UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2000

OR

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

FOR THE TRANSITION PERIOD FROM ____________ TO ____________ .

COMMISSION FILE NUMBER 22239

autobytel.com inc.

(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

DELAWARE	33-0711569
(STATE OR OTHER JURISDICTION OF INCORPORATION OR ORGANIZATION)	(I.R.S. EMPLOYER IDENTIFICATION NUMBER)

18872 MACARTHUR BOULEVARD IRVINE, CALIFORNIA	92612
(ADDRESS OF PRINCIPAL EXECUTIVE OFFICES)	(ZIP CODE)

(949) 225-4500
(REGISTRANT'S TELEPHONE NUMBER, INCLUDING AREA CODE)

Check whether the registrant: (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes [X] No [ ]

As of April 30, 2000, there were 20,210,738 shares of the Registrant's Common Stock outstanding.

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PART I. FINANCIAL INFORMATION

ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS

autobytel.com inc.

CONSOLIDATED BALANCE SHEETS
(AMOUNTS IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)

ASSETS

	March 31, 2000	December 31, 1999
	(Unaudited)	
Current assets:		
Cash and cash equivalents, includes restricted amounts of $29 and $206, respectively	$ 106,569	$ 85,457
Accounts receivable, net of allowance for doubtful accounts of $390 and $439, respectively	6,297	4,593
Prepaid expenses and other current assets	2,556	2,819
Total current assets	115,422	92,869
Property and equipment, net	1,884	1,630
Goodwill, net	24,910	10
Other assets	123	363
Total assets	$ 142,339	$ 94,872
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 8,668	$ 4,277
Accrued expenses	5,114	6,772
Deferred revenues	7,555	6,147
Customer deposits	382	716
Other current liabilities	299	201
Total current liabilities	22,018	18,113
Minority interest	8,208	-
Other liabilities	99	53
Total liabilities	30,325	18,166
Commitments and Contingencies		
Stockholders' equity:		
Common stock, $0.001 par value; 200,000,000 shares authorized; 20,210,738 and 18,234,613 shares issued and outstanding, respectively	20	18
Warrants	1,332	1,332

Additional paid-in capital	185,337	141,957
Cumulative translation adjustment	(4)	(8)
Accumulated deficit	(74,671)	(66,593)
Total stockholders' equity	112,014	76,706
Total liabilities and stockholders' equity	$ 142,339	$ 94,872

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

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CONSOLIDATED STATEMENTS OF OPERATIONS
(AMOUNTS IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)
(UNAUDITED)

	Three Months Ended March 31,	
	2000	1999
Revenues	$ 15,100	$ 8,032
Operating expenses:		
Sales and marketing	16,874	9,957
Product and technology development	5,033	2,366
General and administrative	2,766	1,817
Total operating expenses	24,673	14,140
Loss from operations	(9,573)	(6,108)
Other income, net	1,515	8
Loss before provision for income taxes	(8,058)	(6,100)
Provision for income taxes	20	41
Net loss	$ (8,078)	$ (6,141)
Basic and diluted net loss per share	$ (0.42)	$ (0.68)
Shares used in computing basic and diluted net loss per share	19,263,638	9,029,203

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

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CONSOLIDATED STATEMENTS OF CASH FLOWS
(AMOUNTS IN THOUSANDS, EXCEPT SHARE DATA)
(UNAUDITED)

	Three Months Ended March 31,	
	2000	1999
Cash flows from operating activities:		
Net loss	$ (8,078)	$ (6,141)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	520	360
Provision for bad debt	3	47
Loss on disposal of property and equipment	-	51
Compensation expense recorded for fair market value of stock options in excess of exercise price	141	225
Changes in assets and liabilities:		
Accounts receivable	(1,390)	(426)
Prepaid expenses and other current assets	333	(134)
Other assets	(1,200)	2
Accounts payable	3,358	4,649
Accrued expenses	(1,829)	864
Deferred revenues	1,408	231
Customer deposits	(334)	194
Other current liabilities	(553)	57
Other liabilities	(17)	(1)
Net cash used in operating activities	(7,638)	(22)

Cash flows from investing activities:		
Acquisition of business, net of cash acquired	(2,813)	-
Purchases of property and equipment	(198)	(222)
Net cash used in investing activities	(3,011)	(222)
Cash flows from financing activities:		
Net proceeds from sale of common stock to minority stockholders	218	72,074
Net proceeds from sale of subsidiary company stock	31,539	-
Net cash provided by financing activities	31,757	72,074
Effect of exchange rates on cash	4	4
Net increase in cash and cash equivalents	21,112	71,834
Cash and cash equivalents, at beginning of period	85,457	27,984
Cash and cash equivalents, at end of period	$ 106,569	$ 99,818
Supplemental disclosure of cash flow information:		
Cash paid during the period for income taxes	$ 21	$ 41
Cash paid during the period for interest	$ 1	$ -

Supplemental disclosure of non-cash investing and financing activities (See Note 3):

* In February 2000, in conjunction with the acquisition of a business, assets of $950 were acquired, liabilities of $1,966 were assumed and 1,800,000 shares of common stock were issued.

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(AMOUNTS IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)
(UNAUDITED)

1. ORGANIZATION AND OPERATIONS OF Autobytel.com

autobytel.com inc. (Autobytel.com) is an internationally branded online automotive commerce company that connects buyers and sellers together in an information-rich environment throughout the vehicle ownership lifecycle. Through its Web sites (www.autobytel.com and www.carsmart.com), consumers can research pricing, specifications and other information related to new and pre-owned vehicles and can purchase, finance, lease, insure, sell and maintain their vehicles. When consumers are ready to purchase a vehicle, they can be connected to Autobytel.com's or CarSmart.com's network of participating dealers in North America, other sellers through classified ads and Autobytel.com's auction services.

