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

Form 10-Q

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

For the quarterly period ended **June 30, 2021**

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 **1-34761**

AutoWeb, Inc.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of incorporation or organization)

33-0711569
(I.R.S. Employer Identification Number)

400 North Ashley Drive, Suite 300
Tampa, Florida 33602
(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: **(949) 225-4500**

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

Title of each class	Trading Symbol	Name of each exchange on which registered
Common Stock, par value $0.001 per share	AUTO	The Nasdaq Capital Market

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	☐	Accelerated filer	☐
Non-accelerated filer	☐	Smaller reporting company	☒
		Emerging growth company	☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

As of August 3, 2021, there were 13,465,871 shares of the Registrant's Common Stock, $0.001 par value, outstanding.

INDEX

PART I. FINANCIAL INFORMATION

Item 1. ***Financial Statements***

AUTOWEB, INC.
UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS
(Amounts in thousands, except share data)

	June 30, 2021	December 31, 2020
Assets		
Current assets:		
Cash and cash equivalents	$ 10,849	$ 10,803
Restricted cash	4,309	4,304
Accounts receivable, net of allowances for bad debts and customer credits of $326 and $406 at June 30, 2021, and December 31, 2020, respectively	14,860	13,955
Prepaid expenses and other current assets	1,400	847
Total current assets	31,418	29,909
Property and equipment, net	3,537	2,953
Right-of-use assets	2,439	2,892
Intangible assets, net	3,929	4,733
Other assets	508	642
Total assets	$ 41,831	$ 41,129
Liabilities and Stockholders’ Equity		
Current liabilities:		
Accounts payable	$ 8,459	$ 7,233
Borrowings under revolving credit facility	10,155	10,185
Current portion of the PPP Loan	—	1,384
Accrued employee-related benefits	2,025	2,123
Other accrued expenses and other current liabilities	945	538
Current portion of lease liabilities	951	1,015
Current portion of financing debt	64	65
Total current liabilities	22,599	22,543
Lease liabilities, net of current portion	1,763	2,191
Financing debt, net of current portion	28	60
Total liabilities	24,390	24,794
Commitments and contingencies (Note 10)		
Stockholders’ equity:		
Preferred stock, $0.001 par value, 11,445,187 shares authorized,		
Series A Preferred Stock, 2,000,000 shares authorized, none- issued and outstanding at June 30, 2021, and December 31, 2020	—	—
Common stock, $0.001 par value; 55,000,000 shares authorized, 13,465,871 and 13,169,204 shares issued and outstanding at June 30, 2021 and December 31, 2020, respectively	13	13

Additional paid-in capital	367,187	366,087
Accumulated deficit	(349,759)	(349,765)
Total stockholders' equity	17,441	16,335
Total liabilities and stockholders' equity	$ 41,831	$ 41,129

See accompanying notes to unaudited condensed consolidated financial statements.

Table of Contents

AUTOWEB, INC.
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Amounts in thousands, except per-share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2021	**2020**	**2021**	**2020**
Revenues:				
Lead generation	$ 15,225	$ 14,263	$ 29,411	$ 32,723
Digital advertising	3,511	2,770	7,205	8,782
Total revenues	18,736	17,033	36,616	41,505
Cost of revenues	12,179	10,993	24,250	30,108
Gross profit	6,557	6,040	12,366	11,397
Operating expenses:				
Sales and marketing	2,103	2,026	4,303	4,158
Technology support	1,271	1,786	2,638	3,643
General and administrative	3,089	2,901	6,221	6,844
Depreciation and amortization	196	559	400	1,281
Total operating expenses	6,659	7,272	13,562	15,926
Operating loss	(102)	(1,232)	(1,196)	(4,529)
Interest and other (expense) income:				
Interest (expense) income, net	(248)	(204)	(498)	(1,036)
Other income	46	62	1,700	130
Income (loss) before income tax provision	(304)	(1,374)	6	(5,435)
Income tax provision	—	—	—	—
Net income (loss)	$ (304)	$ (1,374)	$ 6	$ (5,435)
Basic income (loss) per common share	$ (0.02)	$ (0.10)	$ 0.00	$ (0.41)
Diluted income (loss) per common share	$ (0.02)	$ (0.10)	$ 0.00	$ (0.41)

See accompanying notes to unaudited condensed consolidated financial statements.

Table of Contents

AUTOWEB, INC.
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(Amounts in thousands, except share data)

Three Months Ended June 30, 2020

	Common Stock		Preferred Stock		Additional		
	Number of Shares	Amount	Number of Shares	Amount	Paid-in-Capital	Accumulated Deficit	Total
Balance at March 31, 2020	13,146,831	$ 13	—	$ —	$ 364,537	$ (347,006)	$ 17,544
Share-based compensation	—	—	—	—	519	—	519
Net loss	—	—	—	—	—	(1,374))	(1,374)
Balance at June 30, 2020	13,146,831	$ 13	—	$ —	$ 365,056	$ (348,380))	$ 16,689

Three Months Ended June 30, 2021

	Common Stock		Preferred Stock		Additional		
	Number of Shares	Amount	Number of Shares	Amount	Paid-in-Capital	Accumulated Deficit	Total
Balance at March 31, 2021	13,443,909	$ 13	—	$ —	$ 366,712	$ (349,455)	$ 17,270

Share-based compensation	—	—	—	—	425	—	425
Issuance of common stock upon exercise of stock options	21,962	—	—	—	50	—	50
Net loss	—	—	—	—	—	(304)	(304)
Balance at June 30, 2021	13,465,871	$ 13	—	$ —	$ 367,187	$ (349,759)	$ 17,441

Table of Contents

AUTOWEB, INC.
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY CONTINUED
(Amounts in thousands, except share data)

	Six Months Ended June 30, 2020						
	Common Stock		Preferred Stock		Additional		
	Number of Shares	Amount	Number of Shares	Amount	Paid-in-Capital	Accumulated Deficit	Total
Balance at December 31, 2019	13,146,831	$ 13	—	$ —	$ 364,028	$ (342,945)	$ 21,096
Share-based compensation	—	—	—	—	1,028	—	1,028
Net loss	—	—	—	—	—	(5,435)	(5,435)
Balance at June 30, 2020	13,146,831	$ 13	—	$ —	$ 365,056	$ (348,380)	$ 16,689

	Six Months Ended June 30, 2021						
	Common Stock		Preferred Stock		Additional		
	Number of Shares	Amount	Number of Shares	Amount	Paid-in-Capital	Accumulated Deficit	Total
Balance at December 31, 2020	13,169,204	$ 13	—	$ —	$ 366,087	$ (349,765)	$ 16,335
Share-based compensation	—	—	—	—	924	—	924
Issuance of common stock upon exercise of stock options	76,667	—	—	—	176	—	176
Issuance of restricted stock	220,000	—	—	—	—	—	—
Net income	—	—	—	—	—	6	6
Balance at June 30, 2021	13,465,871	$ 13	—	—	$ 367,187	$ (349,759)	$ 17,441

Table of Contents

AUTOWEB, INC.
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Amounts in thousands)

	Six Months Ended June 30,	
	2021	**2020**
Cash flows from operating activities:		
Net income (loss)	$ 6	$ (5,435)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	1,266	2,278
Provision for bad debts	(191)	94
Provision for customer credits	200	33
Forgiveness of PPP loan	(1,384)	—
Share-based compensation	924	1,028
Right-of-use assets	453	767
Changes in assets and liabilities:		
Accounts receivable	(914)	9,245
Prepaid expenses and other current assets	(553)	(674)
Other assets	134	(84)
Accounts payable	950	(8,169)
Accrued expenses and other current liabilities	309	(147)
Lease liabilities	(492)	(805)
Net cash provided by (used in) operating activities	708	(1,869)
Cash flows from investing activities:		
Purchases of property and equipment	(770)	(388)
Net cash used in investing activities	(770)	(388)
Cash flows from financing activities:		
Borrowings under PNC credit facility	—	28,564
Principal payments on PNC credit facility	—	(32,308)

Borrowings under CNC credit facility	35,471	33,201
Principal payments on CNC credit facility	(35,501)	(26,020)
Borrowings under PPP Note	—	1,384
Payments under financing agreement	(33)	—
Proceeds from exercise of stock options	176	—
Net cash provided by financing activities	113	4,821
Net increase in cash and cash equivalents	51	2,564
Cash and cash equivalents and restricted cash, beginning of period	15,107	5,946
Cash and cash equivalents and restricted cash, end of period	$ 15,158	$ 8,510
Reconciliation of cash and cash equivalents and restricted cash		
Cash and cash equivalents at beginning of period	$ 10,803	$ 892
Restricted cash at beginning of period	4,304	5,054
Cash and cash equivalents and restricted cash at beginning of period	$ 15,107	$ 5,946
Cash and cash equivalents at end of period	$ 10,849	$ 5,210
Restricted cash at end of period	4,309	3,300
Cash and cash equivalents and restricted cash at end of period	$ 15,158	$ 8,510
Supplemental disclosure of cash flow information:		
Cash paid for income taxes	$ —	$ —
Cash refunds for income taxes	$ 1	$ 381
Cash paid for interest	$ 435	$ 449
Supplemental disclosure of non-cash financing activities:		
Right-of-use assets obtained in exchange for operating lease liabilities	$ —	$ 1,485
Purchases on account related to capitalized software	$ 276	$ —

See accompanying notes to unaudited condensed consolidated financial statements.

AUTOWEB, INC.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Organization and Operations

AutoWeb, Inc. ("**AutoWeb**" or the "**Company**") is a digital marketing company for the automotive industry that assists automotive retail dealers ("**Dealers**") and automotive manufacturers ("**Manufacturers**") market and sell new and used vehicles to consumers through its programs for online lead and traffic referrals, dealer marketing products and services, and online advertising.

The Company's consumer-facing websites ("**Company Websites**") provide consumers with information and tools to aid them with their automotive purchase decisions and the ability to submit inquiries requesting Dealers to contact consumers regarding purchasing or leasing vehicles ("**Leads**"). Leads are internally generated from Company Websites or acquired from third parties that generate Leads from their websites.

The Company's click traffic referral program provides consumers who are shopping for vehicles online with targeted offers based on make, model and geographic location. As these consumers conduct online research on Company Websites or on the site of one of the Company's network of automotive publishers, they are presented with relevant offers on a timely basis and, upon the consumer clicking on the displayed advertisement, are sent to the appropriate website location of one of the Company's Dealer, Manufacturer or advertising customers.

On July 31, 2021, the Company and Tradein Expert, Inc., ("**Purchaser**") a Delaware corporation and wholly owned subsidiary of the Company, entered into and consummated an Asset Purchase Agreement ("**Purchase Agreement**"), by and among the Company, Purchaser, Car Acquisition, LLC, a Texas limited liability company dba CarZeus ("**Seller**"), Carzuz.com LLC, a Texas limited liability company, McCombs Family Partners, Ltd., a Texas limited partnership and Phil Kandera, an individual, pursuant to which Purchaser acquired specified assets of Seller's San Antonio, Texas-based used vehicle acquisition platform that operates under the name CarZeus ("**CarZeus Purchase Transaction**"). CarZeus purchases vehicles directly from consumers and resells them through wholesale channels. The aggregate consideration of the CarZeus Purchase Transaction was $0.4 million in cash. This acquisition will provide the Company with the opportunity to purchase vehicles directly from consumers and resell them primarily through wholesale auctions, forming a complementary, retail-ready product line extension to the Company's existing consumer offerings.

