 253,938 shares issuable upon exercise of options exercisable within 60 days of March 15 1999.

(8) Represents 296,412 shares issuable upon exercise of options exercisable within 60 days of March 15, 1999.

(9) Includes 6,195 shares issuable upon exercise of options exercisable within 60 days of March 15, 1999 and 111,111 shares held by Mr. Fuchs following the conversion of the series A preferred stock and 28,943 shares following the conversion of the series B preferred stock.

(10) Represents 110,280 shares issuable upon exercise of options exercisable within 60 days of March 15, 1999.

(11) Represents 40,704 shares issuable upon exercise of options exercisable within 60 days of March 15, 1999.

(12) Represents 12,472 shares issuable upon exercise of options exercisable within 60 days of March 15, 1999.

(13) Includes 726,195 shares issuable upon exercise of options and 739,800 shares issuable upon exercise of warrants exercisable within 60 days of March 15, 1999. Mr. Ellis resigned as Chief Executive Officer of Autobytel.com in June 1998. If Mr. Ellis' shares are not included in the number of shares beneficially owned by all directors and executive officers as a group, the number of shares owned by the directors and executive officers prior to the offering is 5,856,614 shares or 37.0% of the shares of common stock outstanding, and after the offering would be 5,856,614 shares or 30.3% of the shares of common stock outstanding.

DESCRIPTION OF CAPITAL STOCK

Upon the closing of the offering, the outstanding shares of common stock will consist of 17,858,745 shares, $0.001 par value. As of December 31, 1998, there were 8,506,455 shares of common stock outstanding held of record by 49 stockholders.

COMMON STOCK

Autobytel.com is authorized to issue a total of 50,000,000 shares of common stock. Holders of common stock are entitled to one vote per share in all matters to be voted on by the stockholders. After the preferences of the preferred stock, holders of common stock are entitled to receive ratably such dividends, if any, as may be declared from time to time by the board of directors out of funds legally available for payment. See "Dividend

Policy." In the event of a liquidation, dissolution or winding up of Autobytel.com, the holders of common stock are entitled to share ratably in all assets remaining after payment of liabilities, after prior distribution rights of shares of preferred stock then outstanding, if any. The common stock has no preemptive or conversion rights or other subscription rights. There are no redemption or sinking fund provisions applicable to the common stock. All outstanding shares of common stock are fully paid and nonassessable, and the shares of common stock to be issued upon completion of the offering will be fully paid and non-assessable.

PREFERRED STOCK

Under our amended and restated certificate of incorporation, the board of directors has the authority, without further action by the stockholders, to issue up to 11,445,187 shares of preferred stock in one or more series. The board of directors also has the power to determine the rights of the preferred stock such as dividend rights, conversion rights, voting rights, and the terms of redemption and liquidation preferences. The board of directors, without stockholder approval, can issue preferred stock with voting, conversion or other rights that are greater than the rights of the holders of common stock. Preferred stock could thus be issued quickly with terms calculated to delay or prevent a change in control of Autobytel.com or make removal of management more difficult. Additionally, the issuance of preferred stock may have the effect of decreasing the market price of the common stock, and may adversely affect the voting and other rights of the holders of common stock. Upon the closing of the offering, no shares of preferred stock will be outstanding and Autobytel.com has no plans to issue any of the preferred stock. See "Financings and Related Party Transactions."

REGISTRATION RIGHTS

The amended and restated investors' rights agreement, dated October 21, 1997, among Autobytel.com and the holders of 12,997,957 shares of common stock and securities convertible into common stock, provides that the holders are entitled to registration rights. If we propose to register any of our securities under the Securities Act, either for our own account or for the account of other holders exercising registration rights, the holders are entitled to notice of such registration and may include shares of registrable securities in the registration statement. Additionally, the holders are also entitled to demand registration rights and may require us to file a registration statement under the Securities Act at our expense for their shares of registrable securities. The holders have waived their registration rights in connection with this offering.

DELAWARE ANTI-TAKEOVER LAW AND CERTAIN CHARTER PROVISIONS

Anti-Takeover Law

The provisions of Section 203 of the Delaware General Corporation Law apply to Autobytel.com. In general, Section 203 prohibits a publicly-held Delaware corporation from engaging in a business combination with an "interested stockholder" for a period of three years after the date of the transaction in which the person became an interested stockholder, unless the business combination is approved in a prescribed manner or unless the interested stockholder acquired at least 85% of the corporation's voting stock (excluding shares held by designated stockholders) in the transaction in which it became an interested stockholder. For purposes of Section 203, a "business combination" includes a merger, asset sale or other transaction resulting in a financial benefit to the interested stockholder. Other than persons who own shares in excess of 15% of the voting stock of the corporation as a result of action taken solely by the corporation, an "interested stockholder" is a person who, together with affiliates and associates, owns, or within the previous three years did own, 15% or more of the corporation's voting stock.

Limitation of Director and Officer Liability

Our amended and restated certificate of incorporation and bylaws contain provisions relating to the limitation of liability and indemnification of directors and officers. Our amended and restated certificate of incorporation provides that our directors may not be held personally liable to us or our stockholders for a breach of fiduciary duty, except for liability:

- for any breach of the director's duty of loyalty to us or our stockholders,

- for acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of the law,

- under Section 174 of the Delaware General Corporation Law, relating to prohibited dividends, distributions and repurchases or redemptions of stock, and

- for any transaction from which the director derives an improper benefit.

In addition, our amended and restated certificate of incorporation and bylaws provide that we will indemnify directors and officers to the fullest extent authorized by Delaware law.

No Stockholder Action by Written Consent

Our amended and restated certificate of incorporation provides that the stockholders can take action only at a duly called annual or special meeting of stockholders. Accordingly, stockholders of Autobytel.com will not be able to take action by written consent in lieu of a meeting. This provision may have the effect of deterring hostile takeovers or delaying changes in control or management of Autobytel.com.

Staggered Board of Directors

Our amended and restated certificate of incorporation provides that upon the closing of this offering, the terms of office of the board of directors will be divided into three classes, such that the terms of Class I, Class II and Class III directors shall expire at the annual meeting of stockholders to be held in 1999, 2000 and 2001, respectively. The number of directors will be distributed among the three classes so that, as nearly as possible, each class will consist of one-third of the directors. This provision 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.

TRANSFER AGENT AND REGISTRAR

U.S. Stock Transfer Corporation, Glendale, California, has been appointed as the transfer agent and registrar for the common stock. Its telephone number for such purposes is (818) 502-1404.

SHARES ELIGIBLE FOR FUTURE SALE

Prior to the offering, there has been no market for the common stock. Future sales of substantial amounts of common stock in the public market could adversely affect market prices prevailing from time to time. Upon completion of the offering, Autobytel.com will have outstanding an aggregate of 17,858,745 shares of common stock, assuming no exercise of outstanding options or warrants. Of these shares, 4,250,000 shares sold in the offering will be freely tradeable without restriction or further registration under the Securities Act, except that any shares purchased by "affiliates" of Autobytel.com, as that term is defined in Rule 144 of the Securities Act, may generally only be sold in compliance with the limitations of Rule 144 described below. An additional 250,000 shares sold in the offering will be freely tradeable without restriction or further registration after 180 days from the date of this prospectus.

SALES OF RESTRICTED SHARES

The remaining 13,358,745 shares of common stock held by existing stockholders are "restricted securities" under Rule 144. The number of shares of common stock available for sale in the public market is limited by restrictions under the Securities Act and lock-up agreements. Under the lock-up agreements, the holders of such shares have agreed not to sell or otherwise dispose of any of their shares for a period of 180 days after the date of this prospectus (the "lock-up period") without the prior written consent of BT Alex. Brown Incorporated. In addition, the selling shareholders have agreed to the same lock-up except that they have agreed to a 270-day lock-up. On the date of this prospectus, no shares other than the shares in this offering will be eligible for sale.

In general, under Rule 144 as currently in effect, beginning 90 days after the date of this prospectus, a person, or persons who has beneficially owned restricted shares for at least one year would be entitled to sell within any three-month period a number of shares that does not exceed the greater of:

- one percent of the number of shares of common stock then outstanding; or

- the average weekly trading volume of the common stock on the Nasdaq National Market during the four calendar weeks preceding the filing of a notice on Form 144 with respect to such sale. One percent of the number of shares of common stock outstanding after the offering equals approximately 178,587 shares.

Sales must be made under manner of sale provisions and notice requirements specified by Rule 144 and current public information about Autobytel.com must be available. Under Rule 144(k), a person who is not deemed to have been an affiliate of Autobytel.com at any time during the 90 days preceding a sale, and who has beneficially owned the shares proposed to be sold for at least two years, is entitled to sell such shares without complying with the manner of sale, public information, volume limitation or notice provisions of Rule 144. Therefore, unless otherwise restricted, "144(k) shares" could be sold immediately upon the completion of this offering.

Following the expiration of the lock-up period, none of the restricted shares will become available for sale in the public market until the expiration of their respective holding periods (approximately 11,298,480 of such shares will have been held for more than one year at the end of such 180-day period).

Upon completion of the offering, the holders of 12,997,957 shares of common stock, or their transferees, will be entitled to rights with respect to the registration of such shares under the Securities Act until such time as the holders of such common stock may sell such shares under the Rule 144 of the Securities Act. See "Description of Capital

Stock -- Registration Rights." Registration of such shares under the Securities Act would result in such shares becoming freely tradeable without restriction under the Securities Act, except for shares purchased by affiliates, immediately upon the effectiveness of such registration.

