

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

FORM 10-K

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

(Mark One)

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

For the fiscal year ended December 31, 2000

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_ .

Commission File Number 0-22239  
autobytel.com inc.

(Exact Name of Registrant as Specified in Its Charter)

Delaware  
(State of Incorporation)

33-0711569  
(I.R.S. Employer Identification No.)

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

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

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

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

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

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

Based on the closing sale price of \$1.7188 for our common stock on the  
Nasdaq National Market System on March 15, 2001, the aggregate market value of  
outstanding shares of common stock held by non-affiliates was approximately  
\$29.1 million. As of March 15, 2001, 20,364,070 shares of our common stock were  
outstanding.

DOCUMENTS INCORPORATED BY REFERENCE:

Portions of our Definitive Proxy Statement for the 2001 Annual Meeting,  
expected to be filed within 120 days of our fiscal year end, are incorporated by  
reference into Part III.

autobytel.com inc.  
 ANNUAL REPORT ON FORM 10-K  
 FOR THE FISCAL YEAR ENDED DECEMBER 31, 2000

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PART I

ITEM 1. BUSINESS

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

OVERVIEW

We are an internationally branded online automotive commerce company that provides consumers with automotive solutions throughout the lifecycle of vehicle ownership, capturing revenue at multiple stages. We own leading, branded Internet sites for new and pre-owned vehicle information and automotive services that link buyers and sellers in an information-rich environment. Through our Web sites, [www.autobytel.com](http://www.autobytel.com) and [www.carsmart.com](http://www.carsmart.com), consumers can research pricing, specifications and other information regarding new and pre-owned vehicles and purchase, finance, lease, insure, sell or maintain their vehicles. We believe that our services provide benefits for consumers by supplying them with information to make informed and intelligent vehicle decisions throughout the lifecycle of vehicle ownership.

Consumers can purchase new vehicles through our dealer referral network and our locate-to-order service, AutobyteDIRECT(SM). When consumers indicate they are ready to buy a vehicle, they can be connected to our network of over

4,800 participating dealers in North America, of which over 3,500 are Autobytel.com(R) dealers and over 1,300 are CarSmart.com(SM) dealers, with each dealer representing a particular vehicle make. Approximately 400 dealers subscribe to both the Autobytel.com and CarSmart.com services. Dealers participate in our network by entering into non-exclusive contracts with us. We expect our dealers to promptly provide a haggle-free, competitive offer. Fees paid by our participating dealers constitute the majority of our revenues.

AutobytelDIRECT is a locate-to-order service offering a real-time online inventory of thousands of new vehicles, instant up-front pricing, multiple trade-in options, competitive financing and insurance and at-home or office delivery. Consumers can search for the vehicle they need, assisted by a variety of filters, such as make, model, series, engine, transmission and color. Once consumers locate their vehicle of choice, AutobytelDIRECT's Customer Care Center assists the consumer in the purchase process.

Consumers can purchase pre-owned vehicles through our Pre-Owned CyberStore. The Pre-Owned CyberStore allows consumers to search for a pre-owned vehicle according to the price, make, model, color, year and location of the vehicle. The CyberStore locates and displays the description, location and, if available, actual photograph of vehicles that satisfy the consumer's search parameters.

Our MyGarage service area is designed to empower consumers by providing cost effective and efficient processes for dealing with common service and maintenance issues. The site enhances consumer personalization and includes key components such as access to Autobytel.com Accredited Service Centers, the ability to schedule service and maintenance appointments online and receive information such as service reminders and recall information.

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Consumers can also apply for and receive insurance, financing, leasing and warranty proposals as well as other services and information through our Web sites. In an arrangement with Peoplefirst we provide consumers with access to competitive loan rates. We also provide a link on our Web sites so consumers can receive real-time quotes for insurance coverage from Channelpoint Corporation and submit quote applications online. Participants in the program include The Hartford (Hartford Financial Services Group, Inc.), The GE Auto Insurance Program and Ekemper.

In January 2001, we introduced iManager(R), a multi-functional dealer management system and an upgrade of our Dealer Real Time(R) system. We are converting the Autobytel.com dealers from the Dealer Real Time system to iManager. The iManager system provides dealers with immediate purchase request information for new and pre-owned vehicles, the ability to track multiple customers and purchase requests, turnkey customer retention programs, automatic uploading of new and pre-owned vehicle inventory into our database, reporting systems, including transaction status, customer information and Internet department performance, and other features. The CarSmart.com dealers use a dealer system called SmarTrack.

In February 2001, we signed an agreement with General Motors Corporation (GM) to conduct a 90-day test of a new GM online locate-to-order business model. The model involves modification of our existing Autobytel.com Web site for consumers from the Washington, D.C. metropolitan area. The test program will combine the independent all makes, all models capability of Autobytel.com with a dealer-set online e-price and locate-to-order vehicle inventory model for Chevrolet vehicles.

In 1999 and 2000, we established joint ventures and entered into licensing agreements in Europe, Japan and Australia and are exploring additional opportunities in Europe, Asia and Latin America. We receive fees from each licensing agreement.

In February 2000, Autobytel.com acquired A.I.N. Corporation, the owner of CarSmart.com, one of the leading online buying sites for new and pre-owned vehicles, for 1.8 million shares of Autobytel.com common stock and \$3 million in cash. As of February 28, 2001, CarSmart.com had over 1,300 dealers, established relationships with more than 200 credit unions and strategic marketing agreements with several of the top Internet portals, including AOL.com, Alta Vista and GO2Net. A.I.N. Corporation is referred to herein as A.I.N. or

CarSmart.com. See Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations." We are currently in the process of integrating the executive and administrative personnel of CarSmart.com. We continue to operate CarSmart.com as a separate Web site, and we have not yet determined whether we will integrate it into our Autobytel.com Web site in the future.

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

#### BACKGROUND

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

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

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The Automotive Vehicle Market. Automotive dealers operate in localized markets and face significant state regulations and increasing business pressures. These fragmented markets, with approximately 47,000 dealers in aggregate, are characterized by:

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

In addition, consumers have traditionally entered into the highly negotiated sales process with relatively little information regarding manufacturer's costs, leasing costs, financing costs, relative specifications and other important information. Buying a vehicle is considered to be one of the most significant purchases a United States consumer makes. According to Manheim Auctions, approximately \$744 billion and \$702 billion was spent on new and pre-owned vehicles in the United States representing the sale of approximately 59 million and 58 million vehicles in 2000 and 1999, respectively. Although automotive retailing attracts significant consumer dollars, we believe that consumers associate the traditional vehicle buying experience with high-pressure sales tactics.

#### THE AUTOBYTEL.COM SOLUTION

We believe that our online products and services improve the vehicle purchasing process for both consumers and dealers. We offer consumers

information-rich Web sites, numerous tools to configure this information, and a quality fulfillment experience. As part of the fulfillment experience, we expect our dealers to provide competitive price quotes for new and pre-owned vehicles. We believe our services enable dealers to reduce personnel and marketing costs, increase consumer satisfaction and increase customer volume.

**Benefits to Consumers.** Our Web sites provide consumers free of charge up-to-date specifications and pricing information on vehicles. In addition, our consumers gain easy access to valuable automotive information, such as dealer invoice pricing and tools consisting of a lease calculator, a loan calculator to determine monthly payments and a lease or buy decision assistant. Our database of articles allows consumers to perform online library research by accessing documents such as weekly automotive reports, consumer reviews and manufacturer brochures. Various automotive information service providers, such as Edmund's, Kelley Blue Book, Pace Publication's Carprice.com and IntelliChoice, are also available on Autobytel.com's Web site to assist consumers with specific vehicle and related automotive decisions such as insurance and financing. Armed with such information, the consumer should be more confident and capable of making an informed and intelligent vehicle buying decision.