The Purchase Agreement contains representations, warranties, covenants and conditions that the Company believes are customary for a transaction of this size and type, as well as indemnification provisions subject to specified conditions, including a six-month holdback of approximately $0.1 million ("Holdback Amount") of the purchase price as a source of security for any indemnification obligations. On August 2, 2021, the Company paid approximately $0.3 million of the purchase consideration, and, subject to any indemnification obligations arising, the Holdback Amount is payable to the Seller on January 31, 2022.

2. Basis of Presentation

The accompanying unaudited condensed consolidated financial statements are presented on the same basis as the Company's Annual Report on Form 10-K for the year ended December 31, 2020 ("**2020 Form 10-K**") filed with the Securities and Exchange Commission ("**SEC**"). AutoWeb has made its disclosures in accordance with U.S. generally accepted accounting principles ("**GAAP**") for interim financial information and with the instructions to Form 10-Q and Rule 8-03 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of Company management, all adjustments, consisting of normal recurring adjustments, necessary for a fair presentation with respect to interim financial statements, have been included. The unaudited condensed consolidated statement of operations and cash flows for the period ended June 30, 2021, are not necessarily indicative of the results of operations or cash flows expected for the year or any other period. The unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and the notes thereto in the 2020 Form 10-K.

Certain amounts have been reclassified from the prior year presentation to conform to the current year presentation. References to amounts in the consolidated financial statement sections are in thousands, except share and per share data, unless otherwise specified.

As of June 30, 2021, and December 31, 2020, restricted cash primarily consisted of pledged cash pursuant to the CIT Northbridge Credit LLC ("**CNC Credit Agreement**") discussed in Note 9.

3. Recent Accounting Pronouncements

The Company has reviewed all recently issued accounting pronouncements and concluded that they were either not applicable or not expected to have a material impact to its consolidated financial statements.

4. Revenue Recognition

Revenue is recognized upon transfer of control of promised goods or services to the Company's customers, or when the Company satisfies any performance obligations under contract. The amount of revenue recognized reflects the consideration the Company expects to be entitled to in exchange for respective goods or services provided. Further, under Accounting Standards Codification 606, "*Revenue from Contracts with Customers*," ("**ASC 606"**) contract assets or contract liabilities that arise from past performance but require a further performance before the obligation can be fully satisfied must be identified and recorded on the balance sheet until respective settlements have been met.

The Company has two main revenue sources – Lead generation and Digital advertising. Accordingly, the Company recognizes revenue for each source as described below:

- Lead generation – paid by Dealers and Manufacturers participating in the Company's Lead programs and are comprised of Lead transaction and/or monthly subscription fees. Lead fees are recognized in the period when service is provided.

- Digital advertising – fees paid by Dealers, Manufacturers and third-party wholesale suppliers for (i) the Company's click traffic program, (ii) display advertising on the Company's websites and (iii) email and other direct marketing. Revenue is recognized in the period advertisements are displayed on the Company's Websites or the period in which clicks have been delivered, as applicable. The Company recognizes revenue from the delivery of consumer interaction-based advertisement (including email and other direct marketing) in the period in which a user takes the action for which the marketer contracted with the Company. For advertising revenue arrangements where the Company is not the principal, the Company recognizes revenue on a net basis.

Variable Consideration

Leads are generally sold with a right-of-return for services that do not meet customer requirements as specified by the relevant contract. Some leads also are subject to pricing adjustments based upon their subsequent conversion into vehicle sales. Rights-of-return and lead conversions are estimable, and provisions for these estimates are recorded as a reduction in revenue by the Company in the period revenue is recognized, and thereby accounted for as variable consideration. The Company includes the allowance for customer credits in its net accounts receivable balances on the Company's balance sheet at period end. Allowance for customer credits approximated $190,000 and $64,000 as of June 30, 2021, and December 31, 2020, respectively.

Contract Assets and Contract Liabilities

Unbilled Revenue

Timing of revenue recognition may differ from the timing of invoicing to customers. The Company records a receivable when revenue is recognized prior to invoicing. From time to time, the Company may have balances on its balance sheet representing revenue that has been recognized by the Company upon satisfaction of performance obligations and earning a right to receive payment. These not-yet invoiced receivable balances are driven by the timing of administrative transaction processing, and are not indicative of partially complete performance obligations, or unbilled revenue.

Deferred Revenue

The Company defers the recognition of revenue when cash payments are received or due in advance of satisfying the Company's performance obligations, including amounts which are refundable. Such activity is not typical for the Company. The Company had zero deferred revenue included in its consolidated balance sheets as of June 30, 2021, and December 31, 2020. Payment terms and conditions can vary by contract type. Generally, payment terms within the Company's customer contracts include a requirement of payment within 30 to 60 days from date of invoice. Typically, customers make payments after receipt of invoice for billed services, and less typically, in advance of rendered services.

The Company has not made any significant changes in applying ASC 606 during the six months ended June 30, 2021.

Disaggregation of Revenue

The Company disaggregates revenue from contracts with customers by revenue source and has determined that disaggregating revenue into the categories listed below sufficiently depicts the differences in the nature, amount, timing and uncertainty of revenue streams.

The following table summarizes revenue from contracts with customers, disaggregated by revenue source, for the three and six months ended June 30, 2021, and 2020. Revenue is recognized net of allowances for returns and any taxes collected from customers, which are subsequently remitted to governmental authorities.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2021	2020	2021	2020
Lead generation	$ 15,225	$ 14,263	$ 29,411	$ 32,723
Digital advertising				
Clicks	2,839	2,321	5,770	7,670
Display and other advertising	672	449	1,435	1,112
Total digital advertising	3,511	2,770	7,205	8,782
Total revenues	$ 18,736	$ 17,033	$ 36,616	$ 41,505

5. Net Loss Per Share

Basic net loss per share is computed using the weighted average number of common shares outstanding during the three-and-six-month periods reflected in the following table, excluding any unvested restricted stock. Diluted net loss per share is computed using the weighted average number of common shares, and if dilutive, potential common shares outstanding, as determined under the treasury stock and if-converted methods, during the period. Potential common shares consist of unvested restricted stock and common shares issuable upon the exercise of stock options and warrants.

The following are the share amounts utilized to compute the basic and diluted net loss per share for the three and six months ended June 30, 2021, and 2020:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2021	2020	2021	2020
Basic Shares:				
Weighted average common shares outstanding	13,461,044	13,146,831	13,357,622	13,146,831
Weighted average unvested restricted stock	(220,000)	(13,333)	(148,370)	(13,333)
Basic Shares	13,241,044	13,133,498	13,209,252	13,133,498
Diluted Shares:				
Basic shares	13,241,044	13,133,498	13,209,252	13,133,498
Weighted average dilutive securities	—	—	204,543	—
Diluted Shares	13,241,044	13,133,498	13,413,795	13,133,498

For the three months ended June 30, 2021, the Company's basic and diluted net loss per share are the same because the Company generated a net loss for the period and potentially dilutive securities are excluded from diluted net loss per share because they have an anti-dilutive impact. For the six months ended June 30, 2021, weighted average dilutive securities include dilutive options and restricted stock awards.

For the three and six months ended June 30, 2020, the Company's basic and diluted net loss per share are the same because the Company generated a net loss for the period and potentially dilutive securities are excluded from diluted net loss per share because they have an anti-dilutive impact.

For the three and six months ended June 30, 2021, the Company had 4.6 million and 4.5 million of potentially anti-dilutive securities related to common stock that have been excluded from the calculation of diluted net earnings per share. For the three and six months ended June 30, 2020, the Company had 4.0 million of potentially anti-dilutive securities related to common stock that have been excluded from the calculation of diluted net earnings per share.

Table of Contents

6. Share-Based Compensation

Share-based compensation expense is included in costs as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2021	2020	2021	2020
Share-based compensation expense:				
Sales and marketing	$ 32	$ 29	$ 63	$ 61
Technology support	8	28	19	55
General and administrative	385	462	842	912
Share-based compensation costs	425	519	924	1,028
Total share-based compensation costs	$ 425	$ 519	$ 924	$ 1,028

Service-Based Options. The Company granted the following service-based options for the three and six months ended June 30, 2021, and 2020, respectively:

	Three Months Ended June 30, 2021	Three Months Ended June 30, 2020	Six Months Ended June 30, 2021	Six Months Ended June 30, 2020
Number of service-based options granted	55,000	55,000	820,000	515,000
Weighted average grant date fair value	$ 1.94	$ 0.67	$ 1.83	$ 1.05
Weighted average exercise price	$ 2.75	$ 1.08	$ 2.61	$ 1.90

These options are valued using a Black-Scholes option pricing model. Options issued to employees generally vest one-third on the first anniversary of the grant date and ratably over twenty-four months thereafter. The vesting of these awards is contingent upon the employee's continued employment with the Company during the vesting period and vesting may be accelerated under certain conditions, including upon a change in control of the Company and, in the case of certain officers of the Company, termination of employment by the Company without cause and voluntary termination of employment by such officer with good reason. Options issued to non-employee directors generally vest monthly over a 12-month period and vesting may be accelerated under certain conditions, including upon a change in control of the Company and upon the termination of service as a director of the Company in the event such termination of service is due to resignation, failure to be re-elected, failure to be nominated for re-election, or without removal for cause.

Restricted Stock Awards. The Company granted an aggregate of 220,000 restricted stock awards ("**RSAs**") in the first quarter of 2021 to certain executive officers of the Company. The RSAs are service-based, and the forfeiture restrictions lapse with respect to one-third of the restricted stock on each of the first, second and third anniversaries of the date of the award. Lapsing of the forfeiture restrictions may be accelerated in the event of a change in control of the Company and will accelerate upon the death or disability of the holder of the RSAs.