Autobytel.com has also established international joint ventures and/or licensing agreements to market new and used vehicles in the United Kingdom, Scandinavia, Japan and Australia.

Since its inception in January 1995, 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 operating losses and had an accumulated deficit of $74,671 as of March 31, 2000. Management believes cash and cash equivalents of $106,569 as of March 31, 2000 are sufficient to meet anticipated cash needs for working capital and capital expenditures for at least the next 12 months.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Unaudited Interim Financial Statements

The accompanying interim consolidated financial statements as of March 31, 2000, and for the three months ended March 31, 2000 and 1999, are unaudited. The unaudited interim consolidated financial statements have been prepared on the same basis as the annual consolidated financial statements and, in the opinion of Autobytel.com's management, reflect all adjustments, which are of a normal recurring nature, necessary to present fairly Autobytel.com's financial position as of March 31, 2000, and results of operations and cash flows for the three months ended March 31, 2000 and 1999. Autobytel.com's results for an interim period are not necessarily indicative of the results that may be expected for

the year.

Although Autobytel.com believes that all adjustments necessary for a fair presentation of the interim periods presented are included and that the disclosures are adequate, these consolidated financial statements and notes thereto are unaudited and should be read in conjunction with the audited consolidated financial statements and notes thereto for the year ended December 31, 1999 included in Autobytel.com's Annual Report on Form 10-K, filed with the Securities and Exchange Commission (SEC) on March 23, 2000 and the separate audited financial statements and notes thereto of A.I.N. Corporation for the year ended December 31, 1999, included in Autobytel.com's Current Report on Form 8-K/A, filed with the SEC on May 1, 2000.

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.

Computation of Basic and Diluted Net Loss Per Share

Net loss per share has been calculated under Statement of Financial Accounting Standards (SFAS) No. 128, "Earnings per Share." SFAS No. 128 requires companies to compute earnings per share under two different methods (basic and diluted). Basic net loss per share is calculated by dividing the net loss by the weighted average shares of common stock outstanding during the period. For the three months ended March 31, 2000 and 1999, diluted net loss per share is equal to basic net loss per share since potential common shares from the conversion of preferred stock, stock options and warrants are antidilutive. Autobytel.com evaluated the requirements of the SEC 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.

3. ACQUISITION OF A.I.N. CORPORATION

On February 15, 2000, Autobytel.com acquired all of the outstanding stock of A.I.N. Corporation, the owner of CarSmart.com, an online buying site for new and used vehicles, for $3,000 in cash and 1.8 million shares of its common stock. The acquisition has been accounted for using the purchase method of accounting. The purchase price has been allocated to the assets acquired and liabilities assumed on the basis of their respective fair values on the acquisition date.

The excess of the purchase price over the fair value of the assets acquired and liabilities assumed has been recorded as goodwill in the amount of $25,117 and will be amortized over a 15 year period. Goodwill amortization expense from the date of acquisition through March 31, 2000 was $209.

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

4. FORMATION OF AUTOBYTEL.EUROPE LLC

In January 2000, Autobytel.com and strategic partners funded Autobytel.Europe LLC (Autobytel.Europe) to expand its operations and business in Europe. Autobytel.com licensed its technology, business processes and trade name to Autobytel.Europe on a royalty free perpetual basis and assigned to Autobytel.Europe its existing license agreements for the United Kingdom and Scandinavia. As of March 31, 2000, total funding for Autobytel.Europe was $36,700, less approximately $200 in financing costs. As of such date, Autobytel.com owned 78% of Autobytel.Europe.

5. SUBSEQUENT EVENT

2000 Stock Option Plan

Autobytel.com's 2000 Stock Option Plan (the "Plan") was approved by the

Board of Directors (the "Board") in April 2000. The Board directed that the Plan be submitted to the stockholders for approval at the Annual Meeting to be held on June 15, 2000. The Plan provides for the granting of stock options to eligible employees, consultants and outside directors of Autobytel.com. The exercise of options granted under the Plan is subject to stockholder approval of the Plan. If the Plan is approved by the stockholders, Autobytel.com will reserve 3 million shares under the Plan.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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

OVERVIEW

We are an internationally branded online automotive commerce company that connects buyers and sellers together in an information-rich environment throughout the vehicle ownership lifecycle, capturing revenue at multiple stages. Through our Web sites, www.autobytel.com, and the recently acquired www.carsmart.com, consumers can research pricing, specifications and other information regarding new and pre-owned vehicles and can purchase, finance, lease, insure, sell and maintain their vehicles. We believe that our services provide benefit for consumers by supplying them with information to make informed and intelligent vehicle decisions throughout the lifecycle of vehicle ownership. Consumers can purchase new vehicles through our dealer referral networks, our AutobytelDIRECT service and our auction services. In addition, consumers can purchase pre-owned vehicles through our Certified Pre-Owned CyberStore, our classified ads and our auction services.

In January 2000, we launched AutobytelDIRECT, a direct-to consumer, new vehicle buying service offering a real-time, online inventory of thousands of vehicles, instant up-front pricing, multiple trade-in options, competitive financing and insurance, and at-home or office delivery. Additionally, we expanded our international offerings with the formation of Autobytel.Europe, with initial investment from Inchcape plc, Pon Holdings B.V., GE Capital and e-LaSer. The Netherlands-based Autobytel.Europe plans to license, invest in and offer joint services to national operating companies throughout Europe to localize the Autobytel.com offerings.