OPTIONS AND RESTRICTED STOCK

We intend to file a registration statement under the Securities Act covering shares of common stock reserved for issuance under the 1999 Stock Option Plan, 1998 Stock Option Plan, 1996 Stock Incentive Plan, the 1996 Stock Option Plan and the 1996 Employee Stock Purchase Plan. Such registration statement is expected to be filed and become effective as soon as practicable after the effective date of the offering. Accordingly, shares registered under such registration statement will, with regards to Rule 144 volume limitations applicable to affiliates, be available for sale in the open market, unless such shares are subject to vesting restrictions with Autobytel.com or the lock-up agreements described above. A total of 5,522,948 shares have been reserved for issuance under such plans. As of March 1, 1999, 790,739 options have been granted under the 1999 Stock Option Plan, 1,278,000 options have been granted under the 1998 Stock Option Plan, 833,333 options have been granted under the 1996 Stock Incentive Plan, 889,163 options have been granted under the 1996 Stock Option Plan and no shares have been purchased under the 1996 Employee Stock Purchase Plan. See "Management -- Stock Plans."

In addition, under Rule 701 of the Securities Act as currently in effect, any employee, consultant or advisor of Autobytel.com who is not an affiliate who purchased shares from us under a compensatory stock or option plan or other written agreement is eligible to resell such shares 90 days after the effective date of this offering, governed by all provisions of Rule 144 except its minimum holding period.

LOCK-UP AGREEMENTS

All officers, directors, and other stockholders of Autobytel.com have entered into lock-up agreements. Under the lock-up agreements, each person agreed not to sell or otherwise dispose of any shares of common stock or any securities convertible into common stock for a period of 180 days after the date of this prospectus, without the prior written consent of BT Alex. Brown Incorporated. The selling stockholders have agreed to the same lock-up except for a period of 270 days after the date of this prospectus. See "Underwriting." In addition, under the terms of the 1999 Stock Option Plan, 1998 Stock Option Plan, the 1996 Stock Option Plan and the 1996 Stock Incentive Plan, holders of options to purchase common stock are obligated not to sell or transfer any shares of Autobytel.com acquired through exercise of options during such 180-day period if requested by us or the underwriters.

MATERIAL UNITED STATES TAX CONSIDERATIONS FOR NON-U.S. HOLDERS

GENERAL

The following is a general discussion of the material United States federal income and estate tax consequences of the ownership and disposition of common stock by a Non-U.S. Holder, as defined below. As used in this prospectus, the term "Non-U.S. Holder" is any person or entity that, for United States federal income tax purposes, is either a non-resident alien individual, a foreign corporation, a foreign partnership or a foreign trust in each case not subject to United States federal income tax on a net basis in respect of income or gain with respect to our common stock.

An individual may be deemed to be a resident alien, as opposed to a nonresident alien, by virtue of being present in the United States for at least 31 days in the calendar year and for an aggregate of at least 183 days during a three-year period ending in the current calendar year. In determining whether an individual is present in the United States for at least 183 days, all of the days present in the current year, one-third of the days present in the immediately preceding year and one-sixth of the days present in the second preceding year are counted. Resident aliens are subject to United States federal income and estate tax in the same manner as United States citizens and residents.

This discussion does not address all aspects of United States federal income and estate taxes that may be relevant to a particular Non-U.S. Holder in light of the holder's particular circumstances. This discussion is not intended to be applicable in all respects to all categories of Non-U.S. Holders, some of whom may be subject to special treatment under United States federal income tax laws. Moreover this discussion does not address United States state or local or foreign tax consequences. This discussion is based on provisions of the Internal Revenue Code of 1986, as amended, existing and proposed regulations under, and administrative and judicial interpretations of, the Internal Revenue Code, in effect on the date of this prospectus. All of these authorities may change, possibly with retroactive effect or different interpretations. The following summary is included in this prospectus for general information. Accordingly, prospective investors are urged to consult their tax advisers regarding the United States federal, state, local and non-United States income and other tax consequences of acquiring, holding and disposing of shares of our common stock.

DIVIDENDS

We do not anticipate paying cash dividends on our capital stock in the foreseeable future. See "Dividend Policy." In the event, however, that dividends are paid on shares of common stock, dividends paid to a Non-U.S. Holder of common stock generally will be subject to United States withholding tax at a 30% rate, unless an applicable income tax treaty provides for a lower withholding rate. Non-U.S. Holders should consult their tax advisors regarding their entitlement to benefit under a relevant income tax treaty.

Currently the applicable United States Treasury regulations presume, absent actual knowledge to the contrary, that dividends paid to an address in a foreign country are paid to a resident of such country for purposes of the 30% withholding tax discussed above. However, the final United States Treasury regulations provide that, in the case of dividends paid after December 31, 1999, a Non-U.S. Holder wishing to claim the benefits of an applicable treaty rate and avoid backup withholding tax at a 31% rate, as discussed below, is required to satisfy certification or documentary evidence procedures and other tax law requirements, including the filing of an Internal Revenue Service Form W-8 containing the Non-U.S. Holder's name, address and a certification that the holder is eligible for the benefits of the applicable treaty under the treaty's Limitations on Benefits Article. In addition, the certification and disclosure requirements must be met for a non-U.S. Holder to be exempt from withholding under the effectively connected income exemption discussed below.

The regulations under the Internal Revenue Code also provide special rules for dividend payments made to foreign intermediaries, United States or foreign wholly owned entities that are disregarded for United States federal income tax purposes and entities that are treated as fiscally transparent in the United States, the applicable income tax treaty jurisdiction, or both. In addition, recently enacted legislation, effective August 4, 1997, denies income tax treaty benefits to foreign partners receiving income derived through a partnership, or otherwise fiscally transparent entity, if the foreign partner does not certify as to its Non-U.S. Holder status and the partnership does not provide required information including a United States taxpayer identification number. Prospective investors should consult with their own tax advisers concerning the effect, if any, of these tax regulations and the recent legislation on an investment in the common stock.

A Non-U.S. Holder of common stock that is eligible for a reduced rate of United States withholding tax pursuant to an income tax treaty may obtain a refund of any excess amounts withheld by filing an appropriate claim for a refund with the IRS.

The recipient of dividends that are effectively connected with either a Non-U.S. Holder's:

- conduct of a trade or business in the United States,

- permanent establishment in the United States if a tax treaty applies, or

- fixed base in the United States

are taxed generally on a net income basis at regular graduated rates. The 30% withholding tax is not applicable to the payment of dividends if the Non-U.S. Holder files Form 4224 or any successor form with the payor or, after December 31, 1999, such holder provides its United States taxpayer identification number to the payor.

Any United States trade or business income received by a Non-U.S. Holder that is a corporation also may be subject to an additional "branch profits tax" at a 30% rate or such lower rate as may be specified by an applicable income tax treaty.

GAIN ON DISPOSITION OF COMMON STOCK

A Non-U.S. Holder generally will not have to pay United States federal income or withholding tax on any gain recognized on a disposition of common stock unless:

(1) the gain is effectively connected with the conduct of a trade or business of the Non-U.S. Holder within the United States or of a partnership, trust or estate in which the Non-U.S. Holder is a partner or beneficiary within the United States,

(2) if a treaty applies, the gain is effectively connected to a permanent establishment of the Non-U.S. Holders within the United States,

(3) the Non-U.S. Holder is an individual who holds the common stock as a capital asset within the meaning of Section 1221 of the Internal Revenue Code, is present in the United States for 183 or more days in the taxable year of the disposition and meets other tax law requirements,

(4) the Non-U.S. Holder is a United States expatriate is required to pay tax pursuant to the provisions of the United States tax law, or

(5) Autobytel.com is or has been a "United States real property holding corporation" for federal income tax purposes at any time during the shorter of the five-year period preceding such disposition or the period that the Non-U.S. Holder holds the common stock.

Generally, a corporation is a United States real property holding corporation if the fair market value of its United States real property interests equals or exceeds 50% of the sum of the fair market value of its worldwide real property interests plus its other assets used or held for use in a trade or business.

Autobytel.com believes that it is not, has not been and does not anticipate becoming a United States real property holding corporation for United States federal income tax purposes. However, even if Autobytel.com were to become a United States real property holding corporation, a Non-U.S. Holder still would not be required to pay United States federal income tax on any gain realized if the shares of Autobytel.com are regularly traded on an established securities market. Autobytel.com believes that its common stock is "regularly traded on an established securities market." If, however, Autobytel.com's common stock is not so treated, on a sale or disposition by a Non-U.S. Holder of the common stock the purchaser or recipient of the stock will be required to withhold 10% of the proceeds unless Autobytel.com certifies that either it is not and has not been a United States real property holding company or another exemption from withholding applies.

If a Non-U.S. Holder who is an individual meets the requirements of clause (1), (2) or (4) above that individual generally will be required to pay tax on the net gain derived from a sale of common stock under regular graduated United States federal income tax rates. If an individual Non-U.S. Holder meets the requirements of clause (3) above, such individual generally will be subject to a flat 30% tax on the gain derived from a sale. Thus, individual Non-United States Holders who have spent or expect to spend a short period of time in the United States should consult their tax advisers prior to the sale of common stock to determine the United States federal income tax consequences of the sale. If a Non-U.S. Holder is a foreign corporation that is engaged in a United States trade or business or has a United States permanent establishment, the corporation generally will be required to pay tax on its net gain under regular graduated United States federal income tax rates. Such a Non-U.S. Holder may also have to pay branch profit tax.

FEDERAL ESTATE TAX

For United States federal estate tax purposes, an individual's gross estate will include the common stock owned, or treated as owned, by an individual. Generally, this will be the case regardless of whether such individual was a United States citizen or a United States resident. This general rule of inclusion may be limited by an applicable estate tax or other treaty.

INFORMATION REPORTING AND BACKUP WITHHOLDING TAX

Under United States Treasury regulations, Autobytel.com must report annually to the IRS and to each Non-U.S. Holder the amount of dividends paid to such holder and the tax withheld with respect to such dividends. These information reporting requirements apply regardless of whether withholding is required. Copies of the information returns reporting such dividends and withholding may also be made available to the tax authorities in the country in which the Non-U.S. Holder is a resident under the provisions of an applicable income tax treaty or agreement.

Currently, the 31% United States backup withholding tax rate generally will not apply:

- to dividends which are paid to Non-U.S. Holders and are taxed at the regular withholding tax rate as discussed above, or

- before January 1, 2000, to dividends paid to a Non-U.S. Holder at an address outside of the United States unless the payor has actual knowledge that the payee is a United States Holder.