The grant date fair value of stock options granted during these periods was estimated using the Black-Scholes option pricing model using the following weighted average assumptions:

	Three Months Ended June 30, 2021	Three Months Ended June 30, 2020	Six Months Ended June 30, 2021	Six Months Ended June 30, 2020
Dividend yield	—	—	—	—
Volatility	95%	81%	94%	70%
Risk-free interest rate	0.9%	0.3%	0.8%	1.1%
Expected life (years)	4.7	4.6	4.8	4.6

Stock option exercises. The following stock options were exercised during the three and six months ended June 30, 2021, and 2020, respectively:

	Three Months Ended June 30, 2021	Three Months Ended June 30, 2020	Six Months Ended June 30, 2021	Six Months Ended June 30, 2020
Number of stock options exercised	21,962	—	76,667	—
Weighted average exercise price	$ 2.30	$ —	$ 2.30	$ —

A summary of the Company's outstanding stock options as of June 30, 2021, and changes during the six months then ended is presented below:

	Number of Options	Weighted Average Exercise Price per Share	Weighted Average Remaining Contractual Term *(years)*	Aggregate Intrinsic Value *(thousands)*
Outstanding at December 31, 2020	3,758,670	$ 4.26	4.7	$ 270
Granted	820,000	2.61		
Exercised	(76,667)	2.30		55
Forfeited or expired	(87,571)	8.87		
Outstanding at June 30, 2021	4,414,432	$ 3.90	4.7	$ 1,020
Vested and expected to vest at June 30, 2021	4,232,627	$ 3.95	4.7	$ 945
Exercisable at June 30, 2021	2,666,343	$ 4.62	3.9	$ 340

7. Selected Balance Sheet Accounts

Property and Equipment. Property and equipment consist of the following:

	June 30, 2021	December 31, 2020
Computer software and hardware	$ 4,965	$ 4,940
Capitalized internal use software	7,457	7,391

Furniture and equipment	1,105	935
Leasehold improvements	883	884
Capital projects-in-progress	1,588	805
	15,998	14,955
Less—Accumulated depreciation and amortization	(12,461)	(12,002)
Property and equipment, net	$ 3,537	$ 2,953

Concentration of Credit Risk and Risks Due to Significant Customers. Financial instruments that potentially subject the Company to concentrations of credit risk consist primarily of cash and cash equivalents and accounts receivable. Cash and cash equivalents are primarily maintained with high credit quality financial institutions in the United States. Deposits held by banks exceed the amount of insurance provided for such deposits.

Accounts receivable are primarily derived from fees billed to Dealers and Manufacturers. The Company generally requires no collateral to support its accounts receivables and maintains an allowance for bad debts for potential credit losses.

The Company has a concentration of credit risk with its accounts receivable balances. Approximately 64%, or $9.7 million, of gross accounts receivable at June 30, 2021, and approximately 46% of total revenues for the six months ended June 30, 2021, are related to Urban Science Applications (which represents Acura, Honda, Subaru, and Volvo), Carat Detroit (General Motors), Ford Direct and Autodata Solutions. For 2020, 60%, or $8.9 million, of gross accounts receivable at June 30, 2020, and approximately 45% of total revenues for the six months ended June 30, 2020, are related to Urban Science Applications, Carat Detroit, Ford Direct and Autodata Solutions.

On May 24, 2021, the Company received written notice from Direct Dealer LLC dba (**"FordDirect"**) that FordDirect decided to suspend its new vehicle lead marketing program for the near future and notified the Company that FordDirect was terminating its new vehicle leads program with the Company effective September 30, 2021. On June 11, 2021, the Company and FordDirect agreed to amend the Lead Agreement dated December 1, 2020, between the Company and FordDirect to provide for an early termination of the new vehicle leads program, with the early termination being effective June 30, 2021, in exchange for a lump sum payment of approximately $0.5 million from FordDirect to the Company.

Intangible Assets. The Company amortizes specifically identified definite-lived intangible assets using the straight-line method over the estimated useful lives of the assets.

The Company's intangible assets are amortized over the following estimated useful lives:

Definite-lived Intangible Asset	**Estimated Useful Life**	**June 30, 2021**			**December 31, 2020**		
		Gross	**Accumulated Amortization**	**Net**	**Gross**	**Accumulated Amortization**	**Net**
Trademarks/ trade names/ licenses/ domains	3 - 7 years	$ 16,589	$ (16,221)	$ 368	$ 16,589	$ (15,961)	$ 628
Developed technology	5 - 7 years	8,955	(7,594)	1,361	8,955	(7,050)	1,905
		$ 25,544	$ 23,815	$ 1,729	$ 25,544	$ (23,011)	$ 2,533

Definite-lived Intangible Asset	**Estimated Useful Life**	**June 30, 2021**			**December 31, 2020**		
		Gross	**Accumulated Amortization**	**Net**	**Gross**	**Accumulated Amortization**	**Net**
Domain	Indefinite	$ 2,200	$ —	$ 2,200	$ 2,200	$ —	$ 2,200

Amortization expense is included in "Cost of revenues" and "Depreciation and amortization" in the Unaudited Consolidated Condensed Statements of Operations. Total amortization expense was $0.4 million and $0.8 million for the three and six months ended June 30, 2021, respectively. Amortization expense was $0.7 million and $1.6 million for the three and six months ended June 30, 2020, respectively.

Amortization expense for the remainder of the year and for future years is as follows:

Year	**Amortization Expense**
2021 (remaining 6 months)	$ 695
2022	902
2023	86
2024	46
	$ 1,729

Accrued Expenses and Other Current Liabilities. Accrued expenses and other current liabilities consisted of the following:

	June 30, 2021	**December 31, 2020**

Accrued employee-related benefits	$	2,025	$	2,123
Other accrued expenses and other current liabilities:				
Other accrued expenses		552		143
Amounts due to customers		82		94
Other current liabilities		311		301
Total other accrued expenses and other current liabilities		945		538
Total accrued expenses and other current liabilities	$	2,970	$	2,661

8. Leases

The Company determines if an arrangement is a lease at inception. Right-of-use ("**ROU**") assets represent the Company's right to use an underlying asset for the lease term and lease liabilities represent the obligation to make lease payments arising from the lease. Operating lease ROU assets and liabilities are recognized at commencement date of the lease based on the present value of lease payments over the lease term. The Company has lease arrangements for certain equipment and facilities that typically have original terms not exceeding five years and, in some cases, contain automatic renewal provisions that provide for multiple year renewal terms unless either party, prior to the then-expiring term, notifies the other party of the intention not to renew the lease. The Company's lease terms may also include options to terminate the lease when it is reasonably certain that the Company will exercise such options. When readily determinable, the Company uses the implicit rate in determining the present value of lease payments. The ROU asset also includes any lease payments made and excludes lease incentives. Lease expense for lease payments is recognized on a straight-line basis over the lease term.

Lease Liabilities. Lease liabilities as of June 30, 2021, consist of the following:

Current portion of lease liabilities	$	951
Long term lease liabilities, net of current portion		1,763
Total lease liabilities	$	2,714

The Company's aggregate lease maturities as of June 30, 2021, are as follows:

Year		
2021 (remaining 6 months)	$	601
2022		881
2023		797
2024		528
2025		196
Total minimum lease payments		3,003
Less imputed interest		(289)
Total lease liabilities	$	2,714

Rent expense included in operating expenses and cost of revenues was $0.3 million and $0.6 million for the three and six months ended June 30, 2021, respectively. The Company had a weighted average remaining lease term of 3.2 years and a weighted average discount rate of 6.25%. Rent expense included in operating expenses and cost of revenues was $0.4 million and $0.9 million for the three and six months ended June 30, 2020, respectively. The Company had a weighted average remaining lease term of 4.0 years and a weighted average discount rate of 6.25%.

9. Debt

On April 30, 2019, the Company entered into a $25.0 million Revolving Credit and Security Agreement ("**PNC Credit Agreement**") with PNC Bank, N.A. ("**PNC**") as agent, and the Company's U.S. subsidiaries Car.com, Inc., Autobytel, Inc., and AW GUA USA, Inc. ("**Company U.S. Subsidiaries**"). The obligations under the PNC Credit Agreement were guaranteed by the Company's U.S. subsidiaries and secured by a first priority lien on all of the Company's and the Company U.S. subsidiaries' tangible and intangible assets. The PNC Credit Agreement provided a subfacility of up to $5.0 million for letters of credit. The PNC Credit Agreement was to expire on April 30, 2022.

Table of Contents

The interest rates per annum applicable to borrowings under the PNC Credit Agreement were, at the Company's option (subject to certain conditions), equal to either a domestic rate ("**Domestic Rate Loans**") or a LIBOR rate for one, two, or three-month interest periods chosen by the Company ("**LIBOR Rate Loans**"), plus the applicable margin percentage of 2% for Domestic Rate Loans and 3% for LIBOR Rate Loans. The domestic rate for Domestic Rate Loans would be the highest of (i) the base commercial lending rate of the lender, (ii) the overnight bank funding rate plus 0.50%, or (iii) the LIBOR rate plus 1.00% so long as the daily LIBOR rate is offered, ascertainable and not unlawful. The PNC Credit Agreement also provided for commitment fees ranging from 0.5% to 1.5% applied to unused funds (with the applicable fee based on quarterly average borrowings) but with the fees fixed at 1.5% until September 30, 2019. Fees for letters of credit were to be equal to 3% for LIBOR Rate Loans, with a fronting fee for each Letter of Credit in an amount equal to 0.5% of the daily average aggregate undrawn amount of all letters of credit outstanding. The Company was required to maintain a $5.0 million pledged interest-bearing deposit account with the lender until the Company's consolidated EBITDA is greater than $10.0 million.

On October 29, 2019, the Company, the Company's U.S. subsidiaries, and PNC entered into a First Amendment to the PNC Credit Agreement ("**PNC Credit Agreement First Amendment**") that provided for an amended financial covenant related to the Company's minimum required EBITDA (as defined in the PNC Credit Agreement). This amended financial covenant required the Company to maintain its consolidated EBITDA (as defined in the PNC Credit Agreement) at stated minimum levels (i) of $0.7 million for the quarter ended September 30, 2019; (ii) $250,000for the month of October 2019; (iii) $600,000 for the two months ended November 30, 2019; and ranging from $3.6 million to $7.5 million for the later periods set forth in the PNC Credit Agreement First Amendment during the remaining term of the PNC Credit Agreement. In addition, the PNC Credit Agreement First Amendment added a new financial covenant requiring the Company to maintain at least a 1.20 to 1.00 Fixed Charge Coverage Ratio (as defined in the PNC Credit Agreement First Amendment) for the periods set forth in the PNC Credit Agreement First Amendment. If the Company failed to comply with the minimum

EBITDA requirements or the Fixed Charge Coverage Ratio, the Company had the right to cure ("**Cure Right**") through the application of the proceeds from the sale of new equity interests in the Company, subject to the conditions set forth in the PNC Credit Agreement First Amendment. The Cure Right could not be exercised more than three times during the term of the PNC Credit Agreement and any proceeds from a sale of equity interests could not be less than the greater of (i) the amount required to cure the applicable default; and (ii) $500,000.

On January 16, 2020, the Company received a notice of event of default and reservation of rights ("**Default Notice**") from PNC Bank under the PNC Credit Agreement advising the Company that an event of default had occurred and was continuing under Section 10.3 of the PNC Credit Agreement by reason of the Company's failure to deliver to PNC the financial statements and related compliance certificate for the month ended November 30, 2019. Although not covered by the Default Notice at the time, the Company also was not in compliance with the minimum EBITDA financial covenant under the PNC Credit Agreement. As a result of the Default Notice, PNC increased the interest rate under the PNC Credit Agreement by 2.0% per annum.