We believe we offer consumers a significantly different vehicle purchasing experience from that of traditional methods. Consumers using our Web sites are able to shop for a vehicle, and make financing and insurance decisions from the convenience of their own home or office. We expect dealers to provide consumers a haggle-free price quote within 24 hours and a high level of customer service. We form our dealer relationships after careful analysis of automotive sales and demographic data in each region. We seek to include in our dealer network the highest quality dealers within defined territories.

**Benefits to Dealers.** We believe we benefit dealers by reducing the dealers' incremental personnel and marketing costs, increasing consumer satisfaction and increasing sales volume. Through our investment in national advertising and brand recognition of Autobytel.com and CarSmart.com, we attract consumers to our Web sites and, based on the consumers' preference, we either direct them to dealers in their local area or facilitate the purchase process for consumers through AutobytelDIRECT. We believe this provides dealers access to a larger number of prequalified consumers or outsourced purchase transactions. We believe dealers' personnel costs should be reduced because we provide dealers access to potential purchasers who have completed their research and should be ready to buy or lease a vehicle or provide dealers with outsourcing of the vehicle purchase process through AutobytelDIRECT. As a result, reaching these consumers and selling or leasing them vehicles costs the dealer little or no additional overhead expense other than the fees paid to us and the personnel costs of a dedicated manager. Through our iManager and

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Dealer Real Time systems, Autobytel.com provides dealers with on-site technology to better track sales, inventory, customer solicitations, responses and other communications.

By providing consumers a quality fulfillment experience, we seek to provide our dealers a large number of consumers, which allows them to compete more effectively. Our solution includes a network of over 4,800 participating dealers in the United States and Canada representing every major domestic and imported make of vehicles and light trucks.

To incent a dealer to participate in the Autobytel.com or CarSmart.com network, we allocate each dealer an exclusive geographic territory in such network based upon specific vehicle make. A territory allocated by us to a dealer is generally larger than a territory assigned to a dealer by a manufacturer.

**Our Web Sites.** Because Web sites can be continually updated and provide a large quantity of quality information, we believe the Internet offers the most efficient medium for consumers to learn about and shop for vehicles. The Internet's global reach to consumers allows us to leverage our investment in branding and marketing across a very large national and international audience to create qualified purchase requests for vehicles and outsourced purchase transactions of vehicles. For these reasons, we also believe that the Internet represents the most efficient method of directing purchase requests to local markets and dealers.

Autobytel.com currently provides the following services on its Web site:

[FLOW CHART]

CarSmart.com currently provides the following services on its Web site:

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[FLOW CHART]

#### STRATEGY

Our primary objective is to connect buyers and sellers in an information-rich environment throughout the vehicle ownership lifecycle. We intend to achieve this objective through the following principal strategies:

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

**Ensure the Highest Quality Consumer Experience.** We believe that consumer satisfaction and loyalty is heavily influenced by the consumer's experience with our sites and with our dealers. In order to enhance our appeal to consumers, we intend to continue developing our Web sites by enhancing vehicle information and personalization. We formed I-Net Training Technologies LLC with third parties to provide dealers with more extensive training and tools to facilitate Internet selling of vehicles. In addition, we plan to continue compiling high quality content from third party sources on our sites, including information from Edmund's, IntelliChoice, Carprices.com and Kelley Blue Book. We believe that consumer satisfaction with the vehicle purchasing experience is also essential to our success and the differentiation of our services from those of our competitors. We intend to continue to invest in our dealer training and support services to ensure a consistent, high-quality alternative to the traditional vehicle buying process.

**Increase Purchase Requests and Purchases.** We believe that increasing the volume and quality of purchase requests and purchases directed from our Web sites to our dealer networks is crucial to the long-term growth and success of our business. By augmenting the volume of quality purchase requests and purchases, we expect to attract additional dealers to our networks, increase fees paid by dealers, and solidify our relationships with participating dealers. Our strategy for increasing traffic to our sites and the number of purchase requests and purchases includes forming and maintaining online sponsorships and alliances with Internet portals and with Internet automotive information providers. As part of our strategy to improve the quality of purchase requests, we continue to expand the breadth and depth of information and services available through our Web sites so that well informed, ready-to-buy consumers can be directed to participating dealers. In addition, we established AutobytelDIRECT to attract consumers who prefer to complete the purchase of a vehicle with our assistance and limited dealer contact. The service provides dealers with outsourcing of the purchase process of a vehicle for a fixed fee and the added convenience to consumers of completing the purchase process online with our assistance.

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**Expand and Improve Dealer Network.** We believe that strengthening the size and quality of our dealer networks is important to the success and growth of our business. Our strategy is to increase the size of our dealer networks by attracting new dealers and strengthening relationships with existing dealers by:

- increasing the volume and quality of purchase requests and purchases,
- advertising in trade publications aimed at dealers and participating in industry trade shows,
- maintaining our extensive training and support programs to participating dealers, and
- providing our iManager, Dealer Real Time or SmarTrack systems, as applicable, to all participating dealers.

Invest in Related Products and Services. We believe that expanding our products and services to both consumers and dealers is critical to establish ourselves as the premier provider of online automotive products and services. Our strategy is to continue to enhance personalization features and invest in related products and services, such as the CyberStore, maintenance and service, and warranty, finance and insurance services. The iManager, Dealer Real Time and SmarTrack systems will allow us to launch new products and services for our dealers. We also allow dealers to offer accessories directly through our Web sites. We expanded the advertising sales on our Web sites and marketed the information in our database in accordance with our privacy policy. We expect to further expand these businesses.

Expand Internationally. We intend to continue our international expansion through licensing agreements and joint ventures with local strategic investors. In January 2000, Autobytel.Europe LLC and Autobytel.com entered into an operating agreement with Inchcape plc, Pon Holdings B.V. and GE Capital Equity Holdings, Inc. to expand our existing operations and business throughout Europe. We licensed our technology, business processes and trade name to Autobytel.Europe on a royalty free perpetual basis and contributed to Autobytel.Europe our existing license agreements for the United Kingdom and Scandinavia and Finland. In turn, Autobytel.Europe intends to license such technology, business processes and trade name to other national operating companies in European countries. Autobytel.Europe will usually invest in such national operating companies or obtain options to acquire equity positions in such companies. Autobytel.Europe currently has licensing agreements for the United Kingdom, Sweden, Spain and The Netherlands and intends to establish licensing agreements in Germany, France and Italy as well as certain other countries in Western and Eastern Europe. We have also established joint ventures in Japan and Australia with several strategic investors. We are currently exploring additional opportunities in Asia and Latin America.

#### PRODUCTS, PROGRAMS AND SERVICES

New Vehicle Purchasing Service. Our new vehicle purchasing service enables consumers to shop for and select a new vehicle through our Web sites by providing research on new vehicles such as pricing, features, specifications and colors. When consumers indicate they are ready to buy a vehicle, a consumer can complete a purchase request online, which specifies the type of vehicle and accessories the consumer desires, along with the consumer's contact information. The purchase request is then routed by us to the nearest participating dealer that sells the type of vehicle requested, and we promptly return an e-mail message to the consumer with the dealership's name and phone number and the name of the dedicated manager at the dealership. Dealers agree in their contracts to contact the consumer within 24 hours of receiving the purchase request with a firm, haggle-free price quote for the requested vehicle. When consumers complete their purchase, they usually take delivery of their vehicle at the dealership showroom. Generally, within 14 days of the submission of a consumer's purchase request, we contact the consumer again by e-mail to conduct a quality assurance survey that allows us to evaluate the sales process at participating dealers and improve the quality of dealer service.

Our network had over 4,800 dealers as of February 28, 2001, which represents a modest decline from the number of dealers we had as of December 31, 2000, of which over 3,500 are Autobytel.com dealers and over 1,300 are CarSmart.com dealers. Approximately 400 dealers subscribe to both the Autobytel.com and CarSmart.com services. These dealers represent every major domestic and imported make of vehicle and light truck sold in the United States and Canada. Dealerships are charged initial subscription fees and on-going fees, principally on a monthly basis.