In February 2000, we partnered with St.George Bank Limited, Trading Post, Astre Automotive, RACV (Royal Automobile Club of Victoria), Fortis Insurance and Strathfield E-Ventures in the formation of the online venture Autobytel Australia.

In February 2000, we acquired A.I.N. Corporation, the owner of CarSmart.com, a leading online buying site for new and pre-owned vehicles, for 1.8 million shares of Autobytel.com common stock and $3 million in cash. A.I.N. Corporation is sometimes referred to herein as CarSmart.com. CarSmart.com has over 1,500 dealers, established relationships with more than 200 credit unions and strategic marketing agreements with 11 of the top 25 Internet portals, including AOL.com, Alta Vista, Snap.com, G02Net and the Go Network. For the years ended December 31, 1999 and 1998, CarSmart.com's revenues were $6.4 million and $3.1 million, respectively. For the years ended December 31, 1999 and 1998, CarSmart.com's operating expenses were $7.7 million and $4.2 million, respectively. CarSmart.com's net loss for the years ended December 31, 1999 and 1998 was $1.4 million and $1.2 million, respectively.

We derive the majority of our revenues from program fees paid by subscribing dealers, and we expect to be primarily dependent on our dealer networks for revenues in the foreseeable future. Dealers using our services pay initial subscription fees, as well as ongoing monthly fees based, among other things, on the size of territory, demographics and the transmittal of purchase requests to them. In addition, in most states, dealers who participate in AutobytelDIRECT pay a fee of between $100 and $300 per vehicle sold through AutobytelDIRECT. The fee is based on the gross selling price of the vehicle. We also derive a portion

of our revenues from related products and services on a per transaction basis and from international licensing agreements. For the three months ended March 31, 2000 and 1999, revenues from related products and services, including international licensing agreements, were 20% and 5% of total revenues, respectively.

Since mid January 1999 and on a going forward basis, we are converting our dealers primarily to new contracts with one year terms. The initial subscription fee from the dealer is recognized ratably over the term of the dealer's contract. Amortized revenues from initial subscription fees were $0.8 million and $0.7 million for the three months ended March 31, 2000 and 1999, respectively. We anticipate that amortized revenues from our initial subscription fees will decline as a percentage of total revenues over time as monthly fee revenues continue to grow. Therefore, initial subscription fee revenues are declining as a percentage of total revenues while monthly fee revenues are growing. Monthly fees are recognized in the period the service is provided. Monthly fee revenues were $11.2 million and $6.6 million for the three months ended March 31, 2000 and 1999, respectively. There were no amortized revenues from annual fees for the three months ended March 31, 2000 because we began to eliminate the charging of annual fees in early 1998. For the three months ended March 31, 1999, amortized revenues from annual fees were $0.3 million.

We believe our ability to increase the number of subscribing dealers and the amount of fees paid by dealers is indirectly related to the volume of purchase requests routed through our Web sites. Vehicle purchase requests routed through Autobytel.com's online system increased from approximately 489,000 in the first quarter of 1999 to approximately 530,000 in the first quarter of 2000, an increase of 8%. Since inception we have directed approximately 5.0 million purchase requests to dealers.

Our revenue growth has been primarily dependent on our ability to:

- deliver quality purchase requests to our dealer network,
- increase the number of dealers,
- improve the sales conversion rate of dealer leads and
- increase the average monthly fees paid by each dealer.

We believe our revenue growth in the foreseeable future will be dependent on the above factors as well as our ability to generate revenues from AutobytelDIRECT and related products and services, including international licensing agreements.

Since inception, our dealer network has expanded in each quarter and as of March 31, 2000 there were 5,131 dealers. Of these dealers, 5,088 dealers, or 99%, pay for our service. Our non-paying 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-paying dealers to ensure the broadest geographic coverage for every make of vehicle and to increase consumer satisfaction by offering a complete selection of vehicles.

In the first quarter of 2000, 556 dealers were added to our Autobytel.com North American dealer network and 219 dealers either terminated their affiliation with us or were terminated by us. As of March 31, 2000, the net number of Autobytel.com dealers increased by 38% over the same quarter in 1999. With the acquisition of CarSmart.com, we have added an additional dealer network of over 1,500 dealers. As of March 31, 2000, approximately 400 dealers subscribed to both the Autobytel.com and CarSmart.com

services. Our inability or failure to reduce dealer turnover could have a material adverse effect on our business, results of operations and financial condition. Because our primary revenue source is from program fees, our business model is significantly different from many other Internet automotive commerce sites. The automobiles requested through our site are sold by dealers; therefore, we derive no direct revenues from the sale of a vehicle (other than through the recently introduced AutobytelDIRECT service) and have no significant cost of goods sold, no procurement, carrying or shipping costs and no inventory risk.

Sales and marketing costs consist primarily of:

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

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 automotive 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 amortized over the period they relate to.
- Annual fees are amortized over the period they relate to.
- Monthly fees 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.