On March 26, 2020, the Company fully paid the PNC Credit Agreement, at which time it was terminated, and in conjunction with the termination of the PNC Credit Agreement, on March 26, 2020, the Company entered into a $20.0 million Loan, Security and Guarantee Agreement ("**CNC Credit Agreement**") with CIT Northbridge Credit LLC, as agent (the "Agent"), and the Company's U.S. subsidiaries. The CNC Credit Agreement provides for a $20.0 million revolving credit facility with borrowings subject to availability based primarily on limits of 85% of eligible billed accounts receivable and 75% against eligible unbilled accounts receivable. The obligations under the CNC Credit Agreement are guaranteed by the Company's U.S. subsidiaries and secured by a first priority lien on all of the Company's and the Company's U.S. subsidiaries' tangible and intangible assets. The CNC Credit Agreement has an average minimum borrowing usage requirement of an average of $10,000,000.

As of June 30, 2021, the Company had $10.2 million outstanding under the CNC Credit Agreement and approximately $2.2 million of net availability. To increase the borrowing base sufficient enough to meet the minimum borrowing usage requirement, the Company on June 29, 2020, placed $3.0 million into a restricted cash account that provided for greater availability under the CNC Credit Agreement. The Company placed an additional $1.0 million into the same restricted cash account in December 2020. The Company can borrow up to97.5% of the total restricted cash amount. The restricted cash accrues interest at a variable rate currently averaging 0.25% per annum.

Financing costs related to the CNC Credit Agreement, net of accumulated amortization, of approximately $0.3 million, have been deferred over the initial term of the loan and are included in other assets as of June 30, 2021. The interest rate per annum applicable to borrowings under the CNC Credit Agreement is the LIBO plus 5.5%. The LIBO Rate is equal to the greater of (i) 1.75%, and (ii) the rate determined by the Agent to be equal to the quotient obtained by dividing (1) the LIBO Base Rate (i.e., the rate per annum determined by Agent to be the offered rate that appears on the applicable Bloomberg page) for the applicable LIBOR Loan for the applicable interest period by (2) one minus the Eurodollar Reserve Percentage (i.e., the reserve percentage in effect under regulations issued from time to time by the Board of Governors of the Federal Reserve System for determining the maximum reserve requirement with respect to Eurocurrency funding for the applicable LIBOR Loan for the applicable interest period). If adequate and reasonable means do not exist for ascertaining or the LIBOR rate is no longer available, the Company and the Agent may amend the CNC Credit Agreement to replace LIBOR with an alternate benchmark rate. If no LIBOR successor rate is determined, the obligation of the lenders to make or maintain LIBOR loans will be suspended and the LIBO Base Rate component will no longer be utilized in determining the base rate.

If, due to any circumstance affecting the London interbank market, the Agent determines that adequate and fair means do not exist for ascertaining the LIBO Rate on any applicable date (and such circumstances that are identified in the next two paragraphs below are not covered or governed by such provisions below), then until the Agent determines that such circumstance no longer exists, the obligation of lenders to make LIBOR Loans will be suspended and, if requested by the Agent, the Company must promptly, at its option, either (i) pay all such affected LIBOR Loans or (ii) convert such affected LIBOR Loans into loans that bear reference to the Base Rate plus the Applicable Margin.

If the Agent determines that for any reason (i) dollar deposits are not being offered to banks in the London interbank Eurodollar market for the applicable loan amount or applicable interest period, (ii) adequate and reasonable means do not exist for determining the LIBO Rate for the applicable interest period, or (iii) LIBOR for the applicable interest period does not adequately and fairly reflect the cost to the lenders of funding a loan, then the lenders' obligation to make or maintain LIBOR Loans will be suspended to the extent of the affected LIBOR Loan or interest period until all such loans are converted to loans bearing interest at the Base Rate (as defined below) plus the Applicable Margin (as specified below).

However, if Agent determines that (i) adequate and reasonable means do not exist for ascertaining LIBOR for any requested interest period and such circumstances are unlikely to be temporary; (ii) the administrator of the LIBOR screen rate or a governmental authority having jurisdiction over the Agent has made a public statement identifying a specific date after which LIBOR or the LIBOR screen rate shall no longer be made available, or used for determining the interest rate of loans ("**Scheduled Unavailability Date**"); or (iii) syndicated loans currently being executed, or that include language similar to that contained in this paragraph are being executed or amended to incorporate or adopt a new benchmark interest rate to replace LIBOR, then Agent and the Company may amend the CNC Credit Agreement to replace LIBOR with an alternate benchmark rate ("**LIBOR Successor Rate**") and any such amendment will become effective unless lenders holding more than 50% in value of the loans or commitments under the CNC Credit Agreement do not accept such amendment. If no LIBOR Successor Rate has been determined and the circumstances under clause (i) above exist or the Scheduled Unavailability Date has occurred, (x) the obligation of lenders to make or maintain LIBOR Loans will be suspended (to the extent of the affected LIBOR Loans or interest periods), and (y) the LIBO Base Rate component will no longer be utilized in determining the Base Rate. The Base Rate for any day is a fluctuating rate per annum equal to the highest of: (i) the Federal Funds Rate plus 1/2 of 1%; (ii) the rate of interest in effect for such day as publicly announced from time to time by JPMorgan Chase Bank, N.A. as its "prime rate" in effect for such day; or (iii) the most recently available LIBO Base Rate (as adjusted by any minimum LIBO Rate floor) plus 1%. The Applicable Margin is equal to 5.50%. The CNC Credit Agreement expires on March 26, 2023.

On July 30, 2021, the Company and the Agent entered into a Second Amendment to and Consent Under Loan, Security and Guarantee Agreement ("**Credit Facility Amendment**"). The Credit Facility Amendment provides for: (i) the Agent's and lenders' consent to the CarZeus Purchase Transaction; (ii) the inclusion of the Purchaser as a guarantor, obligor, and pledgor under the Credit Facility Agreement upon the satisfaction of certain conditions; and (iii) a new permitted use of borrowings under the Credit Facility Agreement that will allow Purchaser to acquire used vehicle inventories, which this new use of borrowings is limited in the amount of: (a) $1.5 million prior to Purchaser becoming a guarantor, obligor, and pledgor under the Credit Facility Agreement; and (b) $3.0 million subsequent to Purchaser becoming a guarantor, obligor, and pledgor under the Credit Facility Agreement.

On April 16, 2020, the Company received a Paycheck Protection Program loan ("**PPP Loan**") in the amount of approximately $1.38 million from PNC pursuant to the PPP administered by the United States Small Business Administration ("**SBA**") under the CARES Act.

On January 13, 2021, the Company received a notice from PNC Bank regarding forgiveness of the loan in the principal amount of approximately $1.38 million that was made to the Company pursuant to the SBA PPP under the CARES Act of 2020. The notice states that SBA has remitted to PNC a loan forgiveness payment equal to $1.39 million, which constitutes full payment and forgiveness of the principal amount of the PPP loan and all accrued interest. In January 2021, the Company recognized the forgiveness of the PPP Loan on its Unaudited Condensed Consolidated Statement of Operations.

On June 10, 2020, the Company entered into a thirty-six-month equipment financing agreement ("**Financing Agreement**") with Dimension Funding LLC. The Financing Agreement provides for an advance payment of approximately $170,000 to be used to secure furniture and fixtures for the Company's new office location in Irvine, California. Payments of approximately $5,300 (inclusive of imputed interest) are made monthly under the Financing Agreement. As of June 30, 2021, the Company has paid approximately $78,000. The Financing Agreement will mature on December 31, 2022.

The Company's future commitments under the Financing Agreement as of June 30, 2021, are as follows:

Year	
2021 (remaining 6 months)	28
2022	64
Total financing debt	$ 92

10. Commitments and Contingencies

Employment Agreements

The Company has employment agreements and severance benefits agreements with certain key employees. A number of these agreements require severance payments and continuation of certain insurance benefits in the event of a termination of the employee's employment by the Company without cause or by the employee for good reason (as defined in these agreements). Stock option agreements and restricted stock award agreements with some key employees provide for acceleration of vesting of stock options and lapsing of forfeiture restrictions on restricted stock in the event of a change in control of the Company, upon termination of employment by the Company without cause or by the employee for good reason, or upon the employee's death or disability.

Litigation

From time to time, the Company may be involved in litigation matters arising from the normal course of its business operations. Such litigation, even if not meritorious, could result in substantial costs and diversion of resources and management attention, and an adverse outcome in litigation could materially adversely affect its business, results of operations, financial condition, and cash flows. The Company assesses the likelihood of any adverse judgments or outcomes of these matters as well as potential ranges of probable losses. The Company records a loss contingency when an unfavorable outcome is probable, and the amount of the loss can be reasonably estimated. The amount of allowances required, if any, for these contingencies is determined after analysis of each individual case. The amount of allowances may change in the future if there are new material developments in each matter. Gain contingencies are not recorded until all elements necessary to realize the revenue are present. Any legal fees incurred in connection with a contingency are expensed as incurred.

11. Income Taxes

On an interim basis, the Company estimates what its anticipated annual effective tax rate will be and records a quarterly income tax provision in accordance with the estimated annual rate, adjusted accordingly by the tax effect of certain discrete items that arise during the quarter. As the year progresses, the Company refines its estimated annual effective tax rate based on actual year-to-date results. This process can result in significant changes to the Company's estimated effective tax rate. When such activity occurs, the income tax provision is adjusted during the quarter in which the estimates are refined and adjusted. As such, the Company's year-to-date tax provision reflects the estimated annual effective tax rate. Therefore, these changes along with the adjustments to the Company's deferred taxes and related valuation allowance may create fluctuations in the overall effective tax rate from period to period.

Due to overall cumulative losses incurred in recent years, the Company maintained a valuation allowance against its deferred tax assets as of June 30, 2021, and December 31, 2020. The Company's effective tax rate for the six months ended June 30, 2021, differed from the U.S. federal statutory rate primarily due to operating losses that receive no tax benefit as a result of a valuation allowance recorded against the Company's existing tax assets. The total amount of unrecognized tax benefits, excluding associated interest and penalties, was $0.2 million as of June 30, 2021, all of which, if subsequently recognized, would have affected the Company's tax rate.

As of June 30, 2021, and December 31, 2020, there were no accrued interest and penalties related to uncertain tax positions. The Company recognizes interest and penalties related to uncertain tax positions as a component of income tax expense, and the accrued interest and penalties are included in deferred and other long-term liabilities in the Company's unaudited condensed consolidated balance sheets. There were no material interest or penalties included in income tax expense for the six months ended June 30, 2021, and 2020.

The Company is subject to taxation in the U.S. and in various foreign and state jurisdictions. Due to expired statutes of limitation, the Company's federal income tax returns for years prior to calendar year 2017 are not subject to examination by the U.S. Internal Revenue Service. Generally, for the majority of state jurisdictions where the Company does business, periods prior to calendar year 2016 are no longer subject to examination. The Company does not anticipate a significant change to the total amount of unrecognized tax benefits within the next twelve months.

In response to the coronavirus pandemic, the Coronavirus Aid, Relief and Economic Security Act ("**CARES Act**") was signed into law in March 2020. The CARES Act lifted certain deduction limitations originally imposed by the Tax Cuts and Jobs Act ("**TCJA**"). Corporate taxpayers may carryback net operating losses originating during 2018 through 2020 for up to five years, which was not previously allowed under the TCJA. The CARES Act also eliminated the 80% of taxable income limitations by allowing corporate entities to fully utilize NOL carryforwards to offset taxable income in 2018, 2019 or 2020.