New Vehicle Locate-to-Order Service. We launched our locate-to-order service in January 2000. AutobyteDIRECT is a direct-to-consumer new vehicle buying service offering a real-time online inventory of thousands of vehicles, instant up-front pricing, multiple trade-in options, competitive financing and insurance and at-home or office delivery. Consumers can search for the vehicle they desire assisted by a variety of filters, such as make, model, service, engine, transmission and color. Once consumers locate their vehicle of choice, AutobyteDIRECT's Customer Care Center can assist in the purchase process.

AutobyteDIRECT allows dealers to outsource the closing of the vehicle purchase for a fixed fee. In most states, upon the completion of a sale, AutobyteDIRECT dealers will pay fees ranging from \$100-\$1,000, depending on the gross selling price of the vehicle. As of February 28, 2001, AutobyteDIRECT had 611 participating dealers.

Pre-Owned CyberStore. We launched our CyberStore program in April 1997. The CyberStore allows consumers to search for a certified or non-certified pre-owned vehicle according to specific search parameters such as the price, make, model, mileage, year and location of the vehicle. CyberStore locates and displays the description, location and, if available, actual digital photograph of vehicles that satisfy the search parameters. The consumer can then complete a formal purchase request for a specific vehicle and is contacted by the dealer to conclude the sale. To be listed in the CyberStore a certified pre-owned vehicle must pass an extensive inspection and be covered by a 72-hour money-back guarantee and a three-month, 3,000-mile warranty, which is honored nationally by certified Pre-Owned CyberStore dealers. We charge each vehicle dealer that participates in the CyberStore program a separate additional monthly fee. The CyberStore program uses the iManager and Dealer Real Time systems to provide participating dealers online purchase requests shortly after submission by consumers as well as the ability to track their inventory on a real-time basis.

Service and Maintenance. In June 1999, we launched a comprehensive site designed to facilitate the service process for consumers. The site is designed to empower consumers with cost effective and efficient processes for dealing with common service and maintenance issues. The site enhances consumer personalization. It includes key components such as access to Autobyte.com Accredited Service Centers and the ability to schedule service and maintenance appointments online. At the My Garage area consumers can store and receive information about their cars and trucks, such as service reminders, recall information and a lease watch to help keep track of mileage on a leased vehicle. The site offers "Ask the Expert", a section that offers answers to frequently asked service and maintenance questions. In addition, the site offers travel and weather information as well as maps.

Participating service centers must commit to respond to consumers within 24 hours with competitive no-haggle service prices. The site enables dealers to use the Internet to further serve their customers. As of February 28, 2001, we had 349 Autobyte.com Accredited Service Centers.

Other Related Products and Services. We offer a number of related products and services that we market to consumers through our Web sites and the linked Web sites of participating third party providers. We make purchase and lease financing available to consumers through Peoplefirst that allow consumers to research and apply for vehicle financing online in a secure manner. Consumers can apply for a loan or lease online at the time they submit their purchase request for either a new or pre-owned vehicle. Consumers are able to arrive at the dealership with their loan pre-approved and their credit verification documents in hand. We believe that the convenience of pre-approved purchase or lease financing, combined with a firm, competitive price, enables dealers more easily to consummate purchase requests. Peoplefirst pays us a referral fee and an origination fee for most loans.

We provide a link on our Web sites so consumers can receive real-time quotes for insurance coverage from Channelpoint Corporation and submit quote applications online. Participants in the program include The Hartford (Hartford Financial Services Group, Inc.), The GE Auto Insurance Program and Ekemper. As of February 28, 2001, the service was available to consumers in 37 states and the District of Columbia. We typically receive a marketing fee for every quote application sent to a participating insurance company or agent by a consumer accessing the Channelpoint Web site through our Web sites. In addition, we provide Warrantybynet Inc.'s warranty products and receive fees per warranty sold.

We offer information concerning all aspects of owning and leasing new and pre-owned vehicles that we believe makes our Web sites valuable resources to consumers. We also offer a lease calculator, a loan calculator to determine monthly payments and a lease or buy decision tool.

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The iManager System. In 1997, we launched a proprietary technology and software system called the Dealer Real Time system. The Dealer Real Time system is an Internet-based communications platform that gives dealers a competitive advantage compared to delivering purchase requests by fax. In January 2001 we launched iManager, an upgrade of the Dealer Real Time system.

Using Internet technology, the iManager system enables the dealer to:

- instantaneously access a consumer's vehicle purchase request as soon as the consumer submits it online,
- consolidate Internet leads from multiple sources and showroom traffic in a single application,
- track all interaction with the consumer,
- accelerate dealer response time to consumers' online vehicle purchase requests,
- send e-mail to consumers using a variety of predetermined templates,
- access purchase requests through web-enabled cellular phones and wireless handheld devices,
- input new and used vehicle inventory information for immediate display to consumers on Autobytel.com Web pages,
- track dealership performance through a series of reports available online,
- access Autobytel.com "news" and product information online, and
- contact Autobytel.com technical support personnel via e-mail links.

CarSmart.com dealers use the SmarTrack dealer system. We are currently evaluating whether to standardize all of our dealers on a single system.

#### INTERNATIONAL ACTIVITIES

We have established and intend to further expand our presence in foreign markets through licensing agreements and by establishing relationships with vehicle dealers and strategic investors located in foreign markets.

Europe. We established Autobytel.Europe with strategic investors to expand our operations in Europe. We licensed our technology, business processes and trade name to Autobytel.Europe on a royalty free perpetual basis and contributed to Autobytel.Europe our existing license agreements for the United Kingdom and Scandinavia and Finland. Autobytel.Europe intends to license such technology, business processes and trade name to national operating companies in European countries. Autobytel.Europe will generally invest in such national operating companies or obtain options to acquire equity positions in such companies. Autobytel.Europe also intends to offer joint services to such companies to localize the Autobytel.com offerings while building its brand name among consumers in individual countries as well as on a Pan-European and regional basis. The strategic investors in Autobytel.Europe are GE Capital Equity Holdings, Inc., Inchcape plc, the United Kingdom's largest independent importer and distributor of motor vehicles, Pon Holdings B.V., a major distributor of vehicles in The Netherlands, e-LaSer, a leader in customer services and e-commerce in Europe and a subsidiary of Galeries Lafayette Group and Continental AG, a major tire manufacturer. As of February 28, 2001, we owned 78% of Autobytel.Europe.

The license agreement with Auto-by-Tel UK limited, a subsidiary of

Inchcape plc, is a 20-year exclusive agreement to license our technology, business processes and trade name in the United Kingdom, as well as provide maintenance and development for such technology. The license agreement with Auto-By-Tel AB is a similar 10-year exclusive agreement for Sweden. The United Kingdom and Swedish sites were launched in April 1999. As of February 28, 2001, Autobytel.Europe owned 15% of Auto-By-Tel AB. Autobytel.Europe entered into 10-year exclusive license agreements for The Netherlands and Spain. The Netherlands and Spanish sites were launched in

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February 2001. Autobytel.Europe intends to establish licensing agreements in Germany, France and Italy as well as other countries in Western and Eastern Europe.

Japan. In June 1999 we established Autobytel Japan Kabushiki Kaisha with six Japanese investors. We entered into a 10-year exclusive agreement with Autobytel Japan to license our technology, business processes and trade name in Japan. The strategic investors in Autobytel Japan are ITOCHU Corporation, a global trading company with approximately \$110 billion in revenue; Intec, Inc., a leading independent systems integrator and network service provider with its own infrastructure in Japan; e-solutions, inc., an e-commerce solutions provider from business plan to implementation; Recruit Co., Ltd., the publisher of Japan's most widely recognized auto-related magazine; Orient Corporation, a leading consumer finance company in Japan; and TransCosmos, a leading network services company in Japan. GE Capital is also an investor in Autobytel Japan. Autobytel Japan launched its Web site in November 1999. As of February 28, 2001, we owned 26% of Autobytel Japan.