Our Internet marketing and advertising costs, including annual, monthly and variable fees, were $4.0 million and $3.6 million in the first quarter of 2000 and 1999, respectively. There were no set-up or initial fees incurred in the first quarter of 2000. Also included in 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:

	THREE MONTHS ENDED MARCH 31,	
	2000	1999
STATEMENT OF OPERATIONS DATA:		
Revenues		
Program fees	80%	95%
Related products and services	20	5
Total revenues	100	100
Operating expenses:		
Sales and marketing	112	124
Product and technology development	33	29

General and administrative	18	23
Total operating expenses	163	176
Loss from operations	(63)	(76)
Other income, net	10	--
Loss before provision for income taxes	(53)	(76)
Provision for income taxes	--	--
Net loss	(53)%	(76)%

THREE MONTHS ENDED MARCH 31, 2000 AND 1999

Revenues. Our revenues increased $7.1 million, or 88%, to $15.1 million in the first quarter of 2000, compared to $8.0 million in the same period in 1999. The growth in revenues was primarily attributable to an increase in the net number of paying dealers and a $4.5 million, or 59%, increase in program fees from paying dealers, including program fees of $0.4 million from CarSmart.com dealers. Autobytel.com's number of paying dealers increased by 967, or 38%, to 3,527 as of March 31, 2000, compared to 2,560 as of March 31, 1999. With the acquisition of CarSmart.com we have a total of 5,088 paying dealers. Our revenues from related products and services accounted for approximately 20% of revenues in 2000 and 5% of revenues in 1999. The increase was primarily due to additional fees from our insurance and finance products and international license agreements in the first quarter of 2000.

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. Sales and marketing expense increased by $6.9 million, or 69%, to $16.9 million in the first quarter of 2000 compared to $10.0 million in the first quarter of 1999. The increase was primarily due to a $3.3 million, or 89%, increase in print, television and radio advertising, $2.3 million for print and online advertising to promote our AutobytelDIRECT model that was launched early in the first quarter of 2000, and a $0.4 million, or 135%, increase in other advertising and marketing expenses to build brand awareness. The increase in sales and marketing was further attributable to a $1.0 million, or 44%, increase in sales, dealer, and call center personnel to support the growth of our traditional and AutobytelDIRECT business. We expect to continue to increase our sales, advertising and marketing expenses 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 sites and Dealer Real Time system, as well as expenses associated with telecommunications and computer infrastructure. Product and technology development expense increased by $2.6 million, or 113%, to $5.0 million in the first quarter of 2000, compared to $2.4 million in the same period in 1999. The increase was primarily due to $1.6 million for international software development costs, a $0.7 million, or 55%, increase for additional personnel, recruiting and retention costs, both domestic and international, and a $0.3 million, or 26%, increase related to the development of new products and services.

General and Administrative. General and administrative expense was $2.8 million and $1.8 million in the first quarter of 2000 and 1999, respectively. General and administrative expense increased by $1.0 million, or 52%. The increase was primarily due to a $0.5

million, or 54%, increase in financial consulting, accounting and other public company infrastructure costs, a $0.3 million, or 27%, increase in recruiting and personnel costs, and $0.2 million for goodwill amortization related to our acquisition of CarSmart.com.

Other Income, Net. Other income consists primarily of interest income earned on our cash and cash equivalent balances. Interest income in the first quarter of 2000 increased by $1.2 million, or 356%, as compared to the first quarter of 1999. Interest income increased due to higher cash balances resulting from the

initial public offering late in the first quarter of 1999 and the funding of Autobytel.Europe early in the first quarter of 2000.

STOCK-OPTIONS GRANTED IN 2000

In the first quarter of 2000, we granted stock options to purchase 972,024 shares of common stock under the 1999 Employee and Acquisition Related Stock Option Plan. The stock options were granted at the fair market value on the date of grant.

LIQUIDITY AND CAPITAL RESOURCES

Net cash used in operating activities was $7.6 million in the first quarter of 2000 and $22,000 in the first quarter of 1999. Net cash used in operating activities in the first quarter of 2000 resulted primarily from the net loss for the year, increased accounts receivable and acquisition costs for A.I.N. Corporation, partially offset by increased deferred revenues related to growth in the number of our paying dealers, accounts payable and accrued expenses for sales and marketing, product and technology development and general and administrative expenditures.

Net cash used in operating activities in the first quarter of 1999 resulted primarily from the net loss for the year and increased accounts payable and accrued expenses related to our initial public offering, and Internet and television advertising.

Net cash used in investing activities was $3.0 million and $0.2 million in the first quarter of 2000 and 1999, respectively. Cash used for investing activities in 2000 was primarily related to the acquisition of A.I.N. Corporation, the owner of CarSmart.com, an online automotive purchasing and related services Web site, for 1.8 million shares of common stock and $3.0 million in cash. Cash used for investing activities in 1999 was used for the purchase of property and equipment, including computer hardware, telecommunications equipment and furniture.

Net cash provided by financing activities was $31.8 million in the first quarter of 2000 and $72.1 million in the first quarter of 1999. Cash provided by financing activities in 2000 was primarily due to funding received from strategic partners for investment in Autobytel.Europe. In January 2000, we also invested $5 million in Autobytel.Europe which has been eliminated in consolidation. Cash provided by financing activities in 1999 was primarily due to the consummation of our initial public offering in March 1999. We intend to continue to use the net proceeds of approximately $72.1 million from our initial public offering for potential acquisitions, investments in businesses and for general operating expenses.

As of April 30, 2000, we had approximately $106.0 million in cash and cash equivalents, of which $36.7 million, less $0.2 million for financing costs, represents the funding of Autobytel.Europe and is reserved for the operations of Autobytel.Europe. We believe our current cash and cash equivalents are sufficient to meet our anticipated cash needs for working capital and capital expenditures for at least the next 12 months, including those of CarSmart.com.