Taxpayers may generally deduct interest up to the sum of 50% of adjusted taxable income plus business interest income (30% limit under the TCJA) for tax years beginning January 1, 2019, and 2020. The CARES Act allows taxpayers with alternative minimum tax credits to claim a refund in 2020 for the entire amount of the credits instead of recovering the credits through refunds over a period of years, as originally enacted by the TCJA. The enactment of the CARES Act did not result in any material adjustments to the Company's income tax provision for the six months ended June 30, 2021, or to its net deferred tax assets as of June 30, 2021.

The Consolidated Appropriations Act of 2021 (the "**Act**") was signed into law on December 27, 2020. The Act enhanced and expanded certain provisions of the CARES Act. The Act permits taxpayers whose PPP Loan are forgiven to deduct the expenses relating to their loans to the extent they would otherwise qualify as ordinary and necessary business expenses. This rule was applied retroactively to the effective date of the CARES Act, so that expenses paid using funds from PPP loans previously issued under the CARES Act are deductible, regardless of when the loan was forgiven. The Company's $1.4 million PPP loan was completely forgiven in January 2021 and the expenses are currently deductible on the Company's 2020 federal tax return.

12. Subsequent Event

On July 30, 2021, the Company entered into a Credit Facility Amendment with CNC, to amend the Company's existing Loan, Security and Guarantee Agreement with CNC initially entered into on March 26, 2020, as amended on May 18, 2020. ***See*** the description of the Credit Facility Amendment contained in Note 9 to these Notes to Unaudited Condensed Consolidated Financial Statements.

On July 31, 2021, the Company and Purchaser entered into and consummated the Car Zeus Purchase Transaction. ***See*** the description of the CarZeus Purchase Transaction contained in Note 1 to these Notes to Unaudited Condensed Consolidated Financial Statements.

Item 2. ***Management's Discussion and Analysis of Financial Condition and Results of Operations***

Cautionary Note Concerning Forward-Looking Statements

The Securities and Exchange Commission ("**SEC**") encourages companies to disclose forward-looking information so that investors can better understand a company's future prospects and make informed investment decisions. This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Words such as "anticipates," "believes," "could," "estimates," "expects," "intends," "may," "plans," "projects," "will" and words of similar substance used in connection with any discussion of future operations or financial performance identify forward-looking statements. In particular, statements regarding expectations and opportunities, industry trends, new product expectations and capabilities, and our outlook regarding our performance and growth are forward-looking statements. This Quarterly Report on Form 10-Q also contains statements regarding plans, goals and objectives. There is no assurance that we will be able to carry out our plans or achieve our goals and objectives or that we will be able to do so successfully on a profitable basis. These forward-looking statements are just predictions and involve significant risks and uncertainties, many of which are beyond our control, and actual results may differ materially from these statements. Factors that could cause actual outcomes or results to differ materially from those reflected in forward-looking statements include, but are not limited to, those discussed in this Item 2, Part II, Item 1A of this Quarterly Report on Form 10-Q, and under the heading "Risk Factors" in our annual report on Form 10-K for the year ended December 31, 2020 ("**2020 Form 10-K**"). Investors are urged not to place undue reliance on forward-looking statements. Forward-looking statements speak only as of the date on which they were made. Except as may be required by law, we do not undertake any obligation, and expressly disclaim any obligation, to update or alter any forward-looking statements, whether as a result of new information, future events or otherwise. All forward-looking statements contained herein are qualified in their entirety by the foregoing cautionary statements.

The following discussion of our results of operations and financial condition should be read in conjunction with our unaudited condensed consolidated financial statements and related notes included in Part I, Item 1 of this Quarterly Report on Form 10-Q and our audited consolidated financial statements and the notes thereto in the 2020 Form 10-K.

Our corporate website is located at *www.autoweb.com*. Information on our website is not incorporated by reference in this Quarterly Report on Form 10-Q. At or through the Investor Relations section of our website we make available free of charge our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and all amendments to these reports as soon as practicable after the reports are electronically filed with or furnished to the SEC.

Unless the context otherwise requires, the terms "we", "us", "our", "AutoWeb" and "Company" refer to AutoWeb, Inc. and its consolidated subsidiaries.

Basis of Presentation and Critical Accounting Policies

See Note 2, *Basis or Presentation*, of the Notes to Unaudited Condensed Consolidated Financial Statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q.

We prepare our financial statements in conformity with accounting principles generally accepted in the United States of America, which require us 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. Accordingly, actual results could differ materially from our estimates. To the extent that there are material differences between these estimates and our actual results, our financial condition or results of operations may be affected. For a detailed discussion of the application of our critical accounting policies, see Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations" in the 2020 Form 10-K. There have been no changes to our critical accounting policies since we filed our 2020 Form 10-K.

Overview

Total revenues in the first six months of 2021 were $36.6 million compared to $41.5 million in the first six months of 2020. The decline in total revenues was directly related to the impact of the coronavirus pandemic on vehicle sales and overall demand from our clients for our products. Offsetting this reduction is a one-time lump sum payment for the early termination of the new vehicle leads program by one of our manufacturing customers which approximated $0.5 million. Although our prior strategic focus often generated higher gross revenue, the margin profile and overall quality was lower, resulting in lower overall levels of gross profit and higher client churn. As a part of our strategic decisions, we also shifted focus to our core Leads, clicks and email products and services and away from non-core products and services, such as third-party party product offerings. This shift further negatively impacted total revenues. Generally lower retail Leads sales levels resulting from retail dealer participation attrition in the retail dealer network that occurred in part of 2020 was an additional factor that contributed to lower total revenues during the six months ended June 30, 2021.

As a result of the continued impact of the coronavirus pandemic on vehicle sales, coupled with vehicle inventory and supply related issues, we have continued to intentionally operate at lower levels of media spend to match projected industry selling rates, which provides a more accurate reflection of true consumer demand. Dealers and consumers alike are still contending with broader macroeconomic uncertainty, and with this in mind, our objective is to provide the right mix of high-quality Leads and click traffic to our customers by staying aligned with automotive supply and demand dynamics. Finally, the disruption from the January 2020 malware attack on the Company's systems also negatively impacted total revenues in 2020. In March 2021, we received an approximate $0.3 million insurance reimbursement related to the January 2020 malware attack, which is partially included in other income during the six months ended June 30, 2021.

As we continue to work with our traffic suppliers to optimize our SEM methodologies and further grow our high-quality traffic streams, we are also investing in and testing new traffic acquisition strategies and enhanced mobile consumer experiences. Further, we continue to invest in our pay-per-click approach to improve the consumer experience of that product. With a more efficient traffic acquisition model emerging, our plan for 2021 and beyond is to grow audience, improve conversion, improve Leads and clicks delivery rates, expand distribution, and increase retail Dealer Leads and clicks budget capacity. We believe that this focus, along with plans to develop or integrate new, innovative products and re-platforming existing experiences will create a more efficient process for how active vehicle shoppers with a vehicle in mind can be matched with sellers that can meet the shoppers' needs, will create opportunities for improved quality of delivery and strengthen our position for revenue growth.

To maximize our growth potential as a matchmaker, we believe that we must continue to optimize our platform and products to facilitate more comprehensive matches between car buyer intent and transaction providers who can meet these buyers' needs. These investments began with improvements to shop.car.com in the first quarter of 2021 and continued through the second quarter of 2021, spanning similar improvements to our additional properties. We have also made progress with layering additional retail-ready components into our platform through our strategic relationship with Credit IQ and the CarZeus Purchase Transaction.

At the beginning of June 2021, we announced our new strategic relationship with CreditIQ, an automotive retailing-focused software and service company that enables dealers to provide seamless digital retail experiences to consumers. This relationship allows shoppers using our search funnel to calculate car payments on a vehicle of interest, which streamlines the car buying process for both buyers and sellers. We believe that features like these not only enhance our platform's user experience, but also enable us to create more tailored profiles of the buyers using our sites to understand what kind of shopping experience they're seeking. We expect to expand both this base and the offerings of our platform even further through our recently announced acquisition of specified assets of CarZeus, which positions us to participate more meaningfully in the consumer used vehicle disposal market.

The CarZeus Purchase Transaction provides us the opportunity to purchase vehicles directly from consumers and resell them primarily through wholesale auctions, forming a complementary, retail-ready product line extension to our existing consumer offerings. We believe this acquisition will also allow us to increase our total addressable market by expanding our presence in the used car market, while giving us the opportunity to enhance the offerings and usefulness of our underutilized sites and monetize our traffic more effectively. We plan to use our traffic acquisition capabilities and operational efficiency to drive growth, improve financial performance and build scalable operating processes to enhance performance within CarZeus' San Antonio market. With this foundation in place, we plan to prepare the business for broader geographic coverage in the long-term. We are not able at this time to provide any guidance related to CarZeus impact to our full year 2021 financial performance. ***See*** the description of the CarZeus Purchase Transaction contained in Note 1 to these Notes to Unaudited Condensed Consolidated Financial Statements for additional information.

Our lead and click generation products have historically operated with limited visibility due to short sales cycles and a high rate of customer churn as clients are able to join and leave our platform with limited notice. Our advertising business is also subject to seasonal trends, with the first quarter of the calendar year typically showing sequential decline versus the fourth quarter. These factors have historically contributed to volatility in our revenues, cost of revenues, gross profit, and gross profit margin. We anticipate these trends will continue throughout 2021.

We anticipate that our remaining 2021 financial condition may be adversely impacted when compared to 2020 by (i) the continuing impact of the coronavirus pandemic on vehicle sales and on demand for our products and services; (ii) increased competitive pressure on cost of audience acquisition that may limit how much volume we will be able to profitably source and distribute to our customers; (iii) the costs and revenue impact associated with our efforts to optimize our clicks product; and (iv) the decision to shift our focus to our core leads, clicks and email products and services and away from non-core product and services. Many industry analysts have forecast improvement in new vehicle unit sales seasonally adjusted annual rate from 14.5 million units in 2020 to a range of 15.5-16.4 million units in 2021, or 7-13% growth. The pace of growth in 2021 is expected to be uneven. The first half of 2021 franchise dealer unit volume grew 29%, but inventory shortages have reduced growth to the lower end of the range and this slower growth is expected to continue until inventory supplies normalize.

In early 2020 and continuing as of the date of this Quarterly Report on Form 10-Q, the outbreak of coronavirus has led to quarantines and stay-at-home/work-from-home orders in a number of countries, states, cities and regions and the closure or limited access to public and private offices, businesses and facilities, worldwide, causing widespread disruptions to travel, economic activity and financial markets. The pandemic has led our Manufacturer and Dealer customers to experience disruptions in the (i) supply of vehicle and parts inventories, (ii) ability and willingness of consumers to visit automotive dealerships to purchase or lease vehicles, and (iii) overall health, safety and availability of their labor force. Manufacturers have also shut down assembly plants, adversely impacting inventories of new vehicles. Volatility in the financial markets, concerns about exposure to the virus, governmental quarantines, stay-at-home/work-from-home orders, business closures and employment furloughs and layoffs have also impacted consumer confidence and willingness to visit dealerships and to purchase or lease vehicles. High unemployment rates and lower consumer confidence may continue even after stay-at-home/work-from-home orders and business closures have ended. These disruptions have impacted the willingness or desire of our customers to acquire vehicle Leads or other digital marketing services from us. We are also experiencing direct disruptions in our operations due to the overall health and safety of, and concerns for, our labor force and as a result of governmental "social distancing" programs, quarantines, travel restrictions and stay-at-home/work-from-home orders, leading to office closures, operating from employee homes and restrictions on our employees traveling to our various offices.