Australia. In February 2000 we established autobytel Australia Pty Limited with six Australian investors. We entered into a 10-year exclusive agreement with Autobytel Australia to license our technology, business processes and trade name in Australia as well as to localize the Autobytel.com offerings for the Australian market. The strategic investors in Australia are St. George Bank Limited, one of Australia's largest banks with over 20 years experience in the automotive finance industry; Trading Post, Australia's largest print and online used car market; Astre Automotive, Australia's largest vehicle distributor and importer; RACV (Royal Automobile Club of Victoria), with approximately 1.3 million members; Fortis Insurance, one of Australia's largest automotive insurance companies; and Strathfield E-Ventures, a technology based company specializing in e-commerce sales of auto accessories with extensive automotive e-commerce knowledge. Autobytel Australia launched its Web site in October 2000. As of February 28, 2001, we owned 30% of Autobytel Australia.

Canada. Through our wholly-owned subsidiary, Autobytel.ca inc., we launched Autobytel.ca in Canada in 1998. As of February 28, 2001, approximately 176 Canadian dealerships belonged to our network.

Expansion Opportunities. We are currently exploring additional opportunities in Europe, Asia and Latin America.

Revenues from our customers outside of the United States were less than 10% of total revenues for the years ended December 31, 2000 and December 31, 1999.

#### MARKETING AND SALES

Our ability to enhance the recognition of our brand names, domestically and internationally, and position ourselves as a leading Internet-based vehicle information and automotive services provider is important to our efforts to increase the number of vehicle purchase requests, outsourced purchases and requests for ancillary services, as well as the number and quality of subscribing dealerships. Over the past several years, we have been the subject of numerous newspaper, magazine, radio and television stories. Articles about our new vehicle program have appeared in Business Week, Fortune, Forbes, Time, and The Wall Street Journal, among other publications. Television stories featuring us have been aired nationally on all major television networks. We believe that ongoing media coverage is an important element in creating consumer awareness of our brand names and has contributed to dealership awareness of, and participation in, our programs.

We have established marketing and advertising programs with many of the

leading automotive information providers on the Internet, including Edmund's, IntelliChoice and Kelley Blue Book which direct traffic to our Web site and increase purchase requests. Our agreements with automotive information providers typically have a term of one year.

In 2000, approximately 17% of our total purchase requests originated from StoneAge Corporation. Our agreement with StoneAge, pursuant to which we receive referrals from StoneAge's Web site, is scheduled to expire in March 2002. StoneAge provides us with the largest number of purchase requests other than consumers visiting the Autobytel.com Web site directly. We pay StoneAge based on a per purchase request basis.

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Our agreement with NBC Internet provides for anchor tenancy in the New Car Center on its Web site, NBCi.com, as well as other promotions on its Web site. The agreement also provides for a co-branded Web site. The agreement is for a term of three years expiring in March 2002. We pay NBCi annual and monthly fees.

As of December 31, 2000, the aggregate minimum future payments under our agreements with Internet portals was \$10.9 million.

During 2000, our total Internet marketing and advertising costs incurred were \$20.6 million, including set-up and initial, annual, monthly and variable fees of \$0.5 million, \$0.6 million, \$7.5 million and \$12.0 million, respectively.

We supplement our Internet presence with television, radio and print advertising. In late 1996, we began to broaden our marketing efforts with a campaign to accelerate consumer awareness of the Autobytel.com brand name and drive traffic to our Web site through cable television advertisements featured on CNN and CNET, Inc. and network television advertisements featured on NBC and MSNBC. We expect to continue to use television advertising to strengthen our brand awareness.

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

#### INTELLECTUAL PROPERTY

We have registered service marks, including Auto-By-Tel, Autobytel.com and our Autobytel.com logo and have applied for additional service marks and numerous patents. We regard our trademarks, service marks and brand names as important to our business.

#### DEALER RELATIONSHIPS AND SERVICES

Dealer Network. Dealers participate in our networks by entering into contracts with us. Autobytel.com is converting its dealers to new contracts with one-year terms that are terminable on 30 days' notice by either party. Our dealerships are located in most major metropolitan areas in the United States and Canada. As of February 28, 2001, the Autobytel.com participating dealership base totaled over 3,500 dealers. Dealerships pay initiation and monthly fees to subscribe to our online marketing program. Both the initial and monthly subscription fees are established in the contract and are based upon many business factors including the type and location of the franchise. We reserve the right to raise our fees to dealers upon 30 days notice after the first six months of the term. We do not prevent dealers from entering into agreements with our competitors.

CarSmart.com's dealer agreements are generally for a term of three years and are terminable on 30 days' notice by CarSmart.com. As of February 28, 2001, the CarSmart.com participating dealership base totaled over 1,300 dealers. CarSmart.com's dealers pay initial, annual and monthly subscription fees. CarSmart.com reserves the right to revise fees after six months. CarSmart.com is converting its dealers to new contracts with one year terms and no annual fees.

As of February 28, 2001, dealers that participated in both the Autobytel.com and CarSmart.com new vehicle purchasing services totaled

approximately 400.

As of February 28, 2001, 611 dealers participated in our AutobyteDIRECT service. Dealer agreements for the AutobyteDIRECT service provide for a fixed fee of \$100-\$1,000 for each vehicle sold through the service, depending on the gross sales price of the vehicle. Such agreements are cancelable by either party upon 30 days notice.

Customer Support. We actively monitor subscribing dealers through ongoing customer surveys, and research conducted by our internal dealer support group. Generally, within 14 days after a consumer submits a purchase request through one of our Web sites, we re-contact the consumer by e-mail requesting completion of a quality assurance survey that allows us to evaluate the sales process at participating dealers. Additionally, we perform telephone surveys of our customers to further support the information gained from the written quality assurance surveys. Dealerships that fail to abide by our program guidelines or who generate repeated consumer complaints are

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reviewed and, if appropriate, terminated. In return for requiring a high level of consumer service, we assign participating dealerships exclusive territories. We try to assign dealers attractive territories in order to increase participation in our program.

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

Training. We believe that dealers and their employees require specialized training to learn the skills necessary to serve the Internet user and take full advantage of our proprietary systems. Therefore, we have developed an extensive training program for our dealers. We believe that this training is critical to enhancing our brand and reputation. We require participating dealerships to have their representatives trained on our system. Training is conducted at our headquarters in Irvine, California, at regional training centers and at dealerships' premises. In training our dealers, we de-emphasize traditional vehicle selling techniques and emphasize the Autobyte.com approach. To increase consumer satisfaction and reduce costs, we seek to discourage dealerships from using commissioned and multiple salespersons to interface with our customers. In October 1999, we formed I-Net Training Technologies LLC with third parties to provide dealers with more extensive training and tools to facilitate Internet selling of vehicles. Such services are provided for a fee.

#### COMPETITION

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

- brand name recognition,
- speed and quality of fulfillment,
- variety of related products and services,
- ease of use,
- customer satisfaction,
- quality of service, and
- technical expertise.

Our vehicle purchasing services compete against a variety of Internet and traditional vehicle buying services, automotive brokers and classifieds. Many of such competitors are substantially better financed than we are. In the Internet-based market, we compete with other entities which maintain similar commercial Web sites including Autoweb.com, AutoVantage, Microsoft Corporation's CarPoint, CarsDirect.com, Cars.com and AutoTrader.com. AutoNation, a large consolidator of dealers, has a Web site for marketing vehicles. We also compete indirectly against vehicle brokerage firms and affinity programs offered by several companies, including Costco Wholesale Corporation and Wal-Mart Stores, Inc. In addition, all major vehicle manufacturers have their own Web sites and many have launched online buying services, such as General Motors Corporation's BuyPower and Ford Motor Company's FordDirect.com.

We also compete with vehicle insurers, lenders and lessors as well as individual dealerships. Such companies may already maintain or may introduce Web sites which compete with ours. We cannot assure that we can compete

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

#### OPERATIONS AND TECHNOLOGY

We believe that our future success is significantly dependent upon our ability to continue to deliver high-performance and reliable Web sites, enhance consumer/dealer communications, maintain the highest levels of information privacy and ensure transactional security. Autobyte.com currently hosts its Web site at our data center. Our data center includes redundant infrastructure and network connections and is located at our headquarters in Irvine, California. In the future, we may host our infrastructure at a leading Application Service Provider. Our network and computer systems are built on the leading industry standards. Network security is provided by utilizing standard products. CarSmart.com's site is hosted by a third party.