Backup withholding and information reporting generally will apply to dividends paid to addresses inside the United States on shares of common stock to beneficial owners that are not "exempt recipients" and that fail to provide, in the manner required, identifying information.

On October 6, 1997, the United States Treasury Department issued final regulations under the Internal Revenue Code regarding the withholding and information reporting rules discussed above. The regulations apply to payments made after December 31, 1999. The final regulations under the Internal Revenue Code do not significantly alter the foregoing substantive withholding and information reporting requirements but do alter the procedures for:

- claiming the benefits of an income tax treaty for, and

- the certification procedures relating to the receipt by intermediaries of, dividends paid after December 31, 1999.

These regulations generally presume backup withholding at the rate of 31% and that information reporting will apply to payments to a Non-U.S. Holder unless Autobytel.com receives certification of such holder's Non-U.S. status. Depending on the circumstances, this certification will need to be provided either:

- directly by the Non-U.S. Holder,

- in the case of a Non-U.S. Holder that is treated as a partnership or other fiscally transparent entity, by the partners, shareholders or other beneficiaries of such entity, or

- by qualified financial institutions or other qualified entities on behalf of the Non-U.S. Holder.

Information reporting and backup withholding at a rate of 31% generally will not apply to the payment of the proceeds of the disposition of common stock by a holder to or through the United States office of a broker or through a non-United States branch of a United States broker unless the holder either certifies its status as a Non-U.S. Holder under penalties of perjury or otherwise establishes an exemption. The payment of the proceeds of the disposition by a Non-U.S. Holder of common stock to or through a Non-United States office of a non-United States broker will not have to comply with backup withholding or information reporting unless the non-United States broker has a connection to the United States as specified in the tax law.

In the case of the payment of proceeds from the disposition of common stock effected by a foreign office of a broker that is a United States person or a "United States related person," existing regulations require information reporting on the payment unless

- the broker receives a statement from the owner, signed under penalty of perjury, certifying its non-United States status or the broker has documentary evidence in its files as to the Non-U.S. Holder's foreign status, and the broker has no actual knowledge to the contrary, and other United States federal tax law conditions are met or

- the beneficial owner otherwise establishes an exemption.

For this purpose, a "United States related person" is either

- a "controlled foreign corporation" for United States federal income tax purposes; or

- a foreign person 50% or more of whose gross income from all sources for the three-year period ending with the close of its taxable year preceding the payment is derived from activities that are effectively connected with the conduct of a United States trade or business.

After December 31, 1999, the regulations under the Internal Revenue Code will impose information reporting and backup withholding on payments of the gross proceeds from the sales or redemptions of common stock that are effected through foreign offices of brokers having any of a broader class of specified connections with the United States. Such information reporting and backup withholding may be avoided, however, if a Non-U.S. Holder complies with the applicable IRS certification requirements. Prospective investors should consult with their own tax advisers regarding the regulations under the Internal Revenue Code and in particular with respect to whether the use of a particular broker would subject the investor to these rules.

Any amounts withheld under the backup withholding rules from a payment to a Non-U.S. Holder will be either refunded or credited against the holder's United States federal income tax liability provided sufficient information is furnished to the Internal Revenue Service.

UNDERWRITING

Under the terms of an underwriting agreement, the underwriters named below, through their representatives, BT Alex. Brown Incorporated, Lehman Brothers Inc. and PaineWebber Incorporated, have severally agreed to purchase from Autobytel.com the following respective number of shares of common stock at the public offering price less the underwriting discount set forth on the cover page of this prospectus.

UNDERWRITERS	NUMBER OF SHARES
BT Alex. Brown Incorporated	1,650,000
Lehman Brothers Inc	1,072,500
PaineWebber Incorporated	577,500
Bear, Stearns & Co. Inc	75,000
Donaldson, Lufkin & Jenrette Securities	75,000
Goldman, Sachs & Co.	75,000
Morgan Stanley & Co. Incorporated	75,000
NationsBanc Montgomery Securities LLC	75,000
Salomon Smith Barney Inc	75,000
SG Cowen	75,000
Warburg Dillon Read LLC	75,000
Adams, Harkness & Hill, Inc.	50,000
Dain Rauscher Wessels	50,000
FAC/Equities	50,000
Needham & Company, Inc.	50,000
U.S. Bancorp Piper Jaffray Inc.	50,000
Volpe Brown Whelan & Company, LLC	50,000
WIT Capital Corporation	50,000
Total	4,250,000

The underwriting agreement provides that the obligations of the underwriters are subject to conditions precedent as outlined in the underwriting agreement and that the underwriters will purchase all of the shares of common stock offered if any of such shares are purchased.

Autobytel.com and the selling stockholders have been advised by the representatives that the underwriters propose to offer the shares of common stock to the public at the public offering price set forth on the cover page of this prospectus and to certain dealers at such price less a concession not in excess of $0.95 per share. The underwriters may allow, and such dealers may re-allow, a concession not in excess of $0.10 per share to certain other dealers. After the initial public offering, the offering price and other selling terms may be changed by the representatives of the underwriters.

Selling stockholders have granted the underwriters an option, exercisable not later than 30 days after the date of this prospectus, to purchase up to 637,500 additional shares of common stock at the public offering price less the underwriting discounts and commissions set forth on the cover page of this prospectus. To the extent that the underwriters exercise such option, each of the underwriters will have a firm commitment to purchase approximately the same percentage of such option that the number of shares of common stock to be purchased by it in the above table bears to 4,250,000, and the selling stockholders will be obligated under the option to sell such shares to the underwriters. The underwriters may exercise such option only to cover over-allotments made in connection with the sale of the common stock offered in this offering. If purchased, the underwriters will offer such additional shares on the same terms as those on which the 4,250,000 shares are being offered.

Autobytel.com and the selling stockholders have agreed to indemnify the underwriters against certain liabilities, including liabilities under the Securities Act.

Each of the officers and directors and substantially all of the stockholders of Autobytel.com agreed not to sell or otherwise dispose of any common stock for a period of 180 days after the date of our public offering, without the prior written consent of BT Alex. Brown Incorporated. These officers, directors and stockholders hold 13,293,376 shares of our common stock in the aggregate. The selling stockholders have agreed to a lock-up for a period of 270 days after the date of Autobytel.com's public offering. BT Alex. Brown Incorporated may give such consent at any time without public notice and may give consent for some stockholders and not others. Autobytel.com has also entered into a similar agreement, except that we may grant options or warrants to purchase shares of common stock or any securities convertible into shares of common stock, under the exercise of outstanding options and warrants and our issuance of options and stock granted under our existing stock option and stock purchase plans.

The representatives have advised Autobytel.com that the underwriters do not intend to confirm sales to any account over which they exercise discretionary authority.

In order to facilitate the offering of the common stock, the underwriters may engage in transactions that stabilize, maintain or otherwise affect the market price of the common stock. Specifically, the underwriters may over-allot shares of the common stock in connection with this offering, thus creating a short position in the common stock for their own account. Additionally, to cover such over-allotments or to stabilize the market price of the common stock, the underwriters may bid for, and purchase, shares of the common stock in the open market. Finally, the representatives, on behalf of the underwriters, also may reclaim selling concessions allowed to an underwriter or dealer if the underwriting syndicate repurchases shares distributed by that underwriter or dealer. Any of these activities may maintain the market price of our common stock at a level above that which might otherwise prevail in the open market. The underwriters are not required to engage in these activities and, if commenced, may end any of these activities at any time.

At our request, the underwriters have reserved for sale, at the initial public offering price, up to 450,000 shares for friends of our founders, our employees, family members of our employees and our vendors. The number of shares of common stock available for sale to the general public will be reduced to the extent these people purchase such reserved shares. Any reserved shares which are not so purchased will be offered by the underwriters to the general public on the same basis as the other shares offered hereby.

In addition, we have agreed to sell 250,000 shares at the public offering price to strategic international investors. These strategic investors entered into agreements not to sell any of the shares purchased by them for a period of at least 180 days following the completion of this offering. These shares are not subject to the underwriting agreement and the underwriters will not receive any fees or commissions in connection with the sale of these shares, however, Autobytel.com will be required to pay a $350,000 fee to Bankers Trust, Tokyo Branch. Bankers Trust, Tokyo Branch is an affiliate of BT Alex. Brown Incorporated, one of the underwriters in this offering.

General Electric Capital Services, Inc. indirectly beneficially owns approximately 22% of the issued and outstanding common stock of Paine Webber Group, Inc., which is the parent holding company of PaineWebber Incorporated, an SEC-registered broker-dealer and one of the underwriters in this offering. The voting rights with respect to such common stock are restricted by the terms of an amended and restated shareholder's agreement. As a result, the offering of the shares of common stock offered in this offering is required to be made in accordance with the applicable provisions of Rule 2720 of the NASD.

In compliance with Rule 2720, the public offering price can be no higher than that recommended by a "qualified independent underwriter." BT Alex. Brown Incorporated is acting as qualified independent underwriter and the public offering price of the shares of common stock offered hereby will not be higher than the public offering price recommended by BT Alex. Brown Incorporated. In this offering, BT Alex. Brown Incorporated, in its role as qualified independent underwriter, has performed due diligence investigations and reviewed and participated in the preparation of the registration statement of which this prospectus is a part.

PRICING OF THIS OFFERING

Prior to this offering, there has been no public market for our common stock. Consequently, the initial public offering price for our common stock has been determined by negotiation among representatives of the underwriters and Autobytel.com. Among the factors considered in determining the public offering price were:

- prevailing market conditions;

- our results of operations in recent periods;

- our present stage of development;

- the market capitalizations and stages of development of other companies which we and the representatives of the underwriters believe to be comparable to us; and

- estimates of our business potential.

LEGAL MATTERS

The validity of the shares of common stock offered in this offering will be passed upon for Autobytel.com by Paul, Hastings, Janofsky & Walker LLP, New York, New York and for the underwriters by Latham & Watkins, Menlo Park, California. Attorneys in the firm of Paul, Hastings, Janofsky & Walker LLP will participate in the directed share program in the offering in an amount of up to 15,000 shares.