With respect to periods beyond March 31, 2001, we may be required to raise additional capital to meet our long term operating requirements. Although our revenues have grown consistently since inception, our expenses have continued to exceed our revenues. We do not expect to be able to fund our operations from internally generated funds until the second half of 2001, when we expect our revenues to exceed our expenses. However, we can not assure that our revenues will exceed our expenses during such period or thereafter.

Our cash requirements depend on several factors, including:

- the level of expenditures on marketing and advertising,

- the ability to increase the volume of purchase requests and transactions related to our Web sites,

- the cost of contractual arrangements with Internet portals, online information providers, and other referral sources, and

- the cash portion of acquisition transactions.

We cannot predict the timing and amount of our cash requirements. If capital requirements vary materially from those currently planned, we may require additional financing sooner than anticipated. We have no commitments for any additional financing, and there can be no assurance that any such commitments can be obtained on favorable terms, if at all.

Any additional equity financing may be dilutive to our stockholders, and debt financing, if available, may involve restrictive covenants with respect to dividends, raising capital and other financial and operational matters which could restrict our operations or finances. If we are unable to obtain additional financing as needed, 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 ISSUE

As of the date of this Quarterly Report on Form 10-Q, we are not aware of any material problems resulting from Year 2000 issues, either with our Web sites, the Dealer Real Time system or with our vendors, consumers or dealers. We will continue to monitor our computer applications and those of our vendors, consumers and dealers throughout the year 2000.

RISK FACTORS

In addition to the factors discussed in the "Overview" and "Liquidity and Capital Resources" sections of Item 2 "Management's Discussion and Analysis of Financial Condition and Results of Operations" in this Quarterly Report on Form 10-Q, the following additional factors may affect our future results.

WE HAVE A HISTORY OF NET LOSSES AND CAN NOT ASSURE THAT WE WILL BE PROFITABLE. 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 an investor may evaluate our operations and future prospects. Because of the recent emergence of the Internet-based vehicle information and purchasing industry, none of our senior 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 until the second half of 2001. However, we can not assure that we will be profitable during such period or thereafter. Autobytel.com, including CarSmart.com from the date of acquisition, had an accumulated deficit of $74.7 million and $66.6 million as of March 31, 2000 and December 31, 1999, respectively. CarSmart.com had an accumulated deficit of $3.2 million as of December 31, 1999.

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 sites,

- 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,

- maintain a high degree of customer satisfaction,

- provide secure and easy to use Web sites for customers,

- increase our brand name visibility,

- successfully introduce new products and 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 NETWORKS AND REVENUES DERIVED FROM THESE NETWORKS MAY DECREASE.

The majority of our revenues are derived from fees paid by our networks of subscribing dealers. If dealer turnover increases and we are unable to add new dealers to mitigate any turnover, our revenues will decrease as our networks of dealers decreases. If the number of dealers in our networks 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 dealers have entered into written marketing agreements with us having a stated term of one year, three years or five years, but the Autobytel.com dealer agreements are cancelable by the dealer upon 30 days notice. A significant number of the agreements are for a one year term. We cannot assure that dealers will not terminate their agreements with us. Subscribing dealers may terminate their relationship with Autobytel.com for any reason, including an unwillingness to accept our subscription terms or as a result of joining alternative marketing programs. Our business is dependent upon our ability to attract and retain qualified new and pre-owned vehicle dealers. In the first quarter of 2000, we added 901 subscribing dealers to our North American dealer network and 313 subscribing dealers terminated their affiliation with us or were terminated by us. In order for us to grow or maintain our dealer networks, 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 reduce or reconfigure the exclusive territories currently assigned to dealers 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 revenues unless we are able to mitigate this loss by adding new dealers or increasing the fees we receive from 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. 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 dealers in practices that are intended to increase consumer satisfaction. Our inability to train dealers effectively, or the failure by participating dealers to adopt recommended practices, respond rapidly and professionally to vehicle inquiries, or sell and lease vehicles in accordance with our marketing strategies, could result in low consumer satisfaction, damage our brand name and could materially and adversely affect our business, results of operations and financial condition.

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, automotive brokers and classifieds.

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. With numerous recent entrants into our market, our competition has substantially increased. Many of such recent entrants are substantially better financed than we are. 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, CarsDirect.com, CarOrder.com, Driveoff.com, Greenlight.com and AutoTrader.com. AutoNation, a large consolidator of dealers, has a Web site for marketing vehicles. We also compete indirectly against vehicle brokerage firms and affinity programs offered by several companies, including Costco Wholesale Corporation and Wal-Mart Stores, Inc. In addition, all major vehicle manufacturers have their own Web sites and many have launched 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 related products and 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.

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 sites and other sites that refer traffic to our Web sites,

- 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.

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 sites. The termination of any of these relationships or any significant reduction in traffic to Web sites on which our services are advertised or offered, or the failure to develop additional referral sources, would cause our purchase request volume 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. We periodically negotiate revisions to existing agreements and these revisions could increase our costs in future periods. During the three months ended March 31, 2000 and the year ended December 31, 1999, approximately 33% and 23%, respectively, of Autobytel.com's purchase requests came through Edmund's. Our exclusive relationship with Edmund's ends on July 31, 2000. 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. A number of our agreements with online service providers may be terminated without cause.

IF WE CANNOT 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 and CarSmart.com brands 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 brands. Our brands may not be able to gain widespread acceptance among consumers or dealers. Our failure to develop our brands sufficiently would have a material adverse effect on our business, results of operations and financial condition.