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

#### GOVERNMENT REGULATION

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

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

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

distribution model.

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

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

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

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

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

In response to concerns about our marketing referral program raised by the Texas Department of Transportation, we modified our program in that state to achieve compliance. These modifications included a unique pricing model under which all subscribing dealerships in Texas are charged uniform fees based on the population density of their particular geographic area and opening our program to all dealerships who wish to apply.

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

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

Insurance Related Activities. We provide a link on our Web sites so consumers can receive real time quotes for insurance coverage from Channelpoint Corporation and submit quote applications online. Participants in the program

include The Hartford (Hartford Financial Services Group, Inc.), The GE Auto Insurance Program and Ekemper. We typically receive a marketing fee for every quote application sent to a participating insurance company or agent by a consumer accessing the Channelpoint Web site through our Web sites. We receive no premiums from consumers nor do we charge consumers fees for our services. All applications are completed on Channelpoint's Website.

We do not believe that our activity requires us to be licensed under state insurance laws. The use of the Internet in the marketing of insurance products, however, is a relatively new practice. It is not clear whether or to what extent state insurance licensing laws apply to activities similar to ours. Given this uncertainty, we have proactively applied for and currently hold, through a wholly-owned subsidiary, insurance agent licenses or are otherwise authorized to transact insurance in 47 states and the District of Columbia.

#### EMPLOYEES

As of February 28, 2001, we had a total of 276 employees, including 34 employees of CarSmart.com and 14 employees of Autobytel.Europe. We also utilize independent contractors as required. None of our employees are represented by a labor union. We have not experienced any work stoppages and consider our employee relations to be good.

#### RISK FACTORS

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

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WE HAVE A HISTORY OF NET LOSSES AND CAN NOT ASSURE THAT WE WILL BE PROFITABLE. IF WE CONTINUE TO LOSE MONEY, OUR OPERATIONS WILL NOT BE FINANCIALLY VIABLE.

We were formed in January 1995 as Auto-By-Tel LLC, and first received revenues from operations in March 1995. We, therefore, have a limited operating history upon which an investor may evaluate our operations and future prospects. Because of the recent emergence of the Internet-based vehicle information and purchasing industry, none of our senior executives has significant experience in the industry. This limited operating history and management experience means it is difficult for us to predict future operating results.

We have incurred losses every quarter since inception and expect to continue to incur losses until the second half of 2001. However, we can not assure that we will be profitable during such period or thereafter. Autobytel.com, including CarSmart.com from the date of acquisition, had an accumulated deficit of \$95.6 million and \$66.6 million as of December 31, 2000 and 1999, respectively. CarSmart.com had an accumulated deficit of \$3.2 million as of December 31, 1999.

Our potential for future profitability must be considered in light of the risks, uncertainties, expenses and difficulties frequently encountered by companies in the early stages of development, particularly companies in new and rapidly evolving markets, such as the market for Internet commerce. To achieve profitability, we must, among other things:

- generate increased vehicle buyer traffic to our Web sites,
- successfully introduce new products and services,
- continue to send new and pre-owned vehicle purchase requests to dealers that result in sufficient dealer transactions to justify our fees,
- continue to expand the number of dealers in our network and enhance the quality of dealers,
- respond to competitive developments,
- maintain a high degree of customer satisfaction,



- provide secure and easy to use Web sites for customers,
- increase our brand name visibility,
- continue to attract, retain and motivate qualified personnel, and
- continue to upgrade and enhance our technologies to accommodate expanded service offerings and increased consumer traffic.

We cannot be certain that we will be successful in achieving these goals.

IF OUR DEALER TURNOVER INCREASES, OUR DEALER NETWORKS AND REVENUES DERIVED FROM THESE NETWORKS MAY DECREASE.

The majority of our revenues are derived from fees paid by our networks of subscribing dealers. If dealer turnover increases and we are unable to add new dealers to mitigate any turnover, our revenues will decrease as our network of dealers decreases. If the number of dealers in our networks declines our revenues may decrease and our business, results of operations and financial condition will be materially and adversely affected. A material factor affecting dealer turnover is our ability to provide dealers with high quality purchase requests. High quality purchase requests are those that result in high closing ratios. Closing ratio is the ratio of the number of vehicles purchased at a dealer generated from purchase requests to the total number of purchase requests sent to that dealer. All of our subscribing dealers have entered into written marketing agreements with us having a stated term of one year, three years or five years, but the Autobytel.com dealer agreements are cancelable by the dealer upon 30 days notice. A

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significant number of the agreements are for a one year term. We cannot assure that dealers will not terminate their agreements with us. Subscribing dealers may terminate their relationship with Autobytel.com for any reason, including an unwillingness to accept our subscription terms or as a result of joining alternative marketing programs. Our business is dependent upon our ability to attract and retain qualified new and pre-owned vehicle dealers. During 2000, we added approximately 3,500 subscribing dealers to our North American dealer networks, including approximately 1,500 which were added as a part of the CarSmart.com acquisition, and approximately 1,800 subscribing dealers terminated their affiliation with us or were terminated by us. In order for us to grow or maintain our dealer networks, we need to reduce dealer turnover.

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

If the volume of purchase requests increases, we may reduce or reconfigure the exclusive territories currently assigned to dealers in order to serve consumers more effectively. If a dealer is unwilling to accept a reduction or reconfiguration of its territory, it may terminate its relationship with us. The loss of dealers will cause a subsequent reduction in revenues unless we are able to mitigate this loss by adding new dealers or increasing the fees we receive from other dealers. A dealer also could sue us to prevent such reduction or reconfiguration, or collect damages from us. We have experienced one such lawsuit. A material decrease in the number of dealers subscribing to our network or litigation with dealers could have a material adverse effect on our business, results of operations and financial condition.

WE RELY HEAVILY ON OUR PARTICIPATING DEALERS TO PROMOTE OUR BRAND VALUE BY PROVIDING HIGH QUALITY SERVICES TO OUR CONSUMERS. IF DEALERS DO NOT PROVIDE OUR CONSUMERS HIGH QUALITY SERVICES, OUR BRAND VALUE WILL DIMINISH AND THE NUMBER OF CONSUMERS WHO USE OUR SERVICES MAY DECLINE CAUSING A DECREASE IN OUR REVENUES.

Promotion of our brand value depends on our ability to provide consumers a high quality experience for purchasing vehicles throughout the purchasing process. If our dealers do not provide consumers with high quality service, the value of our brand could be damaged and the number of consumers using our services may decrease. We devote significant efforts to train participating dealers in practices that are intended to increase consumer satisfaction. Our inability to train dealers effectively, or the failure by participating dealers

to adopt recommended practices, respond rapidly and professionally to vehicle inquiries, or sell and lease vehicles in accordance with our marketing strategies, could result in low consumer satisfaction, damage our brand name and could materially and adversely affect our business, results of operations and financial condition.

INTENSE COMPETITION COULD REDUCE OUR MARKET SHARE AND HARM OUR FINANCIAL PERFORMANCE. OUR MARKET IS COMPETITIVE NOT ONLY BECAUSE THE INTERNET HAS MINIMAL BARRIERS TO ENTRY, BUT ALSO BECAUSE WE COMPETE DIRECTLY WITH OTHER COMPANIES IN THE OFFLINE ENVIRONMENT.

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

We compete with other entities which maintain similar commercial Web sites including Autoweb.com, AutoVantage, Microsoft Corporation's Carpoint, CarsDirect.com, Cars.com and AutoTrader.com. AutoNation, a large consolidator of dealers, has a Web site for marketing vehicles. We also compete indirectly against vehicle brokerage firms and affinity programs offered by several companies, including Costco Wholesale Corporation and Wal-Mart Stores, Inc. In addition, all major vehicle manufacturers have their own Web sites and many have launched online buying services, such as General Motors Corporation's BuyPower and Ford Motor Company's FordDirect.com. We also compete with vehicle insurers, lenders and lessors as well as other dealers that are not part of our network. Such companies may already maintain or may introduce Web sites which compete with ours.