In addition to the continued impact of the coronavirus pandemic on supply chains and vehicle inventories and sales, Manufacturers have also experienced significant disruption in the supply of semiconductor chips required for new vehicles due to a worldwide shortage of these chips. As a result, the ability of Manufacturers to maintain regular production output of certain vehicles, and the corresponding reduction in available new vehicle inventories, have adversely impacted vehicle sales. Further disrupting the automotive industry and the number of vehicles available for sale or lease are disruptions in the supply of seat foam and rubber, which is a key material used in tires as well as other components of new vehicles.

We are unable to predict the continuing extent, duration and impact of the pandemic and supply chain disruptions on the automotive industry in general, and on our business and operations specifically. The spread of coronavirus variants and governmental responses thereto may prolong or increase the negative impacts of the pandemic. Vehicle sales have declined, and we continue to experience cancellations or suspensions of purchases of Leads and other digital marketing services by our customers, which could materially and adversely affect our future business, results of operations, financial condition, earnings per share, cash flow or the trading price of our stock (individually and collectively referred to as the Company's "**financial performance**"). In light of the impact of the pandemic and supply chain disruptions, we have taken steps to reduce our overall lead and click generation efforts and corresponding costs to better align our volumes with industry demand and consumer intent and ability to purchase or lease vehicles. We will continue to evaluate these and other cost reduction measures, and explore all options available to us, in order to minimize the impact of these events on us.

Results of Operations

Three Months Ended June 30, 2021 Compared to the Three Months Ended June 30, 2020

The following table sets forth certain statement of operations data for the three-month periods ended June 30, 2021, and 2020 (certain balances and calculations have been rounded for presentation):

	2021	% of Total Revenues	2020	% of Total Revenues	Change	% Change
			(Dollar amounts in thousands)			
Revenues:						
Lead generation	$ 15,225	81%	$ 14,263	84%	$ 962	7%
Digital advertising	3,511	19	2,770	16	741	27
Total revenues	18,736	100	17,033	100	1,703	10
Cost of revenues	12,179	65	10,993	65	1,186	11
Gross profit	6,557	35	6,040	35	517	9
Operating expenses:						
Sales and marketing	2,103	11	2,026	12	77	4
Technology support	1,271	7	1,786	10	(515)	(29)
General and administrative	3,089	17	2,901	17	188	6
Depreciation and amortization	196	1	559	3	(363)	(65)
Total operating expenses	6,659	36	7,272	42	(613)	(8)
Operating loss	(102)	(1)	(1,232)	(7)	1,130	(92)
Interest and other income (expense), net	(202)	(1)	(142)	(1)	(60)	42
Loss before income tax provision	(304)	(2)	(1,374)	(8)	1,070	(78)
Income tax provision	—	—	—	—	—	—
Net loss	$ (304)	(2)%	$ (1,374)	(8)%	$ 1,070	(78)%

Lead generation. Lead generation revenues increased $1.0 million, or 7%, in the second quarter of 2021 compared to the second quarter of 2020 primarily as a result of a one-time lump sum payment for the early termination of the new vehicle leads program by one of our manufacturing customers which approximated $0.5 million. Further contributing to this increase was an increase in the volume of automotive leads delivered to manufacturers and wholesale customers.

Digital advertising. Digital advertising revenues increased $0.7 million, or 27%, in the second quarter of 2021 compared to the second quarter of 2020 primarily as a result of increased monetization of our website traffic. Further contributing to this increase was our internal decision to reduce overall click generation efforts during the second quarter of 2020 to better align with industry demand.

Cost of revenues. Cost of revenues consists of purchase request and traffic acquisition costs and other cost of revenues. Purchase request and traffic acquisition costs consist of payments made to our third-party purchase request providers, including internet portals and online automotive information providers. Other cost of revenues consists of SEM and fees paid to third parties for data and content, including search engine optimization activity, included on our websites; connectivity costs; development costs related to our websites; technology license fees; server equipment depreciation; and technology amortization directly related to our websites. Cost of revenues increased $1.2 million, or 11%, in the second quarter of 2021 compared to the second quarter of 2020 primarily due to increased SEM, traffic acquisition costs and click publisher costs.

Gross profit. Gross Profit increased $0.5 million, or 9%, in the second quarter of 2021 compared to the second quarter of 2020. This was a direct result of our continued prioritization of gross profitability as opposed to the maximization of lead traffic and lead volume. Further contributing to this increase was the one-time lump sum payment for the early termination of the new vehicle leads program by one of our manufacturing customers which approximated $0.5 million.

Sales and marketing. Sales and marketing expense include costs for developing our brand equity, personnel costs and other costs associated with Dealer sales, website advertising and Dealer support. Sales and marketing expense in the second quarter of 2021 increased $0.1 million, or 4%, compared to the second quarter of 2020 due primarily to an increase in SEM and advertising expense.

Technology support. Technology support expense includes compensation, benefits, software licenses and other direct costs incurred by the Company to enhance, manage, maintain, support, monitor and operate the Company's websites and related technologies, and to operate the Company's internal technology infrastructure. Technology support expense in the second quarter of 2021 decreased by $0.5 million, or 29%, compared to the second quarter of 2020, due to continued expense savings resulting from our internal cost reduction initiatives enacted as a result of the coronavirus pandemic on vehicle sales.

Table of Contents

General and administrative. General and administrative expense consists of executive, financial, human resources and legal personnel and expenses, costs related to being a public company and bad debt expense. General and administrative expense in the second quarter of 2021 increased by $0.2 million, or 6%, from the second quarter of 2020 due primarily to the cost action initiatives taken in the second quarter of 2020 in response to the coronavirus pandemic. These prior-year cost reductions included reductions in executive and board compensation, recruitment, and travel-related expenses.

Depreciation and amortization. Depreciation and amortization expense in the second quarter of 2021 decreased $0.4 million, or 65% from the second quarter of 2020 primarily due to assets that have been fully depreciated as compared to the same period in the prior year.

Interest and other income (expense), net. Interest and other income (expense), was $0.2 million of expense for the second quarter of 2021 compared to $0.1 million of expense in the second quarter of 2020. Interest expense increased to $0.3 million in the second quarter of 2021 from $0.2 million in the second quarter of 2020, primarily due to borrowings under CNC Credit Agreement coupled with the amortization of debt issuance costs.

Income taxes. Income tax expense was zero in the second quarter of 2021 and 2020, respectively. Our income tax rate for the second quarter of 2021 differed from the federal statutory rate primarily due to operating losses that receive no tax benefit as a result of valuation allowance recorded for such losses.

Six Months Ended June 30, 2021 Compared to the Six Months Ended June 30, 2020

The following table sets forth certain statement of operations data for the six-month periods ended June 30, 2021, and 2020 (certain amounts may not calculate due to rounding):

	2021	% of Total Revenues	2020	% of Total Revenues	Change	% Change
			(Dollar amounts in thousands)			
Revenues:						
Lead generation	$ 29,411	80%	$ 32,723	79%	$ (3,312)	(10)%
Digital advertising	7,205	20	8,782	21	(1,577)	(18)
Total revenues	36,616	100	41,505	100	(4,889)	(12)
Cost of revenues	24,250	66	30,108	73	(5,858)	(19)
Gross profit	12,366	34	11,397	27	969	9
Operating expenses:						
Sales and marketing	4,303	12	4,158	10	145	3
Technology support	2,638	7	3,643	9	(1,005)	(28)
General and administrative	6,221	17	6,844	16	(623)	(9)
Depreciation and amortization	400	1	1,281	3	(881)	(69)
Total operating expenses	13,562	37	15,926	38	(2,364)	(15)
Operating loss	(1,196)	(3)	(4,529)	(11)	3,333	(74)
Interest and other income (expense), net	1,202	3	(906)	(2)	2,108	(233)
Income (loss) before income tax provision	6	—	(5,435)	(13)	5,441	(100)
Income tax provision	—	—	—	—	—	—
Net income (loss)	$ 6	—%	$ (5,435)	(13)%	$ 5,441	(100)%

Lead generation. Lead generation revenues decreased $3.3 million, or 10%, in the first six months of 2021 compared to the first six months of 2020 primarily as a result of the impact of the coronavirus pandemic on vehicle sales. This decrease is partially offset by the one-time lump sum payment for the early termination of the new vehicle leads program by one of our manufacturing customers which approximated $0.5 million.

Table of Contents

Digital advertising. Digital advertising revenues decreased $1.6 million, or 18%, in the first six months of 2021 compared to the first six months of 2020 primarily as a result of a decrease in click revenue associated with decreased click volume. The decrease in click volume is attributed to the impact of the coronavirus pandemic.

Cost of revenues. Cost of revenues decreased $5.9 million, or 19%, in the first six months of 2021 compared to the first six months of 2020 primarily due to decreased SEM, purchase requests and other costs of revenues. Partially offsetting this decrease was an increase in click publisher costs.

Gross profit. Gross Profit increased $1.0 million, or 9%, for the first six months of 2021 compared to the first six months of 2020. This was a direct result of our continued prioritization of gross profitability as opposed to the maximization of lead traffic and lead volume. Further contributing to this increase was a reduction in cost of revenues primarily driven by a reduction in cost-per-click.

Sales and marketing. Sales and marketing expense in the first six months of 2021 increased $0.1 million, or 3%, compared to the first six months of 2020 due primarily to an increase in SEM and advertising expense.

Technology support. Technology support expense in the first six months of 2021 decreased by $1.0 million, or 28%, compared to the first six months of 2020 due to continued expense savings resulting from our internal cost reduction initiatives enacted as a result of the coronavirus pandemic on vehicle sales.

General and administrative. General and administrative expense in the first six months of 2021 decreased $0.6 million, or 9%, compared to the first six months of 2020 due primarily to reductions in recruitment, travel-related expenses, rent, severance and consulting-related expenses.

Depreciation and amortization. Depreciation and amortization expense in the first six months of 2021 decreased $0.9 million, or 69% compared to the first six months of 2020 due primarily to assets that have been fully depreciated as compared to the same period in the prior year.

Interest and other income (expense), net. Interest and other income (expense) was $1.2 million of income for the first six months of 2021 compared to $0.9 million of expense in the first six months of 2020. In the first quarter of 2021, we recorded $1.4 million of income associated with the forgiveness of our PPP Loan. Further contributing to the increase in interest and other income (expense) was an insurance reimbursement related to the January 2020 malware attack in which we recorded $0.2 million on our Unaudited Condensed Consolidated Statement of Operations. Interest expense decreased to $0.5 million in the first six months of 2021 from $1.0 million in the first six months of 2020, due to the prior year write-off of our deferred financing fees associated with the revolving line of credit under the PNC Credit Facility. Interest expense includes interest on outstanding borrowings and the amortization of debt issuance costs.