EXPERTS

The consolidated financial statements as of December 31, 1997 and 1998 and for the years ended December 31, 1996, 1997 and 1998 appearing in this prospectus and the registration statement have been audited by Arthur Andersen LLP, independent public accountants, as set forth in their report and are included in reliance upon the authority of said firm as experts in giving said report.

The discussion that appears under the headings "Risk Factors -- 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," "Business -- Products, Programs and Services -- Ancillary Customer Services" and "Business -- Government Regulation" has been reviewed by Barger & Wolen LLP, Los Angeles, California, and has been included herein, to the extent such discussion involves regulations, laws or legal conclusions relating to issues involving insurance, in reliance upon the authority of such firm as an expert thereon.

ADDITIONAL INFORMATION

A registration statement on Form S-1, including amendments, relating to the common stock offered in this offering has been filed by Autobytel.com with the Securities and Exchange Commission, Washington, D.C. This prospectus does not contain all of the information set forth in the registration statement and the exhibits and schedules. Statements contained in this prospectus as to the contents of any contract or other document referred to are not necessarily complete and in each instance reference is made to the copy of such contract or other document filed as an exhibit to the registration statement, each such statement being qualified in all respects by such reference. This prospectus contains all material information required to be disclosed by the Securities Act. For further information regarding Autobytel.com and the common stock offered reference is made to such registration statement, exhibits and schedules. A copy of the registration statement may be inspected by anyone without charge at the SEC's principal office, 450 Fifth Street, N.W., Washington, D.C. 20549, the New York Regional Office located at 7 World Trade Center, 13th Floor, New York, NY 10048, and the Chicago Regional Office located at Northwestern Atrium Center, 500 West Madison Street, Chicago, IL 60661, and copies of all or any part including any exhibit may be obtained from the SEC upon the payment of fees prescribed by the SEC. The public may obtain information on the operation of the Public Reference room by calling the SEC at 1-800-SEC-0330. The SEC maintains a World Wide Web site that contains reports, proxy and information statements and other information regarding registrants that file electronically with the SEC. The address of the site is http://www.sec.gov.

AUTOBYTEL.COM INC.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Board of Directors and Stockholders of autobytel.com inc.:

We have audited the accompanying consolidated balance sheets of autobytel.com inc. (a Delaware corporation) and subsidiaries as of December 31, 1997 and 1998, and the related consolidated statements of operations, stockholders' equity (deficit) and cash flows for the years ended December 31, 1996, 1997 and 1998. 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 generally accepted auditing standards. 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.com inc. and subsidiaries as of December 31, 1997 and 1998, and the results of their operations and their cash flows for the years ended December 31, 1996, 1997 and 1998 in conformity with generally accepted accounting principles.

/s/ ARTHUR ANDERSEN LLP

Los Angeles, California
March 25, 1999

AUTOBYTEL.COM INC.

CONSOLIDATED BALANCE SHEETS

(Amounts in thousands, except share and per share data)

ASSETS

	DECEMBER 31, 1997	DECEMBER 31, 1998
Current assets:		
Cash and cash equivalents, includes restricted amounts of $248 and $248, respectively	$ 15,813	$ 27,984
Accounts receivable, net of allowance for doubtful accounts of $337 and $402, respectively	1,493	2,315
Prepaid expenses and other current assets	795	1,353
Total current assets	18,101	31,652
Property and equipment, net	2,317	2,208
Other assets	95	347
Total assets	$ 20,513	$ 34,207

LIABILITIES AND STOCKHOLDERS' EQUITY

	DECEMBER 31, 1997	DECEMBER 31, 1998
Current liabilities:		
Accounts payable	$ 2,223	$ 2,915
Accrued expenses	1,047	915
Deferred revenue	3,700	4,008
Customer deposits	127	345
Other current liabilities	66	33
Total current liabilities	7,163	8,216
Deferred rent	91	123
Total liabilities	7,254	8,339
Commitments and contingencies		
Stockholders' equity:		
Convertible preferred stock, Series A, $0.001 par value; aggregate liquidation preference of $15,000 at December 31, 1998; 1,500,000 shares authorized; 1,500,000 shares issued and outstanding at December 31, 1997 and 1998	2	2
Convertible preferred stock, Series B, $0.001 par value; aggregate liquidation preference of $9,050 at December 31, 1998; 967,915 shares authorized 967,915 shares issued and outstanding at December 31, 1997 and 1998	1	1
Convertible preferred stock, Series C, $0.001 par value; aggregate liquidation preference of $43,725 at December 31, 1998; 6,977,272 shares authorized; 1,477,274 shares issued and outstanding at December 31, 1997; 4,968,738 shares issued and outstanding at December 31, 1998	1	4
Common stock, $0.001 par value; 50,000,000 shares authorized; 8,324,443 shares issued and outstanding December 31, 1997; 8,506,455 shares issued and outstanding at December 31, 1998	8	8
Warrants	--	1,332
Additional paid-in capital	37,123	67,813
Deferred compensation	(1)	--
Cumulative translation adjustment	--	(19)
Accumulated deficit	(23,875)	(43,273)
Total stockholders' equity	13,259	25,868
Total liabilities and stockholders' equity	$ 20,513	$ 34,207

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

AUTOBYTEL.COM INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

(Amounts in thousands, except share and per share data)

	YEARS ENDED DECEMBER 31,		
	1996	1997	1998
Revenues	$ 5,025	$ 15,338	$ 23,826
Operating expenses:			
Sales and marketing	7,790	21,454	30,033
Product and technology development	1,753	5,448	8,528
General and administrative	1,641	5,851	5,908
Total operating expenses	11,184	32,753	44,469
Loss from operations	(6,159)	(17,415)	(20,643)
Other income, net	124	620	1,280
Loss before provision for income taxes	(6,035)	(16,795)	(19,363)
Provision for income taxes	--	15	35
Net loss	$ (6,035)	$ (16,810)	$ (19,398)
Basic net loss per share	$ (0.73)	$ (2.03)	$ (2.30)
Shares used in computing basic net loss per share	8,252,325	8,291,142	8,423,038
Pro forma basic net loss per share	$ (0.68)	$ (1.53)	$ (1.49)
Shares used in computing pro forma basic net loss per share	8,848,864	10,966,633	13,008,090

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

AUTOBYTEL.COM INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (DEFICIT)

(Amounts in thousands, except share and per share data)

	CONVERTIBLE PREFERRED STOCK		COMMON STOCK			MEMBERS' INTEREST/ ADDITIONAL PAID-IN CAPITAL	DEFERRED COMPEN-SATION	CUMULATIVE TRANSLATION ADJUSTMENT
	NUMBER OF SHARES	AMOUNT	NUMBER OF SHARES	AMOUNT	WARRANTS			
Balance, December 31, 1995	--	$--	--	$--	$ --	$ 40	$ --	$ --
Sale of members' interest in ABT Acceptance Company, LLC	--	--	--	--	--	50	--	--
Issuance of common stock in exchange for members' interest	--	--	8,250,000	8	--	(8)	--	--
Issuance of common stock options with an exercise price of $0.90 per share	--	--	--	--	--	87	(87)	--
Issuance of Series A convertible preferred stock at $10.00 per share	1,450,000	2	--	--	--	14,363	--	--
Issuance of Series A convertible preferred stock at $10.00 per share upon conversion of debt	50,000	--	--	--	--	500	--	--
Issuance of common stock in exchange for services	--	--	6,667	--	--	20	--	--
Issuance of common stock upon exercise of stock options	--	--	28,148	--	--	25	--	--
Amortization of deferred compensation	--	--	--	--	--	--	61	--
Net loss	--	--	--	--	--	--	--	--
Balance, December 31, 1996	1,500,000	2	8,284,815	8	--	15,077	(26)	--
Issuance of Series B convertible preferred stock at $9.35 per share	967,915	1	--	--	--	9,028	--	--
Issuance of Series C convertible preferred stock at $8.80 per share	1,477,274	1	--	--	--	12,987	--	--
Issuance of common stock upon exercise of stock options	--	--	39,628	--	--	31	--	--
Amortization of deferred compensation	--	--	--	--	--	--	25	--
Net loss	--	--	--	--	--	--	--	--
Balance, December 31, 1997	3,945,189	4	8,324,443	8	--	37,123	(1)	--
Issuance of Series C convertible preferred stock at $8.80 per share	3,370,455	3	--	--	--	29,443	--	--
Issuance of Series C convertible preferred stock at $8.80 per share in exchange for advertising	121,009	--	--	--	--	1,065	--	--
Issuance of warrants in exchange for start-up costs for a Pan-European entity	--	--	--	--	792	--	--	--
Issuance of warrant in exchange for involvement in broadband application project	--	--	--	--	540	--	--	--
Issuance of common stock upon exercise of stock options	--	--	181,012	--	--	169	--	--
Issuance of common stock at $13.20 per share	--	--	1,000	--	--	13	--	--
Amortization of deferred compensation	--	--	--	--	--	--	1	--
Foreign currency translation adjustment	--	--	--	--	--	--	--	(19)
Net loss	--	--	--	--	--	--	--	--
Balance, December 31, 1998	7,436,653	$7	8,506,455	$8	$1,332	$67,813	$ --	$(19)

	ACCUM-ULATED DEFICIT	TOTAL
Balance, December 31, 1995	$ (1,030)	$ (990)
Sale of members' interest in ABT Acceptance Company, LLC	--	50
Issuance of common stock in exchange for members' interest	--	--
Issuance of common stock options with an exercise price of $0.90 per share	--	--
Issuance of Series A convertible preferred stock at $10.00 per share	--	14,365