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

- brand recognition,
- speed and quality of fulfillment,
- variety of related products and services,
- ease of use,
- customer satisfaction,
- quality of service, and
- technical expertise.

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

OUR QUARTERLY FINANCIAL RESULTS ARE SUBJECT TO SIGNIFICANT FLUCTUATIONS WHICH MAY MAKE IT DIFFICULT FOR INVESTORS TO PREDICT OUR FUTURE PERFORMANCE.

Our quarterly operating results may fluctuate due to many factors. Our expense levels are based in part on our expectations of future revenues which may vary significantly. We plan our business operations based on increased revenues and if our revenues do not increase faster than our expenses, our

business, results of operations and financial condition will be materially and adversely affected. Other factors that may adversely affect our quarterly operating results include:

- our ability to retain existing dealers, attract new dealers and maintain dealer and customer satisfaction,
- the announcement or introduction of new or enhanced sites, services and products by us or our competitors,
- our ability to joint venture with investors in the development of Autobytel branded companies internationally,
- general economic conditions and economic conditions specific to the Internet, online commerce or the automobile industry,
- a decline in the usage levels of online services and consumer acceptance of the Internet and commercial online services for the purchase of consumer products and services such as those offered by us,
- our ability to upgrade and develop our systems and infrastructure and to attract new personnel in a timely and effective manner,
- the level of traffic on our Web sites and other sites that refer traffic to our Web sites,
- technical difficulties, system downtime or Internet brownouts,
- the amount and timing of operating costs and capital expenditures relating to expansion of our business, operations and infrastructure,
- governmental regulation, and
- unforeseen events affecting the industry.

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SEASONALITY IS LIKELY TO CAUSE FLUCTUATIONS IN OUR OPERATING RESULTS. INVESTORS MAY NOT BE ABLE TO PREDICT OUR ANNUAL OPERATING RESULTS BASED ON A QUARTER TO QUARTER COMPARISON OF OUR OPERATING RESULTS.

Generally our quarter to quarter growth in revenues have offset any effects due to seasonality. However, we expect our business to experience seasonality as it matures. If this occurs, investors may not be able to predict our annual operating results based on a quarter to quarter comparison of our operating results. Seasonality in the automotive industry, Internet and commercial online service usage and advertising expenditures is likely to cause fluctuations in our operating results and could have a material adverse effect on our business, operating results and financial condition. We anticipate that purchase requests will typically increase during the first and third quarters when new vehicle models are introduced and will typically decline during the second and fourth quarters. Internet and commercial online service usage and the growth rate of such usage typically declines during the summer.

IF ANY OF OUR RELATIONSHIPS WITH INTERNET SEARCH ENGINES OR ONLINE AUTOMOTIVE INFORMATION PROVIDERS TERMINATES, OUR PURCHASE REQUEST VOLUME COULD DECLINE. IF OUR PURCHASE REQUEST VOLUME DECLINES, OUR PARTICIPATING DEALERS MAY NOT BE SATISFIED WITH OUR SERVICES AND MAY TERMINATE THEIR RELATIONSHIP WITH US OR FORCE US TO DECREASE THE FEES WE CHARGE FOR OUR SERVICE. IF THIS OCCURS, OUR REVENUES WOULD DECREASE.

We depend on a number of strategic relationships to direct a substantial amount of purchase requests and traffic to our Web sites. The termination of any of these relationships or any significant reduction in traffic to Web sites on which our services are advertised or offered, or the failure to develop additional referral sources, would cause our purchase request volume to decline. Since our dealers would be receiving fewer purchase requests, they may no longer be satisfied with our service and may terminate their relationships with us or force us to decrease the fees we charge for our services. If our dealers

terminate their relationship with us or force us to decrease the fees we charge for our services, our revenues will decline which could have a material adverse effect on our business, results of operations and financial condition. We receive a significant number of purchase requests through a limited number of Internet search engines, online automotive information providers, and other auto related Internet sites. We periodically negotiate revisions to existing agreements and these revisions could increase our costs in future periods. During 2000, approximately 17% of our purchase requests came through StoneAge.com. The agreement with StoneAge Corporation expires in March 2002 and unless terminated by either party, automatically renews for a term of up to 12 months. We may not be able to maintain our relationship with our online service providers or find alternative, comparable marketing sponsorships and alliances capable of originating significant numbers of purchase requests on terms satisfactory to us. A number of our agreements with online service providers may be terminated without cause.

IF WE CANNOT BUILD STRONG BRAND LOYALTY OUR BUSINESS MAY SUFFER.

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

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

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

Our business and operations are substantially dependent on the performance of our executive officers and key employees, some of whom are employed on an at-will basis and all of whom have worked together for only a short

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period of time. We maintain "key person" life insurance in the amount of \$3.0 million on the life of Mark W. Lorimer, our Chief Executive Officer and President. The loss of the services of Mr. Lorimer or one or more of our other executive officers or key employees could have a material adverse effect on our business, results of operations and financial condition.

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

We are constantly expanding our operations and introducing new services to consumers and dealers in order to establish ourselves as a leader in the evolving market for Internet-based vehicle purchasing and related services. We also intend to enter into new markets overseas. The growth of our operations requires us to increase expenditures before we generate revenues. For example, we need to hire personnel to oversee the introduction of new services before we generate revenues from these services. Our inability to generate satisfactory revenues from such expanded services to offset costs could have a material adverse effect on our business, financial condition and results of operations. As of February 28, 2001, we had 276 employees.

We believe establishing industry leadership also requires us to:

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

We cannot assure that we can successfully manage these tasks.

IF FEDERAL OR STATE FRANCHISE LAWS APPLY TO US WE MAY BE REQUIRED TO MODIFY OR ELIMINATE OUR MARKETING PROGRAMS. IF WE ARE UNABLE TO MARKET OUR SERVICES IN THE MANNER WE CURRENTLY DO, OUR REVENUES MAY DECREASE AND OUR BUSINESS MAY SUFFER.

We believe that neither our relationship with our dealers nor our dealer subscription agreements constitute "franchises" under federal or state franchise laws and that, other than our AutobyteDIRECT service, we are not subject to the coverage of state motor vehicle dealer licensing laws. Through a subsidiary, we are licensed as a motor vehicle dealer and broker. However, if any state's regulatory requirements relating to franchises or our method of business impose additional requirements on us or include us within an industry-specific regulatory scheme, we may be required to modify our marketing programs in such states in a manner which undermines the program's attractiveness to consumers or dealers. If we become subject to fines or other penalties or if we determine that the licensing and related requirements are overly burdensome, we may elect to terminate operations in such state. In each case, our revenues may decline and our business, results of operations and financial condition could be materially and adversely affected.

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

IF FINANCIAL BROKER AND INSURANCE LICENSING REQUIREMENTS APPLY TO US IN STATES WHERE WE ARE NOT CURRENTLY LICENSED, WE WILL BE REQUIRED TO OBTAIN ADDITIONAL LICENSES AND OUR BUSINESS MAY SUFFER.

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

We provide a link on our Web sites so consumers can receive real time quotes for insurance coverage from Channelpoint Corporation and submit quote applications online. Participants in the program include The Hartford (Hartford Financial Services Group, Inc.), The GE Auto Insurance Program and Ekemper. We receive fees from such participants in connection with this advertising activity.

We do not believe that the above activities require us to be licensed under state insurance laws. The use of the Internet in the marketing of insurance products, however, is a relatively new practice. It is not clear whether or to what extent state insurance licensing laws apply to activities similar to ours. Given these uncertainties, we currently hold, through a wholly-owned subsidiary, insurance agent licenses or are otherwise authorized to transact insurance in 47 states and the District of Columbia.