IF WE LOSE OUR KEY PERSONNEL OR ARE UNABLE TO ATTRACT, TRAIN AND RETAIN ADDITIONAL HIGHLY QUALIFIED SALES, MARKETING, MANAGERIAL AND TECHNICAL PERSONNEL, OUR BUSINESS MAY SUFFER.

Our future success depends on our ability to identify, hire, train and retain highly qualified sales, marketing, managerial and technical personnel. In addition, as we introduce new services we 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, 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 M. 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 and related services. We also intend to enter into new markets overseas. 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 revenues from these services. Our inability to generate satisfactory revenues from such expanded services to offset costs could have a material adverse effect on our business, financial condition and results of operations. As of April 30, 2000, we had 262 employees.

We believe establishing industry leadership also requires us to:

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

- expand the breadth of products and services offered,

- expand our market presence through relationships with third parties, and

- acquire new or complementary businesses, products or technologies.

We cannot assure 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, other than our AutobytelDIRECT service, we are not subject to the coverage of state and motor vehicle dealer licensing laws. Through a subsidiary, we are licensed as a motor vehicle dealer and broker. However, if any state's regulatory requirements relating to franchises or our method of business impose additional requirements on us or include us within an industry-specific regulatory scheme, we may be required to modify our marketing programs in such

states in a manner which undermines the program's attractiveness to consumers or dealers, 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 court of appeals 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 subject to other regulations, such as franchise disclosure and registration requirements and limitations on our ability to effect changes in our relationships without our dealers. We also believe that, other than our AutobytelDIRECT service, our dealer marketing service does not qualify as an automobile brokerage activity and therefore state broker licensing requirements do not apply to us. Through a subsidiary, we are licensed as a motor vehicle dealer and broker. In response to Texas Department of Transportation concerns, we modified our marketing program in that state to include a pricing model under which all subscribing dealers in Texas are charged uniform fees based on the population density of their particular geographic area and to make our program open to all dealers 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.

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

We provide a link on the Autobytel.com Web site so consumers can receive real time quotes for insurance coverage from InsurQuote Systems Incorporated and submit quote applications online. Participants in the program include MetLife(R) Auto & Home Insurance, The Hartford (Hartford Financial Services Group, Inc.), The GE Auto Insurance Program, eCoverage, Esurance and Avonmark Insurance Company. We receive fees from such participants in connection with this advertising activity.

We do not believe that the above activities require us to be licensed under state insurance laws. The use of the Internet in the marketing of insurance products, however, is a relatively new practice. It is not clear whether or to what extent state insurance licensing laws apply to activities similar to ours. Given these uncertainties, we currently hold, through a wholly-owned subsidiary, insurance agent licenses or are otherwise authorized to transact insurance in 48 states and the District of Columbia.

We have applied for insurance agent licenses in remaining 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.

THERE ARE MANY RISKS ASSOCIATED WITH CONSUMMATED AND POTENTIAL ACQUISITIONS.

We acquired A.I.N. Corporation in February 2000. The closing of the acquisition was subject to a number of conditions, including a satisfactory audit of A.I.N. Corporation's financial statements. Acquisitions involve numerous risks. For example:

- It may be difficult to assimilate the operations and personnel of an acquired business into our own business;

- Management information and accounting systems of an acquired business must be integrated into our current systems;

- We may lose dealers participating in both our network as well as that of the acquired business, if any;

- Our management must devote its attention to assimilating the acquired business which diverts attention from other business concerns;

- We may enter markets in which we have limited prior experience; and

- We may lose key employees of an acquired business.

We intend to continue to evaluate potential acquisitions which we believe will complement or enhance our existing business. If we acquire other companies in the future, it may result in the issuance of equity securities that could dilute existing stockholders' ownership. We may also incur debt and amortize expenses related to goodwill and other intangible assets if we acquire another company, and this could negatively impact our results of operations. We currently do not have any agreements to acquire any company or business, and we cannot guarantee that we will be able to identify or complete any acquisition in the future.

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 are or may be applicable to aspects of our business as applicable. 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 KEEPING PACE WITH ADVANCES IN TECHNOLOGY. IF WE ARE UNABLE TO KEEP PACE WITH ADVANCES IN TECHNOLOGY, CONSUMERS MAY STOP USING OUR SERVICES AND OUR REVENUES WILL DECREASE.

The Internet and electronic commerce markets are characterized by rapid technological change, changes in user and customer requirements, frequent new service and product introductions embodying new technologies and the emergence of new industry standards and practices that could render our existing Web sites

and technology obsolete. If we are unable to adapt to changing technologies, our business, results of operations and financial condition could be materially and adversely affected. Our performance will depend, in part, on our ability to continue to enhance our existing services, develop new technology that addresses the increasingly sophisticated and varied needs of our prospective customers, license leading technologies and respond to technological advances and emerging industry standards and practices on a timely and cost-effective basis. The development of our Web sites, 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 sites, Dealer Real Time system, or other proprietary technology to customer requirements or to emerging industry standards.

WE ARE VULNERABLE TO COMMUNICATIONS SYSTEM INTERRUPTIONS BECAUSE THE MAJORITY 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 all of Autobytel.com production Web sites including Autobytel.com and Dealer Real Time systems at our corporate headquarters in Irvine, California. Although offsite backup servers are available from outside sources, all of Autobytel.com's 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. The CarSmart.com Web site is hosted by a leading collocation service provider.