Issuance of Series A convertible preferred stock at $10.00 per share upon conversion of debt	--	500
Issuance of common stock in exchange for services	--	20
Issuance of common stock upon exercise of stock options	--	25
Amortization of deferred compensation	--	61
Net loss	(6,035)	(6,035)
Balance, December 31, 1996	(7,065)	7,996
Issuance of Series B convertible preferred stock at $9.35 per share	--	9,029
Issuance of Series C convertible preferred stock at $8.80 per share	--	12,988
Issuance of common stock upon exercise of stock options	--	31
Amortization of deferred compensation	--	25
Net loss	(16,810)	(16,810)
Balance, December 31, 1997	(23,875)	13,259
Issuance of Series C convertible preferred stock at $8.80 per share	--	29,446
Issuance of Series C convertible preferred stock at $8.80 per share in exchange for advertising	--	1,065
Issuance of warrants in exchange for start-up costs for a Pan-European entity	--	792
Issuance of warrant in exchange for involvement in broadband application project	--	540
Issuance of common stock upon exercise of stock options	--	169
Issuance of common stock at $13.20 per share	--	13
Amortization of deferred compensation	--	1
Foreign currency translation adjustment	--	(19)
Net loss	(19,398)	(19,398)
Balance, December 31, 1998	$(43,273)	$ 25,868

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

AUTOBYTEL.COM INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Amounts in thousands, except share and per share data)

	YEARS ENDED DECEMBER 31, 1996	1997	1998
Cash flows from operating activities:			
Net loss	$(6,035)	$(16,810)	$(19,398)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation and amortization	178	860	1,255
Provision for bad debt	145	175	187
Loss on disposal of property and equiptment	--	--	1
Amortization of deferred compensation	61	25	1
Issuance of common stock in exchange for services	20	--	--
Issuance of Series C convertible preferred stock in exchange for advertising	--	--	1,065
Issuance of warrants in exchange for start-up costs for a Pan-European entity	--	--	792
Issuance of warrant in exchange for involvement in broadband application project	--	--	540
Changes in assets and liabilities:			
Accounts receivable	(429)	(1,370)	(1,009)
Prepaid expenses and other current assets	(788)	107	(558)
Other assets	(604)	516	(252)
Accounts payable	564	1,572	692
Accrued expenses	722	325	(132)
Deferred revenue	1,970	1,374	308
Customer deposits	554	(427)	218
Other current liabilities	16	34	(33)
Deferred rent	17	74	32
Net cash used in operating activities	(3,609)	(13,545)	(16,291)
Cash flows from investing activities:			
Acquisition of Internet Development Corporation	--	(100)	--
Purchases of property and equipment	(1,501)	(1,652)	(1,147)
Net cash used in investing activities	(1,501)	(1,752)	(1,147)
Cash flows from financing activities:			
Proceeds from sale of common stock	25	31	182
Proceeds from sale of members' interest in ABT Acceptance Company, LLC	50	--	--
Net proceeds from issuance of Series A convertible preferred stock	14,365	--	--
Net proceeds from issuance of Series B convertible preferred stock	--	9,029	--
Net proceeds from issuance of Series C convertible preferred stock	--	12,988	29,446
Proceeds from issuance of notes payable	765	--	--
Repayments of notes payable	(1,081)	--	--
Net cash provided by financing activities	14,124	22,048	29,628
Effect of exchange rates on cash	--	--	(19)
Net increase in cash and cash equivalents	9,014	6,751	12,171
Cash and cash equivalents, at beginning of period	48	9,062	15,813
Cash and cash equivalents, at end of period	$ 9,062	$ 15,813	$ 27,984
Supplemental disclosure of cash flow information:			
Cash paid during the period for income taxes	$ 4	$ 15	$ 35
Cash paid during the period for interest	$ 24	$ --	$ 3

Supplemental disclosure of non-cash financing activities (See Note 7):

* In May 1996, 8,250,000 shares of common stock were issued to founding stockholders in exchange for members' interests in a predecessor limited liability company.

* In August 1996, 50,000 shares of Series A convertible preferred stock were issued in exchange for $500 previously advanced to the Company under three notes payable.

* In September 1996, 6,667 shares of common stock with a fair market value of $20 were issued for services.

* In April 1998, 56,776 shares of Series C convertible preferred stock with a fair market value of $8.80 per share convertible into common stock at the conversion price of $13.20 per share were issued for advertising.

* In October 1998, 64,233 shares of Series C convertible preferred stock with a fair market value of $8.80 per share convertible into common stock at the conversion price of $13.20 per share were issued for advertising.

* In November and December 1998, warrants to purchase 439,800 shares of common stock at $13.20 per share were issued to investors in Series C convertible preferred stock in exchange for a commitment to fund start-up activities of a Pan-European entity in which the Company may invest with the investors.

* In December 1998, a warrant to purchase 300,000 shares of common stock at $13.20 per share was issued to an investor in exchange for involvement in broadband application project.

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

AUTOBYTEL.COM INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Amounts in thousands, except share and per share data.)

1. ORGANIZATION AND OPERATIONS OF AUTOBYTEL.COM

autobytel.com inc. (Autobytel.com) is a branded Internet site for new and pre-owned vehicle information and purchasing services. Through its Web site (www.autobytel.com), consumers can research pricing, specifications and other information related to new and pre-owned vehicles and, when consumers indicate they are ready to buy, can be connected to Autobytel.com's network of participating dealers. Autobytel.com also provides other related services such as financing, leasing, vehicle warranties and insurance. Autobytel.com's services are free to consumers and, to date, Autobytel.com has derived substantially all of its revenues from fees paid by subscribing dealers located in the United States and Canada.

Auto-By-Tel, LLC (ABT), Autobytel.com's predecessor, was organized in January 1995 and commenced operations as a California limited liability company in March 1995. ABT Acceptance Company, LLC (ABTAC), an affiliated company under common control, was formed in February 1996. ABT and ABTAC (the LLCs) were reorganized in May 1996 as a Delaware corporation pursuant to the terms of a Contribution Agreement and Plan of Organization (the Plan of Organization) entered into by all of the members of the LLCs (See Note 7). As the LLCs were under common control, the reorganization was accounted for in a manner similar to a pooling-of-interests, whereby the assets and liabilities of ABT and ABTAC were transferred to Autobytel.com at their historical cost.

Since inception, Autobytel.com has invested the majority of its efforts in marketing its brand name and developing infrastructure to support anticipated future operating growth. As a result, Autobytel.com has experienced significant operating losses and had an accumulated deficit of $43,273 at December 31, 1998. To date, such losses have been financed primarily through private placements of preferred stock (See Note 7).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of Autobytel.com, its predecessors (See Note 1) and its wholly-owned subsidiaries: Autobytel Services Corporation, Autobytel Acceptance Corporation, Autobytel Insurance Services, Inc., Autobytel.ca Inc., Kre8.net, Inc., Auto-By-Tel International LLC, Auto-by-Tel UK Limited and AutoVisions Communications, Inc. All intercompany transactions and balances have been eliminated.

Use of Estimates in the Preparation of Financial Statements

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

Cash and Cash Equivalents

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

Concentration of Credit Risk

Financial instruments that potentially subject Autobytel.com to significant concentrations of credit risk consist primarily of accounts receivable. To date, accounts receivable have primarily been derived from marketing fees billed to subscribing dealers located in the United States and Canada. Autobytel.com generally requires no collateral to support customer receivables. Autobytel.com maintains reserves for potential credit losses. Historically, such losses have been minor and within management's expectations. As of December 31, 1997 and 1998, no subscribing dealer accounted for greater than 10% of accounts receivable.

Property and Equipment

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

Stock-Based Compensation

In 1996, Autobytel.com adopted Financial Accounting Standards Board (FASB) Statement of Financial Accounting Standards (SFAS) No. 123, "Accounting for Stock-Based Compensation." Autobytel.com has elected to continue accounting for stock-based compensation issued to employees using Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," and, accordingly, pro forma disclosures required under SFAS No. 123 have been presented (See Note 8).

Revenue Recognition

Substantially all revenues to date consist of fees paid by subscribing dealers. These fees are comprised of an initial fee, a monthly fee and, through fiscal 1997, an annual fee. In January 1998, Autobytel.com started to eliminate annual fees and increase monthly fees to subscribing dealers. The initial fee and annual fee are recognized ratably over the service period of 12 months. The monthly fee is recognized in the period services are provided. Deferred revenue is comprised of unamortized fees.

Risks Due to Concentration of Significant Customers and Export Sales

For all periods presented in the accompanying consolidated statements of operations, no subscribing dealer accounted for greater than 10% of revenues.

Autobytel.com 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.

AUTOBYTEL.COM INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Sales and Marketing

Sales and marketing expense primarily includes advertising and marketing expenses paid to purchase request providers and developing Autobytel.com's brand equity, as well as personnel and other costs associated with sales, training and support of its dealer network. Sales and marketing expense also includes cost of sales associated with the sale of computers, which was discontinued in February 1998. Sales and marketing costs are recorded as expenses as incurred. For the years ended December 31, 1996, 1997 and 1998, Internet marketing and advertising costs were $1,838, $5,828, and $11,090 and television advertising expenses were $396, $4,048, and $5,296, respectively.

Product and Technology Development

Product and technology development expense primarily includes personnel costs relating to enhancing the features, content and functionality of Autobytel.com's Web site and its online dealer information platform (DRT), as well as expenses associated with its telecommunications and computer infrastructure. Product and technology development expenditures are expensed as incurred.

General and Administrative

General and administrative expense primarily consists of executive, financial and legal personnel expenses and related costs. General and administrative expense for the year ended December 31, 1997 includes a non-recurring $1.1 million charge associated with a proposed and withdrawn initial public offering in April 1997.

Foreign Currency Translation

The functional currency of Autobytel.com's subsidiaries is the local currency. Accordingly, all assets and liabilities 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.

Computation of Basic Net Loss Per Share and Pro Forma Basic Net Loss Per Share

Historical 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. No diluted loss per share information has been presented in the accompanying consolidated statements of operations since potential common shares from the conversion of preferred stock, stock options and warrants are antidilutive. Autobytel.com evaluated the requirements of the Securities and Exchange Commission Staff Accounting Bulletin (SAB) No. 98, and concluded that there are no nominal issuances of common stock or potential common stock which would be required to be shown as outstanding for all periods as outlined in SAB No. 98.