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

THERE ARE MANY RISKS ASSOCIATED WITH CONSUMMATED AND POTENTIAL ACQUISITIONS.

We acquired A.I.N. in February 2000. Acquisitions involve numerous risks. For example:

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

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

INTERNET COMMERCE HAS YET TO ATTRACT SIGNIFICANT REGULATION. GOVERNMENT REGULATIONS MAY RESULT IN ADMINISTRATIVE MONETARY FINES, PENALTIES OR TAXES THAT MAY REDUCE OUR FUTURE EARNINGS.

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

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

EVOLVING GOVERNMENT REGULATIONS MAY REQUIRE FUTURE LICENSING WHICH COULD INCREASE ADMINISTRATIVE COSTS OR ADVERSELY AFFECT OUR REVENUES.

In a regulatory climate that is uncertain, our operations may be subject to direct and indirect adoption, expansion or reinterpretation of various domestic and foreign laws and regulations. Compliance with these future laws and regulations may require us to obtain appropriate licenses at an undeterminable

and possibly significant initial monetary and annual expense. These additional monetary expenditures may increase future overhead, thereby potentially reducing our future results of operations.

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

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

OUR SUCCESS IS DEPENDENT ON KEEPING PACE WITH ADVANCES IN TECHNOLOGY. IF WE ARE UNABLE TO KEEP PACE WITH ADVANCES IN TECHNOLOGY, CONSUMERS MAY STOP USING OUR SERVICES AND OUR REVENUES WILL DECREASE.

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

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

We host all of Autobytel.com production Web sites including Autobytel.com, Dealer Real Time and iManager systems at our corporate headquarters in Irvine, California. Although offsite backup servers are available from outside sources, all of Autobytel.com's primary servers are located at our corporate headquarters and are vulnerable to interruption by damage from fire, earthquake, flood, power loss, telecommunications failure, break-ins and other events beyond our control. In the event that we experience significant system disruptions, our business, results of operations and financial condition would be materially and adversely affected. We have, from time to time, experienced periodic systems interruptions and anticipate that such interruptions will occur in the future. As a result of a variety of factors, available electricity supply in California is not sufficient to meet demand at all times in some areas, and these constraints are projected to continue for several years. The supply constraints have been managed, and will likely continue to be managed, by a combination of obtaining additional supplies, requested conservation, interruption of certain customers whose rates include that possibility, and as a last resort, interruption of some or all customers in certain areas through "rolling blackouts." Relieving the supply constraints is likely to cause increases in the retail rates to be paid. To date, we have not been affected by rolling black-outs or other interruptions in service

related to the constraints on supply, and we have a backup generator available

to protect ourselves against rolling blackouts that last for a limited amount of time. We maintain business interruption insurance which pays up to \$6 million for the actual loss of business income sustained due to the suspension of operations as a result of direct physical loss of or damage to property at our offices. However, in the event of a prolonged interruption, this business interruption insurance may not be sufficient to fully compensate us for the resulting losses. The CarSmart.com Web site is hosted by a third party service provider.

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

The market for Internet-based purchasing services has only recently begun to develop and is rapidly evolving. While many Internet commerce companies have grown in terms of revenues, few are profitable. We can not assure that we will be profitable. As is typical for a new and rapidly evolving industry, demand and market acceptance for recently introduced services and products over the Internet are subject to a high level of uncertainty and there are few proven services and products. Moreover, since the market for our services is new and evolving, it is difficult to predict the future growth rate, if any, and size of this market.

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

The success of our services will depend upon the adoption of the Internet by consumers and dealers as a mainstream medium for commerce. While we believe that our services offer significant advantages to consumers and dealers, there can be no assurance that widespread acceptance of Internet commerce in general, or of our services in particular, will occur. Our success assumes that consumers and dealers who have historically relied upon traditional means of commerce to purchase or lease vehicles, and to procure vehicle financing and insurance, will accept new methods of conducting business and exchanging information. In addition, dealers must be persuaded to adopt new selling models and be trained to use and invest in developing technologies. Moreover, critical issues concerning the commercial use of the Internet, such as, ease of access, security, reliability, cost, and quality of service, remain unresolved and may impact the growth of Internet use. If the market for Internet-based vehicle marketing services fails to develop, develops slower than expected or becomes saturated with competitors, or if our services do not achieve market acceptance, our business, results of operations and financial condition will be materially and adversely affected.

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

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

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



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

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

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

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

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

Our licensees have launched Web sites in the United Kingdom, Sweden, The Netherlands, Spain, Australia and Japan. We intend to expand our brand into other foreign markets through licensing our technology, business processes and trade names and by establishing relationships with vehicle dealers and strategic investors located in foreign markets.

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

WE MAY NOT BE SUCCESSFUL IN EXPANDING OUR BUSINESS ABROAD WHICH MAY LIMIT OUR FUTURE GROWTH.

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

- changes in political conditions,
- regulatory requirements,
- potentially weaker intellectual property protections,
- tariffs and other trade barriers, fluctuations in currency exchange rates, or potentially adverse tax consequences,

- difficulties in managing or overseeing foreign operations, and
- educating consumers and dealers who may be unfamiliar with the benefits of online marketing and commerce.

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

OUR COMPUTER INFRASTRUCTURE MAY BE VULNERABLE TO SECURITY BREACHES. ANY SUCH PROBLEMS COULD JEOPARDIZE CONFIDENTIAL INFORMATION TRANSMITTED OVER THE INTERNET, CAUSE INTERRUPTIONS IN OUR OPERATIONS OR CAUSE US TO HAVE LIABILITY TO THIRD PERSONS.

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

WE DEPEND ON CONTINUED TECHNOLOGICAL IMPROVEMENTS IN OUR SYSTEMS AND IN THE INTERNET OVERALL. IF WE ARE UNABLE TO HANDLE AN UNEXPECTEDLY LARGE INCREASE IN VOLUME OF CONSUMERS USING OUR WEB SITES, WE CANNOT ASSURE OUR CONSUMERS OR DEALERS THAT PURCHASE REQUESTS WILL BE EFFICIENTLY PROCESSED AND OUR BUSINESS MAY SUFFER.

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

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

MISAPPROPRIATION OF OUR INTELLECTUAL PROPERTY AND PROPRIETARY RIGHTS COULD IMPAIR OUR COMPETITIVE POSITION.

Our ability to compete depends upon our proprietary systems and technology. While we rely on trademark, trade secret and copyright law, confidentiality agreements and technical measures to protect our proprietary rights, we believe that the technical and creative skills of our personnel, continued development of our proprietary systems and technology, brand name recognition and reliable Web site maintenance are more essential in establishing and maintaining a leadership position and strengthening our brand. Despite our efforts to protect our proprietary rights, unauthorized parties may attempt to copy aspects of our services or to obtain and use information that we regard as proprietary. Policing unauthorized use of our proprietary rights is difficult. We cannot assure that the steps taken by us will prevent misappropriation of technology or that the agreements entered into for that purpose will be enforceable. Misappropriation of our intellectual property or potential litigation would have a material adverse effect on our business, results of operations and financial condition. Effective trademark, service mark, copyright and trade secret protection may not be available in every country in which our

products and services are made available online. In addition, litigation may be necessary in the future to enforce or protect our intellectual property rights or

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to defend against claims or infringement or invalidity. As part of our confidentiality procedures, we generally enter into agreements with our employees and consultants and limit access to our trade secrets and technology.

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

The control of a large amount of our stock by insiders could have an adverse effect on the market price of our common stock. As of February 28, 2001, our executive officers and directors beneficially own or control approximately 3.0 million shares or 13.2% of the outstanding shares of our common stock. In addition, as of such date, based on information available to us, our founders, Peter Ellis and John Bedrosian beneficially own or control approximately 7.8% and 12.3%, respectively, of the outstanding shares of our common stock. Our officers, directors, founders and their affiliates, assuming they vote together, have the ability to significantly influence and substantially control the election of our board of directors and the outcome of corporate actions requiring stockholder approval, including mergers and other changes of corporate control, going private transactions and other extraordinary transactions.