Income taxes. Income tax expense was zero for the first six months of 2021 and 2020, respectively. Our income tax rate for the first six months of 2021 differed from the federal statutory rate primarily due to operating losses that receive no tax benefit as a result of valuation allowance recorded for such losses.

Three Months Ended June 30, 2021 Compared to the Three Months Ended March 31, 2021

The following table sets forth certain statement of operations data for the three-month periods ended June 30, 2021, and March 31, 2021 (certain balances and calculations have been rounded for presentation). In accordance with Regulation S-K Item 303(c), as amended, we are providing a comparison of our June 30, 2021, period against the preceding quarter. We believe providing a sequential results-of-operations would be more useful for investors and stakeholders, as it will provide more clarity into our current year financial performance. For additional information related to the three months ended March 31, 2021, please refer to our first quarter Form 10-Q filed with the SEC on May 6, 2021.

Table of Contents

	June 30, 2021	% of Total Revenues	March 31, 2021	% of Total Revenues	Change	% Change
	(Dollar amounts in thousands)					
Revenues:						
Lead generation	$ 15,225	81%	$ 14,186	79%	$ 1,039	7%
Digital advertising	3,511	19	3,694	21	(183)	(5)
Total revenues	18,736	100	17,880	100	856	5
Cost of revenues	12,179	65	12,071	68	108	1
Gross profit	6,557	35	5,809	32	748	13
Operating expenses:						
Sales and marketing	2,103	11	2,200	12	(97)	(4)
Technology support	1,271	7	1,367	8	(96)	(7)
General and administrative	3,089	17	3,132	18	(43)	(1)
Depreciation and amortization	196	1	204	1	(8)	(4)
Total operating expenses	6,659	36	6,903	39	(244)	(4)
Operating loss	(102)	(1)	(1,094)	(6)	992	(91)
Interest and other income (expense), net	(202)	(1)	1,404	8	(1,606)	(114)
Income (loss) before income tax provision	(304)	(2)	310	2	(614)	(198)
Income tax provision	—	—	—	—	—	—
Net income (loss)	$ (304)	(2)%	$ 310	2%	$ (614)	(198)%

Lead generation. Lead generation revenues increased $1.0 million, or 7%, in the second quarter of 2021 compared to the first quarter of 2021 primarily as a result of a one-time lump sum payment for the early termination of the new vehicle leads program by one of our manufacturing customers which approximated $0.5 million. Further contributing to this increase was an increase in the volume of automotive leads delivered to manufacturers and wholesale customers when compared to the preceding quarter.

Digital advertising. Digital advertising revenues decreased $0.2 million, or 5%, in the second quarter of 2021 compared to the first quarter of 2021 primarily as a result of a decrease in click revenue associated with decreased click volume.

Cost of revenues. Cost of revenues increased $0.1 million, or 1%, in the second quarter of 2021 compared to the first quarter of 2021 primarily due to increased SEM, purchase requests and click publisher costs. Offsetting these increases was a decrease in traffic acquisition costs.

Gross profit. Gross Profit increased $0.7 million, or 13%, in the second quarter of 2021 compared to the first quarter of 2021. This was a direct result of the one-time lump sum payment for the early termination of the new vehicle leads program by one of our manufacturing customers which approximated $0.5 million.

Sales and marketing. Sales and marketing expense in the second quarter of 2021 decreased $0.1 million, or 4%, compared to the first quarter of 2021 due primarily to a decrease in commission related compensation.

Technology support. Technology support expense in the second quarter of 2021 decreased by $0.1 million, or 7%, compared to the first quarter of 2021 due primarily to a reduction in consulting related expenses.

General and administrative. General and administrative expense in the second quarter of 2021 did not materially change when compared to the first quarter of 2021.

Depreciation and amortization. Depreciation and amortization expense in the second quarter of 2021 did not materially change when compared to the first quarter of 2021.

Interest and other income (expense), net. Interest and other income (expense), was $0.2 million of expense for the second quarter of 2021 compared to $1.4 million of income in the first quarter of 2021. In the first quarter of 2021, we recorded $1.4 million of income associated with the forgiveness of our PPP Loan. Further contributing to the first quarter increase was an insurance reimbursement related to the January 2020 malware attack in which we recorded $0.2 million on our Unaudited Condensed Consolidated Statement of Operations.

Income taxes. Income tax expense was zero in the second quarter of 2021 as well as the first quarter of 2021. Our income tax rate for the second quarter of 2021 differed from the federal statutory rate primarily due to operating losses that receive no tax benefit as a result of valuation allowance recorded for such losses.

Liquidity and Capital Resources

The table below sets forth a summary of our cash flows for the six months ended June 30, 2021, and 2020:

	Six Months Ended June 30,	
	2021	**2020**
	(In thousands)	
Net cash provided by (used in) operating activities	$ 708	$ (1,869)
Net cash used in investing activities	(770)	(388)
Net cash provided by financing activities	113	4,821

Our principal sources of liquidity are our cash and cash equivalent balances and borrowings under the CNC Credit Agreement. Our cash and cash equivalents and restricted cash totaled $15.2 million as of June 30, 2021, compared to $15.1 million as of December 31, 2020. As of June 30, 2021, we had net income of approximately $6,000. The net income is primarily attributable to receiving approximately $1.4 million of PPP loan forgiveness coupled with $0.2 million of income associated with the insurance reimbursement related to the January 2020 malware attack. We had cash provided by operations of $0.7 million for the six months ended June 30, 2021. As of June 30, 2021, we had an accumulated deficit of $349.8 million and stockholders' equity of $17.4 million.

We have developed a strategic plan focused on improving operating performance in the future that includes modernizing and upgrading our technology and systems, pursuing business objectives and responding to business opportunities, developing new or improving existing products and services and enhancing operating infrastructure.

Our objective is to achieve cash generation as a business; however, there is no assurance that we will be able to achieve this objective. The CNC Credit Agreement is expected to be used to continue to partially fund operations.

We believe that current cash reserves and operating cash flows will be enough to sustain operations for the next twelve months. If we are unsuccessful in meeting our objective to sustain cash generation as a business, we may need to seek to satisfy our future cash needs through private or public sales of securities, debt financings or partnering/licensing transactions; however, there is no assurance that we will be successful in satisfying our future cash needs to continue operations.

Our future capital requirements will depend on many factors, including but not limited to, those discussed in this Item 2, Part II, Item 1A of this Quarterly Report on Form 10-Q and the risk factors set forth in Part I, Item 1A, “Risk Factors” of our 2020 Form 10-K. To the extent that our existing sources of liquidity are insufficient to fund our future operations, we may need to engage in equity or additional or alternative debt financings to secure additional funds. There can be no assurance that additional funds will be available when needed from any source or, if available, will be available on terms that are acceptable to us.

On July 30, 2021, we entered into a Credit Facility Amendment with CNC, to amend our existing Loan, Security and Guarantee Agreement with CNC initially entered into on March 26, 2020, as amended on May 18, 2020. For information concerning our CNC Credit Agreement, see Note 9 and Note 12 included in the Notes to Unaudited Condensed Consolidated Financial Statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q.

Net Cash Provided by (Used in) Operating Activities. Net cash provided by operating activities in the six months ended June 30, 2021, of $0.7 million resulted primarily from depreciation and amortization of $1.3 million, stock compensation expense of $0.9 million and the amortization of right-of-use assets of $0.5 million. Offsetting these non-cash charges was the forgiveness of the PPP loan of $1.4 million coupled with a $0.6 million net increase in net working capital.

Net cash used in operating activities in the six months ended June 30, 2020, of $1.9 million resulted primarily from net loss of $5.4 million, offset by depreciation and amortization of $2.3 million, stock compensation expense of $1.0 million and a $0.2 million net increase in net working capital.

Net Cash Used in Investing Activities. Net cash used in investing activities was approximately $0.8 million in the six months ended June 30, 2021, which primarily related to purchases of property and equipment and expenditures related to capitalized internal use software.

Net cash used in investing activities was approximately $0.4 million in the six months ended June 30, 2020, which primarily related to purchases of property and equipment and expenditures related to capitalized internal use software.

Net Cash Provided by Financing Activities. Net cash provided by financing activities of $0.1 million during the six months ended June 30, 2021, primarily consisted of $0.2 million of proceeds from the exercise of common stock offset by $0.1 million of net borrowings on the credit facility coupled with payments made under the financing agreement.

Net cash provided by financing activities of $4.8 million during the six months ended June 30, 2020, primarily consisted of $3.4 million net borrowings on the credit facility coupled with proceeds from a $1.4 million PPP Note.

Item 3. *Quantitative and Qualitative Disclosures about Market Risk*

Not applicable.

Item 4. *Controls and Procedures*

Our Chief Executive Officer and Chief Financial Officer (our principal executive officer and principal financial officer, respectively) have evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Security Exchange Act of 1934, as amended, the "**Exchange Act"**) as of June 30, 2021, the end of the period covered by this Quarterly Report on Form 10-Q (the "**Evaluation Date**"). They have concluded that, as of the Evaluation Date, these disclosure controls and procedures were effective to ensure that material information relating to the Company and its consolidated subsidiaries would be made known to them by others within those entities and would be disclosed on a timely basis. The Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures are designed, and are effective, to give reasonable assurance that the information required to be disclosed by us in reports that we file under the Exchange Act is recorded, processed, summarized and reported within the time period specified in the rules and forms of the SEC. They have also concluded that our disclosure controls and procedures are effective to ensure that information required to be disclosed in the reports that are filed or submitted under the Exchange Act are accumulated and communicated to our management, including the Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure.

Changes in Internal Control over Financial Reporting

During the quarter ended June 30, 2021, there were no changes in our "internal control over financial reporting" (as defined in Rule 13a-15(f) under the Exchange Act) that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1A. Risk Factors

For information about the significant risks that could affect the Company's financial condition, results of operations, liquidity, and cash flows, see the section of the 2020 Form 10-K entitled "Risk Factors," as supplemented below, and the section of this quarterly report entitled "Forward-Looking Statements."

Risks Associated with our Business Operations and Industry

We may be unable to increase Lead revenues and could continue to suffer declining revenues due to Dealer attrition or loss of Manufacturer customers.