Pro forma basic net loss per share has been calculated assuming the conversion of the outstanding preferred stock into common stock, as if the shares had been converted on the dates of their issuance.

New Accounting Pronouncements

In June 1997, the FASB issued SFAS No. 130, "Reporting Comprehensive Income," which establishes standards for reporting and presentation of comprehensive income. SFAS No. 130, which was adopted by Autobytel.com in the first quarter of 1998, requires companies to report a new measurement of income. Comprehensive income (loss) is to include foreign currency translation gains and losses and other unrealized gains and losses that have historically been excluded from net income (loss) and reflected instead in equity. The only comprehensive income included in the accompanying stockholders' equity is foreign currency translation loss of $19 for the year ended December 31, 1998. As this amount is not material, comprehensive income (loss) is not presented in the accompanying consolidated financial statements.

In June 1997, the FASB issued SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information." Autobytel.com adopted SFAS No. 131 in the fourth quarter of 1998 (See Note 12).

In March 1998, the American Institute of Certified Public Accountants (AICPA) issued Statement of Position (SOP) 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use," which is effective for fiscal years beginning after December 15, 1998. SOP 98-1 provides guidance on accounting for the costs of computer software developed or obtained for internal use and defines specific criteria that determine when such costs are required to be expensed, and when such costs may be capitalized. Autobytel.com currently expenses software development costs as incurred. Management anticipates that it will continue to incur such development costs. However, management expects that, as a percentage of revenues, such costs will remain consistent.

In April 1998, the AICPA issued SOP 98-5, "Reporting on the Costs of Start-up Activities," which is effective for fiscal years beginning after December 15, 1998. SOP 98-5 provides guidance on the financial reporting of start-up cost and organization costs and require such costs to be expensed as incurred. Management believes that the adoption of SOP 98-5 will not have a material effect on Autobytel.com's consolidated financial statements.

In June 1998, the FASB issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," which is effective for fiscal years beginning after June 15, 1999. SFAS No. 133 establishes accounting and reporting standards for derivative instruments. The statement requires that every derivative instrument be recorded in the balance sheet as either an asset or liability measured at its fair value, and that changes in the derivative's fair value be recognized currently in earnings unless specific hedge accounting criteria are met. Autobytel.com does not have any derivative instruments as of December 31, 1998. Management believes that the adoption of SFAS No. 133 will not have a material effect on Autobytel.com's consolidated financial statements.

3. BUSINESS ACQUISITION

In May 1997, one of Autobytel.com's subsidiaries, Kre8.net, Inc., entered into an asset purchase agreement with Internet Development Corporation to purchase certain assets and to assume certain liabilities of the business. The combined entity develops Web sites for automobile and other industries. The purchase price for the net assets was $100 in cash.

The acquisition was accounted for by the purchase method. Accordingly, the purchase price was allocated to the assets acquired and liabilities assumed based on their estimated fair market values whose fair value equaled book value at the closing date. The excess of purchase price over the estimated fair value of net assets acquired was $93, and is being amortized using the straight-line method over a period of three years. The results of operations of the acquired business are included in the accompanying consolidated statements of operations and in Autobytel.com's accumulated deficit beginning in May 1997. Internet Development Corporation's revenues and results of operations since the date of acquisition are immaterial.

4. PROPERTY AND EQUIPMENT

Property and equipment consists of the following:

	DECEMBER 31, 1997	DECEMBER 31, 1998
Computer software and hardware	$ 2,104	$ 2,800
Furniture and equipment	892	1,206
Leasehold improvements	427	561
	3,423	4,567
Less -- Accumulated depreciation and amortization	(1,106)	(2,359)
	$ 2,317	$ 2,208

5. COMMITMENTS AND CONTINGENCIES

Operating Leases

Autobytel.com leases its facilities and certain office equipment under operating leases which expire on various dates through 2001. At December 31, 1998, future minimum lease payments are as follows:

YEARS ENDING DECEMBER 31,	
1999	$ 619
2000	649
2001	501
2002	--
2003	--
Thereafter	--
	$1,769

Rent expense was $92, $247, and $491 for the years ended December 31, 1996, 1997 and 1998, respectively.

Marketing and Advertising Agreements

In September 1997, Autobytel.com entered into a three year Internet marketing agreement with a company that operates a search engine. The agreement permits Autobytel.com to maintain certain exclusive promotional rights and linkage with the search engine, and provides for certain advertising. The payments under the agreement consist of a set-up fee, an annual fee and a variable fee per purchase request. The set-up fee represents the cost of initiating the link between Autobytel.com and the search engine and was expensed in the period the link was established. Autobytel.com expenses the annual fee ratably over a 12-month period and the variable fee in the period purchase requests are received. The amount of variable fee per purchase request increases as the number of purchase requests received reaches agreed upon increments. Under the agreement, Autobytel.com is also to provide the search engine with up to three new vehicles in a 12-month period. The agreement grants Autobytel.com the right to terminate the agreement if the number of purchase requests does not meet the threshold specified for each year of the term of the agreement. As of December 31, 1998, the minimum future payments under the agreement amounted to $3.7 million.

In June 1998, Autobytel.com entered into a two year Internet marketing agreement with another company that operates a search engine. The agreement permits Autobytel.com to maintain certain exclusive promotional rights and linkage with the search engine. The payments under the agreement consist of an annual fee, and a variable fee per purchase request. Autobytel.com expenses the annual fee ratably over a 12-month period and the variable fee in the period purchase requests are received. The amount of variable fee per purchase request increases as the number of purchase requests received reaches agreed upon increments. Under the agreement, Autobytel.com is also to provide the search engine with up to three new vehicles in a 12-month period, the total value of which is not to exceed $45, which has been expensed as incurred. The agreement grants Autobytel.com the right to terminate the agreement if the number of purchase requests does not meet the threshold specified for each year of the term of the agreement. As of December 31, 1998, the minimum future payments under the agreement amounted to $5.4 million.

Autobytel.com has agreements with other automotive information providers that make available to consumers vehicle research data over the Internet. Such agreements are generally for a term of one to four years and require that Autobytel.com pay a combination of set-up, initial, annual, monthly and variable fees based on the volume of purchase requests received by Autobytel.com. 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, 1998, the minimum future commitments under these agreements were $0.7 million.

During 1998, total Internet marketing and advertising costs incurred were $11,090, including initial, annual and monthly fees of $50, $2,965 and $2,903, respectively. No set-up fees were incurred in 1998 and variable fees were $5,172.

Autobytel.com has agreements with network and cable television stations under which it has the right to purchase television advertising. As of December 31, 1998, the minimum future commitments under these agreements were $1.7 million. These amounts are expensed as advertisements are aired.

For the years ended December 31, 1996, 1997 and 1998, Autobytel.com paid $2,721, $8,474 and $15,540, respectively, under these marketing and advertising agreements.

Employment Agreements

Autobytel.com has employment agreements with certain executives under which, in the event of termination without cause or resignation with a good reason, the executives are entitled to receive severance payments equal to the base salary that would have been received by the executives over the remaining term of the agreements. One of these agreements also provides for an additional severance payment in the event of a change in control as defined in the agreement. The term of the agreements range from two to three years.

Litigation

In the normal course of business, Autobytel.com is involved in various legal proceedings. Based upon the information presently available, management believes that the ultimate resolution of any such proceedings will not have a material adverse effect on Autobytel.com's financial position, liquidity or results of operations.

6. RETIREMENT SAVINGS PLAN

Autobytel.com has a Retirement Savings Plan (the Retirement Plan) which qualifies as a deferred salary arrangement under Section 401(k) of the Internal Revenue Code. The Retirement Plan covers all full time employees of Autobytel.com who are over 21 years of age and have worked for Autobytel.com for at least 90 days. Under the Retirement Plan, participating employees are allowed to defer up to 15% of their pretax salaries up to a maximum of $10,000 per year. Company contributions to the Retirement Plan are discretionary. Autobytel.com has made no contributions since the inception of the Retirement Plan.

7. STOCKHOLDERS' EQUITY

Series A Convertible Preferred Stock

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

The Series A Preferred will be automatically converted into 1,666,667 shares of common stock at the conversion ratio of approximately 1:1.11 upon the earliest of (i) the closing of an underwritten public offering of Autobytel.com's common stock with a minimum per share price of $13.50 per share, and minimum aggregate offering price of $30 million; (ii) the consent of two-thirds of the holders of preferred stock; or (iii) when fewer than 300,000 shares of Series A Preferred remain outstanding. The Series A Preferred is also convertible into 1,666,667 shares of common stock at the option of the holder. Autobytel.com has reserved 1,666,667 shares of common stock to permit the conversion of the Series A Preferred.

Holders of Series A Preferred are entitled to one vote for each share of common stock into which such shares of Series A Preferred may be converted except with respect to election of directors, whereby the holders, voting separately as a class, are entitled to elect two directors. Each share of Series A Preferred entitles the holder to receive non-cumulative dividends, if and when declared by the Board of Directors, prior to any dividend paid on Series B Preferred or the common stock. Dividends, if any, on Series A Preferred shall be declared at an annual rate of $0.80 per share. As of December 31, 1998, no dividends have been declared.

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

Series B Convertible Preferred Stock

In January 1997, the Board of Directors authorized 967,915 shares of Series B convertible preferred stock (Series B Preferred), and Autobytel.com completed the sale of 967,915 shares of Series B Preferred at $9.35 per share through a private placement offering.

The Series B Preferred will be automatically converted into 873,131 shares of common stock at the conversion ratio of approximately 1:0.90 upon the earliest of (i) the closing of an underwritten public offering of Autobytel.com's common stock with a minimum per share price of $13.50 per share, and minimum aggregate offering price of $30 million; (ii) the consent of two-thirds of the holders of preferred stock; or (iii) when fewer than 200,000 shares of Series B Preferred remain outstanding. The Series B Preferred is also convertible into 873,131 shares of common stock at the option of the holder. Autobytel.com has reserved 873,131 shares of common stock to permit the conversion of the Series B Preferred.