INTERNET COMMERCE IS NEW AND EVOLVING WITH FEW PROFITABLE BUSINESS MODELS. WE CANNOT ASSURE THAT OUR BUSINESS MODEL WILL BE PROFITABLE.

The market for Internet-based purchasing services has only recently begun to develop and is rapidly evolving. While many Internet commerce companies have grown in terms of revenues, few are profitable. We 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 CONTINUE TO BE VOLATILE, ESPECIALLY SINCE MARKET PRICES FOR INTERNET-RELATED AND TECHNOLOGY STOCKS HAVE OFTEN BEEN UNRELATED TO OPERATING PERFORMANCE.

Prior to the initial public offering of our common stock in March 1999, there was no public market for our common stock. We cannot assure that an active trading market will be sustained or that the market price of the common stock will not decline. Even if an active trading market does develop, the market price of the common stock is likely to continue to be highly volatile and could be subject to wide fluctuations in response to factors such as:

- actual or anticipated variations in our quarterly operating results,
- announcements of new product or service offerings,
- technological innovations,
- competitive developments, including actions by automotive manufacturers,
- changes in financial estimates by securities analysts,
- conditions and trends in the Internet and electronic commerce industries,
- adoption of new accounting standards affecting the technology or automotive industry, and
- general market conditions and other factors.

Further, the stock markets, and in particular the NASDAQ National Market, have experienced extreme price and volume fluctuations that have particularly affected the market prices of equity securities of many technology companies and have often been unrelated or disproportionate to the operating performance of such companies. These broad market factors 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 services may result in changing the way vehicles are sold which may be viewed as threatening by new and used vehicle dealers who do not subscribe to our programs. Such businesses are often represented by influential lobbying organizations, and such organizations or other persons may propose legislation which could impact the evolving marketing and distribution model which our services promote. Should current laws be changed or new laws passed, our business, results of operations and financial condition could be materially and adversely affected. As we introduce new services, we may need to comply with additional licensing regulations and regulatory requirements.

To date, we have not spent significant resources on lobbying or related government affairs issues but we may need to do so in the future. A significant increase in the amount we spend on lobbying or related activities 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.

Our licensees have launched Web sites in the United Kingdom, Sweden and Japan. We intend to expand our brand into other foreign markets through licensing our technology, business processes and trade names 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 MAY NOT BE SUCCESSFUL IN EXPANDING OUR BUSINESS ABROAD WHICH MAY LIMIT OUR FUTURE GROWTH.

We have had limited experience in providing our 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, or 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 SITES, WE CANNOT ASSURE OUR CONSUMERS OR DEALERS THAT PURCHASE REQUESTS WILL BE EFFICIENTLY PROCESSED AND OUR BUSINESS MAY SUFFER.

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

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

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 SIGNIFICANTLY INFLUENCE AND IN ALL LIKELIHOOD 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. As of April 30, 2000, our executive officers and directors beneficially own or control approximately 5.5 million shares or 25.1 % of the outstanding shares of our common stock. In addition, as of such date, based on information available to us, our founders, Peter Ellis and John Bedrosian beneficially own or control approximately 9.4% and 12.4%, respectively, of the outstanding shares of our common stock. Our officers, directors, founders and their affiliates, assuming they vote together, have the ability to significantly influence and substantially 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.

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 20,210,738 shares that were outstanding as of April 30, 2000, approximately 14.1 million shares are eligible for sale in the public market without restriction and approximately 6.1 million shares are subject to restrictions on sale in the public market in accordance with the provisions of Rule 144 under the Securities Act of 1933, of which approximately 1.6 million shares are subject to the volume limitations of Rule 144 by virtue of Rule 145. In addition, holders of approximately 11.6 million shares of common stock are 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.

WE ARE UNCERTAIN OF OUR ABILITY TO OBTAIN ADDITIONAL FINANCING FOR OUR FUTURE CAPITAL NEEDS. IF WE ARE UNABLE TO OBTAIN ADDITIONAL FINANCING WE MAY NOT BE ABLE TO CONTINUE TO OPERATE OUR BUSINESS.

We currently anticipate that our cash, cash equivalents and short-term investments will be sufficient to meet our anticipated needs for working capital

and other cash requirements at least for the next 12 months. We may need to raise additional funds sooner, however, in order to fund more rapid expansion, to develop new or enhance existing services or products, to respond to competitive pressures or to acquire complementary products, businesses or technologies. There can be no assurance that additional financing will be available on terms favorable to us, or at all. If adequate funds are not available or are not available on acceptable terms, our ability to fund our expansion, take advantage of potential acquisition opportunities, develop or enhance services or products or respond to competitive pressures would be significantly limited. Such limitation could have a material adverse effect on our business, results of operations, financial condition and prospects.

OUR CERTIFICATE OF INCORPORATION AND BYLAWS AND DELAWARE LAW CONTAIN PROVISIONS THAT COULD DISCOURAGE A THIRD PARTY FROM ACQUIRING US OR LIMIT THE PRICE THIRD PARTIES ARE WILLING TO PAY FOR OUR STOCK.

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

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

OUR ACTUAL RESULTS COULD DIFFER FROM FORWARD-LOOKING STATEMENTS IN THIS REPORT.