We predominately derive our Lead revenues from Lead generation paid by Dealers and Manufacturers participating in our Lead programs. Our Lead generation revenues decreased $3.3 million, or 10%, in the first sixth months of 2021 compared to the first six months of 2020. Our ability to increase revenues from sales of Leads is dependent on a mix of interrelated factors that include increasing Lead revenues by attracting and retaining Dealers and Manufacturers and increasing the number of high-quality Leads we sell to Dealers and Manufacturers. We are also focused on higher revenue Dealers that are more cost-effective to support. Our sales strategy is intended to result in more profitable relationships with our Dealers both in terms of cost to supply Leads and to support the Dealers. Dealer churn and termination of Manufacturer Lead programs impacts our revenues, and if our sales strategy does not mitigate the loss in revenues by maintaining the overall number of Leads sold by increasing sales to other Dealers or Manufacturers while maintaining the overall margins we receive from the Leads sold, our revenues will decrease. We cannot provide any assurances that we will be able to increase Lead generation revenues, prevent Dealer attrition or program terminations by Manufacturers or offset the revenues lost due to Dealer attrition or program terminations by Manufacturers by other means, and our failure to do so could materially and adversely affect our financial performance.

We may lose customers or quality Lead suppliers to our competitors.

Our ability to provide increased numbers of high-quality Leads to our customers is dependent on increasing the number of Internally Generated Leads and acquiring high-quality Non-Internally Generated Leads from third parties. Originating Internally Generated Leads is dependent on our ability to increase consumer traffic to our Company Websites by providing secure and easy to use websites with relevant and quality content for consumers and increasing visibility of our brands to consumers and by our SEM activities. We compete for Dealer and Manufacturer customers and for acquisition of Non-Internally Generated Leads with companies that maintain automotive Lead referral businesses that are very similar to ours. Many of these competitors are larger than us and have greater financial resources than we have. If we lose customers or quality Lead supply volume to our competitors, or if our pricing or cost to acquire Leads is adversely impacted, our financial performance will be materially and adversely affected.

We depend on Manufacturers, through our third-party sales channel and direct-to-Manufacturer wholesale programs, for a significant amount of our revenues, and we may not be able to maintain or grow these relationships.

We depend on Manufacturers, through our third-party sales channel and direct-to-Manufacturer wholesale programs for a significant amount of our revenues. A decline in the level of advertising on our websites, reductions in advertising rates, terminations of their third-party Lead programs by Manufacturers or any significant failure to develop additional sources of advertising would cause our advertising revenues to decline, which could have a material adverse effect on our financial performance. We periodically negotiate revisions to existing agreements and these revisions could decrease our wholesale program revenues in future periods. A number of our third-party sales channel agreements and Manufacturer agreements may be terminated at any time without cause or upon expiration of the current term of the agreement. We may not be able to maintain our relationships with sales channel third parties or Manufacturers on favorable terms or find alternative comparable relationships capable of replacing revenues on terms satisfactory to us. If we cannot do so, our revenues would decline, which could have a material adverse effect on our financial performance.

A reduction in the availability or access to inventory could adversely affect our business by increasing the costs of vehicles purchased.

Tradein Expert, Inc. (dba CarZeus) ("**Tradein Expert**") acquires used vehicles primarily from individual consumers. There can be no assurance that sufficient inventory of used vehicles will continue to be available to Tradein Expert, Inc. or will be available at prices acceptable to Tradein Expert. Tradein Expert might have to absorb a portion of any cost increases in inventory without being able to pass those increases to vehicle purchasers. Any reduction in the availability of used vehicle inventory or increases in the cost of vehicles could adversely affect Tradein Expert's financial performance.

The retail used vehicle industry is fragmented and highly competitive, which could result in increased costs to acquire vehicles, lower sales prices due to competitive pressure.

Tradein Expert competes principally with (i) the used vehicle retail operations of franchised automobile dealerships, (ii) independent used vehicle dealers, and (iii) individuals who sell used vehicles in private transactions. Increased competition in the used vehicle market, including new entrants to the market, could result in increased costs for used vehicles and lower-than-expected vehicle sales and margins. Further, if Tradein Expert's competitors seek to gain or retain market share by increasing the prices they pay for used vehicles or reducing prices for used vehicles they sell, Tradein Expert may have to respond by increasing the prices it pays for vehicles or reducing the sales prices of used vehicles it sells to its customers in order to remain competitive, which may result in a decrease in Tradein Expert's sales and profitability.

Risks Associated with Regulatory Laws

Automotive Dealer/ Broker and Vehicle Advertising Laws.

All states comprehensively regulate vehicle sales and lease transactions, including strict licensure requirements for automotive dealers (and, in some states, brokers) and vehicle advertising. But for Tradein Expert, our used vehicle buying and selling service that is licensed as a motor vehicle dealer in the State of Texas, we do not sell motor vehicles in any state. However, state regulatory authorities or third parties could take the position that some of the regulations applicable to dealers or to the manner in which motor vehicles are advertised and sold generally are directly applicable to our digital marketing and consumer referrals business. We believe that most of these laws and regulations specifically address only traditional vehicle purchase and lease transactions, not internet-based digital marketing and consumer referral programs such as our programs. If we determine that the licensing or other regulatory requirements in a given state are applicable to our digital marketing and consumer referrals business or to a particular marketing services program, we may elect to obtain required licenses and comply with applicable regulatory requirements. However, if licensing or other regulatory requirements are overly burdensome, we may elect to terminate operations or particular marketing services programs in that state, elect to not operate or introduce particular marketing services programs in that state or modify the service to comply with applicable law without being subjected to licensing requirements. In some states we have modified our marketing programs or pricing models to reduce uncertainty regarding our compliance with local laws.

Item 6. Exhibits

Number	Description
2.1‡	Asset Purchase Agreement dated as of July 31, 2021, by and among Company, Tradein Expert, Inc., Car Acquisition, LLC, Carzuz.com LLC, McCombs Family Partners, Ltd., and Phil Kandera, incorporated by reference to Exhibit 2.1 to the Current Report on Form 8-K filed with the SEC on August 2, 2021 (SEC File No. 001-34761).
3.1	Seventh Amended and Restated Certificate of Incorporation of AutoWeb, Inc. (filed with the Secretary of the State of Delaware on June

	22, 2020), incorporated by reference to Exhibit 3.1 to the Current Report on Form 8-K filed with the SEC on June 23, 2020 (SEC File No. 001-34761).
3.2	Seventh Amended and Restated Bylaws of AutoWeb, Inc. dated as of October 9, 2017, incorporated by reference to Exhibit 3.5 to the Current Report on Form 8-K filed with the SEC on October 10, 2017 (SEC File No. 001-34761).
4.1	Tax Benefit Preservation Plan dated as of May 26, 2010, by and between Company and Computershare Trust Company, N.A., as rights agent, together with the following exhibits thereto: Exhibit A – Form of Right Certificate; and Exhibit B – Summary of Rights to Purchase Shares of Preferred Stock of Company, incorporated by reference to Exhibit 4.1 to the Current Report on Form 8-K filed with the SEC on June 2, 2010 (SEC File No. 000-22239); Amendment No. 1 to Tax Benefit Preservation Plan dated as of April 14, 2014, between Company and Computershare Trust Company, N.A., as rights agent, incorporated by reference to Exhibit 4.1 to the Current Report on Form 8-K filed with the SEC on April 16, 2014 (SEC File No. 001-34761); Amendment No. 2 to Tax Benefit Preservation Plan dated as of April 13, 2017, between Company and Computershare Trust Company, N.A., as rights agent, incorporated by reference to Exhibit 4.1 to the Current Report on Form 8-K filed with the SEC on April 14, 2017 (SEC File No. 001-34761); Amendment No. 3 to Tax Benefit Preservation Plan dated as of March 31, 2020, between Company and Computershare Trust Company, N.A., as rights agent, incorporated by reference to Exhibit 4.1 to the Current Report on Form 8-K filed with the SEC on April 2, 2020 (SEC File No. 001-34761); Certificate of Adjustment Under Section 11(m) of the Tax Benefit Preservation Plan, incorporated by reference to Exhibit 4.3 to the Quarterly Report on Form 10-Q for the Quarterly Period ended September 30, 2012 filed with the SEC on November 8, 2012 (SEC File No. 001-34761).
10.1	Tax Benefit Preservation Plan Exemption Agreement dated as of May 12, 2021, by and between Company and Global Value Investment Corp., incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K filed with the SEC on May 17, 2021 (SEC File No. 001-34761).
10.2	Irrevocable Proxy dated as of May 12, 2021, by and between Company and Global Value Investment Corp., incorporated by reference to Exhibit 10.2 to the Current Report on Form 8-K filed with the SEC on May 17, 2021 (SEC File No. 001-34761).
10.3	Second Amendment to and Consent Under Loan, Security and Guarantee Agreement dated as of July 30, 2021, by and between Company and CIT Northbridge Credit LLC, incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K filed with the SEC on August 2, 2021 (SEC File No. 001-34761).
31.1*	Chief Executive Officer Section 302 Certification of Periodic Report dated August 5, 2021.
31.2*	Chief Financial Officer Section 302 Certification of Periodic Report dated August 5, 2021.
32.1*	Chief Executive Officer and Chief Financial Officer Section 906 Certification of Periodic Report dated August 5, 2021.
101.INS	XBRL Instance Document.
101.SCH	XBRL Taxonomy Extension Schema Document.
101.CAL	XBRL Taxonomy Calculation Linkbase Document.
101.DEF	XBRL Taxonomy Extension Definition Document.
101.LAB	XBRL Taxonomy Label Linkbase Document.
101.PRE	XBRL Taxonomy Presentation Linkbase Document.
104	Cover Page Interactive Data File (formatted as Inline XRBL with applicable taxonomy extension information contained in Exhibit 101)

* Filed or Furnished herewith.

‡ Certain attachments to this exhibit have been omitted pursuant to Item 601(a)(5) of Regulation S-K because the information contained therein is not material and is not otherwise publicly disclosed. AutoWeb will furnish supplementally copies of such attachments to the SEC or its staff upon request.

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.

AutoWeb, Inc.

Date: August 5, 2021

By: /s/ Michael Sadowski
Michael Sadowski
Executive Vice President, Chief Financial Officer
(Principal Financial Officer)

Date: August 5, 2021

By: /s/ Cheray Duran
Cheray Duran
Vice President, Corporate Controller

(Principal Accounting Officer)

EXHIBIT 31.1

**Certification of Principal Executive Officer Required by
Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended,
as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002**

I, Jared R. Rowe, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of AutoWeb, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

    a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation;

    d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

    a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 5, 2021

By: /s/ Jared R. Rowe
Jared R. Rowe
President and Chief Executive Officer

EXHIBIT 31.2

**Certification of Principal Financial Officer Required by
Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended,
as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002**

I, Michael Sadowski, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of AutoWeb, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation;

   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 5, 2021

By: /s/ Michael Sadowski
Michael Sadowski
Executive Vice President, Chief Financial Officer

EXHIBIT 32.1

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

In connection with the Quarterly Report of AutoWeb, Inc. (the "*Company*") on Form 10-Q for the period ended June 30, 2021 (the "*Report*"), the undersigned hereby certify in their capacities as Chief Executive Officer and Chief Financial Officer of the Company, respectively, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

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

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

Date: August 5, 2021

By: /s/ Jared R. Rowe
Jared R. Rowe
President and Chief Executive Officer

Date: August 5, 2021

By: /s/ Michael Sadowski
Michael Sadowski
Executive Vice President, Chief Financial Officer

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signatures that appear in typed form within the electronic version of this written statement required by Section 906, has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.