Holders of Series B Preferred are entitled to one vote for each share of common stock into which such shares of Series B Preferred may be converted. Each share of Series B Preferred entitles the holder to receive noncumulative dividends, if and when declared by the Board of Directors, prior to any dividend paid on the common stock. Dividends, if any, on Series B Preferred shall be declared at an annual rate of $0.80 per share. As of December 31, 1998, no dividends have been declared.

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

Series C Convertible Preferred Stock

In October 1997, the Board of Directors authorized 2,840,909 shares of Series C convertible preferred stock (Series C Preferred), and Autobytel.com completed the sale of 1,477,274 shares of Series C Preferred at $8.80 per share through a private placement offering. The Board of Directors authorized an additional 1,136,363 and 3,000,000 shares of Series C Preferred in February and December 1998, respectively.

In April 1998, Autobytel.com issued 56,776 shares of its Series C Preferred in payment of television advertising with an estimated fair market value of $500. The majority of the advertising was aired and expensed in the three months ended March 31, 1998.

In May 1998, Autobytel.com sold 568,182 shares of the Series C Preferred at $8.80 per share through a private placement.

In October 1998, Autobytel.com issued 64,233 shares of Series C Preferred in payment of television advertising with an estimated fair market value of $565. The amount was expensed in the three months ended December 31, 1998.

In November 1998, Autobytel.com sold 568,182 shares of Series C Preferred at $8.80 per share through a private placement.

In December 1998, Autobytel.com sold 2,234,091 shares of Series C Preferred at $8.80 per share through private placements. Of these shares, 1,136,364 shares were issued to an investor with whom Autobytel.com entered into a Directed Proceeds Agreement. Under the Directed Proceeds Agreement, Autobytel.com is committed to expend up to $1,000 for the development of technology for broadband applications. In addition, Autobytel.com issued a warrant for 300,000 shares of common stock in exchange for the right to participate in the development of this technology and the warrant holder's agreement to use commercially reasonable efforts to involve Autobytel.com in other broadband application projects. The fair value of the warrant ($540) has been recorded as a prepaid expense at December 31, 1998.

The Series C Preferred will be automatically converted into 3,312,492 shares of common stock at the conversion ratio of approximately 1:0.67 upon the earliest of (i) the closing of an underwritten public offering of Autobytel.com's common stock with a minimum per share price of $13.50 per share, and minimum aggregate offering price of $30 million; (ii) the consent of two-thirds of the holders of preferred stock; or (iii) when fewer than 250,000 shares of Series C Preferred remain outstanding. The Series C Preferred is also convertible into 3,312,492 shares of common stock at the option of the holder. Autobytel.com has reserved 3,312,492 shares of common stock to permit the conversion of the Series C Preferred.

Holders of Series C Preferred are entitled to one vote for each share of common stock into which such shares of Series C Preferred may be converted. Each share of Series C Preferred entitles the holder to receive non-cumulative dividends, if and when declared by the Board of Directors, prior to any dividend paid on Series A and Series B Preferred and the common stock. Dividends, if any, on Series C Preferred shall be declared at an annual rate of $0.80 per share. As of December 31, 1998, no dividends have been declared.

In the event of liquidation, the Series C Preferred has preference over Series A and Series B Preferred and the common stock in the amount of $8.80 per share, plus declared but unpaid dividends.

As of December 31, 1998, 2,000,000 shares of preferred stock were undesignated.

Common Stock

Under the terms of the Plan of Organization, the interests of the members of the LLCs were transferred to autobytel.com inc. in a tax-free transaction. In consideration for their respective ownership interests, the members of ABT and ABTAC received 8,250,000 shares of common stock of Autobytel.com.

Warrants

In November 1998, Autobytel.com issued a warrant to purchase 150,000 shares of common stock to an investor in its Series C Preferred in exchange for the investor's commitment to assist Autobytel.com with organizational and start-up activities related to a Pan-European entity in which Autobytel.com may invest with the investor. The warrant is exercisable at $13.20 per share and expires in November 2001. The warrant was valued at $270, which was expensed in 1998, as the investor has fulfilled its commitment and has no further obligation to Autobytel.com.

In December 1998, Autobytel.com issued warrants to purchase 289,800 shares of common stock to another investor in its Series C Preferred in exchange for the investor's commitment to assist Autobytel.com with organizational and start-up activities related to a Pan-European entity in which Autobytel.com may invest with the investor. The warrants are exercisable at $13.20 per share and expire in December 2001. The warrants were valued at $522, which was expensed in 1998, as the investor has fulfilled its commitment and has no further obligation to Autobytel.com.

In December 1998, Autobytel.com issued a warrant to purchase 300,000 shares of common stock to an investor in exchange for the right to participate in the development of broadband application technology. The warrant is exercisable at $13.20 per share and expires in December 2001. The warrant was valued at $540, and is recorded as a prepaid expense at December 31, 1998.

The fair value of each 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) expected life of three years.

8. STOCK OPTION PLANS

1996 Stock Option Plan

Autobytel.com's 1996 Stock Option Plan (the Option Plan) was approved by the Board of Directors in May 1996. The 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 Option Plan provided for the granting to employees and directors 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.com reserved 1,194,444 shares of common stock for exercise of stock options under the Option Plan. The exercise price of incentive stock options granted under the 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.com, 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 Option Plan did not exceed 10 years. Stock options granted under the Option Plan vest according to vesting schedules determined by the Board of Directors. As of December 31, 1998, options to purchase an aggregate of 206,388 shares of common stock at an exercise price ranging from $0.84 to $0.90 per share were outstanding under the Option Plan.

1996 Stock Incentive Plan

Autobytel.com's 1996 Stock Incentive Plan (the Incentive Plan) was approved by the Board of Directors in October 1996, and was amended in November 1996. The Incentive Plan provides for the granting to employees and directors 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.com 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.com, 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

In December 1998, Autobytel.com adopted the 1998 Stock Option Plan (the 1998 Option Plan). Autobytel.com 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 for the granting to employees of 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.com, 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 nonstatutory 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.com's common stock. In December 1998, the Board of Directors granted Performance Options to purchase 700,000 shares of common stock to its executives at an exercise price of $13.20 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.com's common stock. The accelerated vesting schedule is conditioned on Autobytel.com consummating an initial public offering. The accelerated vesting schedule provides that the grants will vest in six installments, one installment vesting each six months over a three-year period if pre-established average trading prices of the common stock are achieved. Those installments will vest if the average trading price exceeds the exercise price by $6.60, $13.20, $19.80, $26.40, $33.00 and $39.60, respectively, in the applicable six month period after the date of grant. 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.com's business or assets, all rights of the optionee with respect to the unexercised portion of any option shall 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.com with respect to the 1998 Option Plan.

During the year ended December 31, 1996, Autobytel.com granted options under the aforementioned plans to purchase an aggregate of 1,568,059 shares of common stock at various exercise prices ranging from $0.90 to $11.25 per share. During the year ended December 31, 1996, Autobytel.com recorded, based upon an independent appraisal obtained by Autobytel.com's Board of Directors, $87 of deferred compensation expense relating to certain options. This amount was amortized over the vesting periods of the options. Amortization of deferred compensation for the years ended December 31, 1996, 1997 and 1998 was $61, $25 and $1, respectively.

During the year ended December 31, 1997, Autobytel.com granted options to various employees to purchase 853,504 shares of common stock at an exercise price of $13.20 per share.

During the year ended December 31, 1998, Autobytel.com granted options to various employees to purchase 1,630,340 shares of common stock at an exercise price of $13.20 per share.

In January 1999, Autobytel.com granted options to Hoshi Printer, Senior Vice President and Chief Financial Officer, to purchase 150,000 shares of common stock at an exercise price of $13.20 per share.

1996 Employee Stock Purchase Plan

Autobytel.com'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.com to purchase shares of common stock through payroll deductions of up to

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ten percent of their compensation, up to a certain maximum amount for all purchase periods ending within any calendar year. Autobytel.com 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.com. There have been no stock purchases under the Purchase Plan. In January 1999, the Board of Directors ratified the suspension of the Purchase Plan.

A summary of the status of Autobytel.com's stock options as of December 31, 1996, 1997 and 1998, and changes during such periods is presented below:

	NUMBER OF OPTIONS	WEIGHTED AVERAGE EXERCISE PRICE
Outstanding at December 31, 1995	--	$ --
Granted	1,568,059	3.24
Exercised	(28,148)	0.90
Canceled	(19,353)	0.90
Outstanding at December 31, 1996	1,520,558	3.32
Granted	853,504	13.20
Exercised	(39,629)	0.90
Canceled	(156,688)	7.88
Outstanding at December 31, 1997	2,177,745	6.92
Granted	1,630,340	13.20
Exercised	(181,012)	0.94
Canceled	(767,733)	6.93
Outstanding at December 31, 1998	2,859,340	$10.87
Exercisable at December 31, 1996	362,958	$ 0.89
Exercisable at December 31, 1997	858,187	$ 2.78
Exercisable at December 31, 1998	738,860	$ 6.42
Weighted-average fair value of options granted during 1996 whose exercise price is less than the market price of the stock on the grant date (169,445 options)		$ 2.45
Weighted-average fair value of options granted during 1996 whose exercise price exceeds the market price of the stock on the grant date (1,398,614 options)		$ 1.16
Weighted-average fair value of options granted during 1997 whose exercise price equals the market price of the stock on the grant date (853,504 options)		$ 2.73
Weighted-average fair value of options granted during 1998 whose exercise price equals the market price of the stock on the grant date (1,630,340 options)		$ 3.25

The fair value of each option granted through December 31, 1998 is estimated using the Black-Scholes option-pricing model on the date of grant using the following assumptions: (i) no dividend yield, (ii) volatility of effectively zero, (iii) weighted-average risk-free interest rate of approximately 6.70%, 6.18%, and 4.80% for the years ended December 31, 1996, 1997 and 1998, respectively, and (iv) expected life of six years for the years ended December 31, 1996 and 1997 and four to seven years for the year ended December 31, 1998.