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

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

A.I.N. Corporation was sued on September 1, 1999 in a lawsuit entitled Robert Martins v. Michael J. Gorun, A.I.N., Inc., et al., in Los Angeles Superior Court. The complaint contains causes of action for breach of written and oral contracts, promissory estoppel, breach of fiduciary duty and fraud, and seeks damages and equitable relief. The plaintiff contends he is entitled to a 49.9% ownership interest in A.I.N. Corporation's CarSmart online business based on a purported agreement for the formation of a company called CarSmart On-Line Services. On December 14, 1999, A.I.N. Corporation filed a complaint for declaratory relief on the subject of Mr. Martins' lawsuit in Contra Costa County Superior Court. The Los Angeles action has been transferred to Contra Costa County and the two cases will be consolidated. The lawsuit is and will be vigorously contested on behalf of A.I.N. Corporation and individual co-defendant

Michael Gorun, President of A.I.N. Corporation.

The selling shareholders of A.I.N. Corporation are obligated to fully indemnify Autobytel.com for all losses, including attorney's fees, expenses, settlements and judgements, arising out of the lawsuit. The indemnification obligation is secured by 450,000 shares of Autobytel.com common stock transferred to the selling shareholders as part of the acquisition of A.I.N. Corporation, as well as $250,000 in cash.

ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS

In February 2000, we acquired A.I.N. Corporation, the owner of CarSmart.com, an online automotive purchasing and related services Web site, for 1.8 million shares of common stock and $3.0 million in cash.

We have no specific plans at this time for the use of the balance of the proceeds received from the initial public offering and expect to use such proceeds for working capital and general corporate purposes.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

10.1 First Amendment to Amended and Restated Operating Agreement, dated as of January 27, 2000 among autobytel.com inc., GE Capital Holdings, Inc., Inchcape Overseas Investments B.V. and Pon Holdings B.V.

27.1 Financial Data Schedule

(b) Reports on Form 8-K

1. On January 28, 2000, we filed a Report on Form 8-K, dated January 27, 2000, announcing our financial results for the fourth quarter of 1999 and year ended December 31, 1999.

2. On February 25, 2000, we filed a Report on Form 8-K, dated February 15, 2000, announcing the acquisition of A.I.N. Corporation, the owner of CarSmart.com.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

autobytel.com inc.

Date: May 12, 2000

By: /s/ Hoshi Printer

Hoshi Printer
Senior Vice President
Chief Financial Officer
(Principal Financial Officer and Duly Authorized Officer)

By: /s/ Amit Kothari

Amit Kothari
Vice President and Corporate Controller
(Principal Accounting Officer)

EXHIBIT INDEX

SEQUENTIALLY

NUMBER	DESCRIPTION	NUMBERED PAGE
10.1	First Amendment to Amended and Restated Operating Agreement, dated as of January 27, 2000 among autobytel.com inc., GE Capital Holdings, Inc., Inchcape Overseas Investments B.V. and Pon Holdings B.V.	
27.1	Financial Data Schedule (EDGAR version only)	

EXHIBIT 10.1

AUTOBYTEL.EUROPE LLC

FIRST AMENDMENT TO AMENDED AND

RESTATED OPERATING AGREEMENT

This FIRST AMENDMENT TO AMENDED AND RESTATED OPERATING AGREEMENT, (this "AMENDMENT") is entered into as of the 27th day of January 2000, by and among Autobytel.Europe LLC, a Delaware limited liability company, autobytel.com inc., a Delaware corporation, GE Capital Equity Holdings, Inc., a Delaware corporation, Inchcape Overseas Investments B.V., a Netherlands corporation, and Pon Holdings B.V., a Netherlands corporation.

RECITALS

WHEREAS, the parties hereto entered into the Amended and Restated Operating Agreement dated January 6, 2000 (the "AGREEMENT");

WHEREAS, the parties desire to amend the Agreement in accordance with Section 14.1 thereof upon the terms and conditions set forth herein; and

WHEREAS, capitalized terms used herein shall have the same meanings ascribed to such terms in the Agreement.

NOW, THEREFORE, in consideration for the mutual agreements and promises contained herein, the parties hereto agree as follows:

TERMS OF AGREEMENT

1. Terms Amended. Pursuant to and in accordance with Section 14.1 of the Agreement, Section 1.28 is hereby amended and restated as follows:

> "`ORIGINAL ELIGIBLE OWNER' shall mean each Member, other than ABT, who becomes a Member and (i) by itself or (ii) together with its Affiliates owns at least 10,000 Units of the Company on February 29, 2000."

2. No Other Changes. Except as provided in this Amendment, all provisions of the Agreement are hereby ratified and acknowledged to be in full force and effect.

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

AUTOBYTEL.EUROPE LLC

By: /s/ Ariel Amir

Name: Ariel Amir
Title: Vice President

MEMBERS:

AUTOBYTEL.COM INC.

By: /s/ Mark W. Lorimer

Name: Mark W. Lorimer
Title: Chief Executive Officer and President

GE CAPITAL EQUITY HOLDINGS, INC.

By: /s/ Brian S. Graff

Name: Brian S. Graff
Title: Senior Vice President

INCHCAPE OVERSEAS INVESTMENTS B.V.

By: /s/ Peter Johnson

Name: Peter Johnson
Title: Chairman

PON HOLDINGS B.V.

By: /s/ Henk Rottinghuis

Name: Henk Rottinghuis
Title: Managing Director

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THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE CONSOLIDATED BALANCE SHEET AS OF MARCH 31, 2000 AND THE CONSOLIDATED STATEMENT OF INCOME FOR THE THREE MONTHS ENDED MARCH 31, 2000 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH CONSOLIDATED FINANCIAL STATEMENTS ON FORM 10-Q.
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