The following table summarizes information about stock options outstanding at December 31, 1998:

	OPTIONS OUTSTANDING			OPTIONS EXERCISABLE	
EXERCISE PRICE	NUMBER OF OPTIONS	WEIGHTED AVERAGE REMAINING LIFE (IN YEARS)	WEIGHTED AVERAGE EXERCISE PRICE	NUMBER OF OPTIONS	WEIGHTED AVERAGE EXERCISE PRICE
0$.84.........	166,667	7.5	$ 0.84	166,667	$ 0.84
0.90.........	39,721	7.5	0.90	39,442	0.90
4.50.........	466,666	7.8	4.50	279,444	4.50
11.25........	24,443	7.9	11.25	16,294	11.25
13.20........	2,161,843	9.5	13.20	237,013	13.20
0$.84-$13.20..	2,859,340	9.1	$10.87	738,860	$ 6.42

Had compensation cost for Autobytel.com's stock option grants for its stock-based compensation plans been determined consistent with SFAS No. 123, Autobytel.com's net loss and net loss per share for the years ended December 31, 1996, 1997 and 1998 would approximate the pro forma amounts below:

	YEARS ENDED DECEMBER 31,		
	1996	1997	1998
Net loss, as reported..................	$(6,035)	$(16,810)	$(19,398)
Net loss per share, as reported........	(0.73)	(2.03)	(2.30)
Net loss, pro forma....................	(6,270)	(17,624)	(21,109)
Net loss per share, pro forma..........	(0.76)	(2.13)	(2.51)

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

9. SALE OF AUTO-BY-TEL UK LIMITED

In November 1998, Autobytel.com entered into a Share Purchase Agreement with Inchcape Automotive Limited to sell 100% of its United Kingdom operations for a nominal cash amount and assumption of liabilities of $1,794. The sale resulted in a gain of $1,408, which is included in other income in the accompanying consolidated statements of operations. In connection with the Share Purchase Agreement, Autobytel.com entered into a License and Service Agreement with Auto-by-Tel UK Limited under which it will grant to Auto-by-Tel UK Limited a license to use its proprietary software, technology and other business procedures and provide maintenance and support in exchange for minimum annual license and maintenance and support fees over a 20-year period.

The minimum annual license fee of $850 is payable in advance on a quarterly basis beginning on the launch date of the Web site. The Web site has not yet been launched. Beginning in the fourth year of this agreement, additional license fees are payable based on a formula involving a percentage of Auto-by-Tel UK Limited's gross revenue. A maintenance and support fee of $250 is payable in advance on a monthly basis beginning on the execution date of the agreement.

Annual license revenue will be recognized ratably over a 12-month period beginning on the Web site launch date. Maintenance and support revenue will be recognized ratably over the term of the agreement beginning on the execution date of the agreement, as the maintenance and support fee also covers efforts to develop the Web site. Autobytel.com recognized revenues of $26 under the License and Service Agreement in the year ended December 31, 1998.

Under the Share Purchase Agreement, Inchcape shall not transfer 50% or more of the shares of Auto-by-tel UK Limited for a period of 365 days from the Web site launch date. Inchcape Automotive Limited, however, is entitled to transfer any shares, not to exceed 50%, at any time after the execution of the Share Purchase Agreement within the one-year period following the termination or expiration of the License and Service Agreement. If Inchcape Automotive Limited wishes to transfer any shares to a third party, Autobytel.com has the right to purchase all, but not a portion, of such shares.

10. INCOME TAXES

Through May 1996, the LLCs were taxed as partnerships under the provisions of the Internal Revenue Code of 1986 (Internal Revenue Code). Under those provisions, Autobytel.com was not subject to corporate income taxes on its taxable income. Instead, Autobytel.com's taxable income or loss was included in the individual income tax returns of its members. Effective May 31, 1996, under the terms of the Plan of Organization, the LLCs were reorganized as a C Corporation under the provisions of the Internal Revenue Code (See Note 1). The reorganization required that Autobytel.com adopt 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. The cumulative tax effect of these temporary differences was immaterial at the time of the reorganization.

No provision for federal income taxes has been recorded as Autobytel.com incurred net operating losses through December 31, 1998. Provision for income taxes included in the accompanying consolidated statements of operations primarily consists of franchise taxes paid to the state of Delaware. As of December 31, 1998, Autobytel.com had approximately $37.1 million and $18.4 million of federal and state net operating loss carryforwards available to offset future taxable income; such carry forwards expire in various years through 2018. Under the Tax Reform Act of 1986, the amounts of and benefits from Autobytel.com's net operating loss carryforwards will likely be limited upon the completion of the initial public offering due to a cumulative ownership change of more than 50% over a three year period. Based on preliminary estimates, management believes the effect of such limitation, if imposed, will not have a material adverse effect on Autobytel.com.

Net deferred income tax assets, totaling approximately $6.3 million at December 31, 1997 and $15.8 million at December 31, 1998, consist primarily of the tax effect of net operating loss carry forwards, reserves and accrued expenses which are not yet deductible for tax purposes. Autobytel.com has provided a full valuation allowance on these deferred income tax assets because of the uncertainty regarding their realization.

11. RELATED PARTY TRANSACTIONS

Peter R. Ellis

In March 1998, Autobytel.com extended a $250 loan to co-founding member and stockholder, Peter R. Ellis. The loan bears interest at 8% per annum compounded quarterly and principal and accrued interest are due in full in March 2003. The loan is secured by Mr. Ellis's stock in Autobytel.com. In June 1998, Mr. Ellis resigned from Autobytel.com as Chief Executive Officer. In August 1998, Autobytel.com executed a two year agreement with Mr. Ellis to provide advisory services. Under the agreement, Mr. Ellis received $500 in the first year and is entitled to receive $5 per month in the second year of the agreement term. The amounts paid to Mr. Ellis under this agreement are included in operating expenses in the accompanying consolidated statements of operations.

12. BUSINESS SEGMENT

Autobytel.com conducts its business within one business segment, which is defined as providing online vehicle purchasing and other related services.

13. SUBSEQUENT EVENTS

Proposed Initial Public Offering

In January 1999, the Board of Directors authorized the filing of a registration statement with the Securities and Exchange Commission to permit Autobytel.com to sell shares of its common stock in connection with the proposed initial public offering (IPO). If the offering is consummated under the terms presently anticipated, the Series A, the Series B and the Series C Preferred (collectively Preferred Stock) outstanding at December 31, 1998 will automatically convert to common stock upon closing of the IPO (See Note 7).

1999 Stock Option Plan

In January 1999, the Board of Directors adopted the 1999 Stock Option Plan (the 1999 Option Plan). Autobytel.com has reserved 1,800,000 shares under the 1999 Option Plan. The 1999 Option Plan provides for the granting of stock options to key employees of Autobytel.com. Under the 1999 Option Plan, not more than 1,000,000 shares may be 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 shall 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 shall have a term of 10 years.

Such 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 and the exercise price per share shall be 100% of the fair market value of Autobytel.com's common stock on the date of grant. The 1999 Option Plan is identical in all other material respects to the 1998 Option Plan.

Rescission Offer for Stock Options Granted in Excess of the 1996 Incentive Plan Limit

From May 1997 to January 1999, Autobytel.com issued grants of incentive stock options in excess of the plan limit of 833,333 shares. Subsequent to December 31, 1998, Autobytel.com offered to exchange the affected options for a cash payment or a new grant of incentive stock options under the 1999 Option Plan. In 1999, Autobytel.com has resolved this matter without a material impact on its financial statements. Total cash payments were less than $10. The new stock options were granted at the fair market value at the date of the new grant, which equaled the exercise price of the original options. All other significant provisions associated with the options remained the same.

Stock Options Granted in 1999

From January to March 1999, Autobytel.com 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.com will recognize estimated compensation expense of approximately $2.7 million ratably over the vesting term of one to four years. Compensation expense of approximately $1,092, $537, $537, $537 and $42 will be classified as operating expense in the years ending 1999, 2000, 2001, 2002 and 2003, respectively.

[The inside back cover of the prospectus depicts a map of the United States with dots generally representing the territories covered by United States dealers participating in the Autobytel.com network.]

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YOU MAY RELY ONLY ON THE INFORMATION CONTAINED IN THIS PROSPECTUS. WE HAVE NOT AUTHORIZED ANYONE TO PROVIDE INFORMATION DIFFERENT FROM THAT CONTAINED IN THIS PROSPECTUS. NEITHER THE DELIVERY OF THIS PROSPECTUS NOR SALE OF COMMON STOCK MEANS THAT INFORMATION CONTAINED IN THIS PROSPECTUS IS CORRECT AFTER THE DATE OF THIS PROSPECTUS. THIS PROSPECTUS IS NOT AN OFFER TO SELL OR SOLICITATION OF AN OFFER TO BUY THESE SHARES OF COMMON STOCK IN ANY CIRCUMSTANCES UNDER WHICH THE OFFER OR SOLICITATION IS UNLAWFUL.

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UNTIL APRIL 20, 1999 (25 DAYS AFTER THE DATE OF THIS PROSPECTUS), ALL DEALERS THAT BUY, SELL OR TRADE THESE SHARES OF COMMON STOCK, WHETHER OR NOT PARTICIPATING IN THIS OFFERING, MAY BE REQUIRED TO DELIVER A PROSPECTUS. THIS IS IN ADDITION TO THE DEALERS' OBLIGATION TO DELIVER A PROSPECTUS WHEN ACTING AS UNDERWRITERS AND WITH RESPECT TO THEIR UNSOLD ALLOTMENTS OR SUBSCRIPTIONS.

4,500,000 SHARES

[LOGO]

AUTOBYTEL.COM INC.

COMMON STOCK

PROSPECTUS

BT ALEX. BROWN
LEHMAN BROTHERS
PAINEWEBBER INCORPORATED

March 26, 1999