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

Sale of substantial numbers of shares of common stock in the public market could adversely affect the market price of our common stock and make it more difficult for us to raise funds through equity offerings in the future. Of the 20,364,070 shares that were outstanding as of February 28, 2001, approximately 15.5 million shares are eligible for sale in the public market without restriction and approximately 4.9 million shares are subject to restrictions on sale in the public market in accordance with the provisions of Rule 144 under the Securities Act of 1933, of which approximately 1.4 million shares are subject to the volume limitations of Rule 144 by virtue of Rule 145. In addition, holders of approximately 8.3 million shares of common stock are entitled to certain registration rights with respect to such shares until such time as the holders of such common stock may sell such shares under Rule 144 of the Securities Act.

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

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

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

Provisions of our amended and restated certificate of incorporation and bylaws relating to our corporate governance could make it difficult for a third party to acquire us, and could discourage a third party from attempting to

acquire control of us. These provisions allow us to issue preferred stock with rights senior to those of the common stock without any further vote or action by the stockholders. These provisions provide that the board of directors is divided into three classes, which may have the effect of delaying or preventing changes in control or change in our management because less than a majority of the board of directors are up for election at each annual meeting. In addition, these provisions impose various procedural and other requirements which could make it more difficult for stockholders to effect corporate actions such as a merger, asset sale or other change of control of us. Such charter provisions could limit the price that certain investors might be willing to pay in the future for shares of our common stock and may have the effect of delaying or preventing a change in control. The issuance of preferred stock also

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could decrease the amount of earnings and assets available for distribution to the holders of common stock or could adversely affect the rights and powers, including voting rights, of the holders of the common stock.

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

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

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

## ITEM 2. PROPERTIES

Our Autobytel.com operation is located in a single office building in Irvine, California. We occupy four floors, for a total of approximately 49,000 square feet. Each floor is leased with expiration dates ranging from September 2001 through February 2002. We have options to renew the leases on each floor for an additional 5-year term. Our CarSmart.com operation occupies approximately 6,500 square feet in a single office building in San Ramon, California. The lease for this office space expires in March 2003. Autobytel.Europe is located in a single office building in The Netherlands and occupies approximately 1,800 square meters. The lease expires in August 2005.

## ITEM 3. LEGAL PROCEEDINGS

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

The selling shareholders of A.I.N. are obligated to fully indemnify Autobytel.com for all losses, including attorney's fees, expenses, settlements and judgments, arising out of the lawsuit. The indemnification obligation was

initially secured by 450,000 shares of Autobytel.com common stock transferred to the selling shareholders as part of the acquisition of A.I.N., as well as \$250,000 in cash. As of February 28, 2001, the obligation was secured by the 450,000 shares of common stock and \$95,000 in cash after expenses.

On July 15, 1998, Autobytel.com and certain of its past and current officers were sued by former employee Thomas Heshion in a lawsuit entitled Thomas Heshion, et al. v. Auto-By-Tel Corporation, et al. in Orange County Superior Court. Plaintiff claimed that he was wrongfully terminated and that Autobytel.com and its officers interfered with an oral agreement between plaintiff and another co-worker for the purchase of the co-worker's Autobytel.com stock. Summary judgment was granted on the claims alleging interference with the alleged stock agreement. The remaining claims for wrongful termination were tried to a jury which returned a verdict in December 2000 in favor of plaintiff in the amount of \$1.9 million.

We believe the judgement is in error and we have retained new counsel to handle the post-trial motions and, if necessary, the appeal. We intend to vigorously contest the judgement.

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

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted to a vote of security holders during the fourth quarter of 2000.

PART II

ITEM 5. MARKET FOR THE COMPANY'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

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

YEAR	HIGH -----	LOW -----
1999		
First Quarter (from March 26, 1999) ..	\$ 41.88	\$ 35.38
Second Quarter .....	\$ 39.94	\$ 15.75
Third Quarter .....	\$ 23.25	\$ 11.56
Fourth Quarter .....	\$ 19.50	\$ 11.72
2000		
First Quarter .....	\$ 16.88	\$ 7.88
Second Quarter .....	\$ 8.50	\$ 5.78
Third Quarter .....	\$ 6.88	\$ 4.06
Fourth Quarter .....	\$ 6.38	\$ 2.13
2001		
First Quarter (through March 23, 2001)	\$ 3.00	\$ 1.72

As of February 28, 2001, there were 147 holders of record of our common stock. We have never declared or paid any cash dividends on our common stock. We intend to retain all of our future earnings, if any, for use in our business, and therefore we do not expect to pay any cash dividends on our common stock in the foreseeable future.

We have no specific plans at this time for the use of the balance of the proceeds received from the initial public offering and expect to use such proceeds for potential acquisitions, investments in businesses and for general corporate purposes.

ITEM 6. SELECTED CONSOLIDATED FINANCIAL DATA

(IN THOUSANDS, EXCEPT PER SHARE DATA)

The following selected consolidated financial data should be read in conjunction with our consolidated financial statements and related notes and "Management's Discussion and Analysis of Financial Condition and Results of Operations" appearing elsewhere in this Annual Report on Form 10-K. The statement of operations data for the years ended December 31, 2000, 1999, 1998, 1997 and 1996 and the balance sheet data as of December 31, 2000, 1999, 1998, 1997 and 1996 are derived from our consolidated financial statements which have been audited by Arthur Andersen LLP, independent auditors.

	YEARS ENDED DECEMBER 31,				
	2000	1999	1998	1997	1996
STATEMENT OF OPERATIONS DATA:					
Revenues .....	\$ 66,532	\$ 40,298	\$ 23,826	\$ 15,338	\$ 5,025
Operating expenses:					
Sales and marketing .....	65,266	44,176	30,033	21,454	7,790
Product and technology development .....	22,847	14,262	8,528	5,448	1,753
General and administrative .....	13,797	8,595	5,908	5,851	1,641
Total operating expenses .....	101,910	67,033	44,469	32,753	11,184
Loss from operations .....	(35,378)	(26,735)	(20,643)	(17,415)	(6,159)
Other income, net .....	6,017	3,468	1,280	620	124
Loss before minority interest losses and provision for income taxes .....	(29,361)	(23,267)	(19,363)	(16,795)	(6,035)
Minority interest losses .....	369	--	--	--	--
Loss before provision for income taxes .....	(28,992)	(23,267)	(19,363)	(16,795)	(6,035)
Provision for income taxes .....	42	53	35	15	--
Net loss .....	\$ (29,034)	\$ (23,320)	\$ (19,398)	\$ (16,810)	\$ (6,035)
Basic and diluted net loss per share .....	\$ (1.45)	\$ (1.48)	\$ (2.30)	\$ (2.03)	\$ (0.73)
Shares used in computing basic and diluted net loss per share .....	20,047	15,766	8,423	8,291	8,252

	DECEMBER 31,				
	2000	1999	1998	1997	1996
BALANCE SHEET DATA:					
Cash and cash equivalents ....	\$ 81,945	\$ 85,457	\$ 27,984	\$ 15,813	\$ 9,062
Working capital .....	68,447	74,756	23,436	10,938	5,977
Total assets .....	124,309	94,872	34,207	20,513	12,298
Accumulated deficit .....	(95,627)	(66,593)	(43,273)	(23,875)	(7,065)
Stockholders' equity .....	91,806	76,706	25,868	13,259	7,996

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

You should read the following discussion of our results of operations and financial condition in conjunction with our consolidated financial statements and related notes included elsewhere in this Annual Report on Form 10-K. This discussion contains forward-looking statements based on current

expectations that involve risks and uncertainties. Actual results and the timing of certain events may differ significantly from those projected in such forward-looking statements due to a number of factors, including those discussed in the section entitled "Risk Factors" in Item 1 "Business" in this Annual Report on Form 10-K.

## OVERVIEW

We are an internationally branded online automotive commerce company that connects buyers and sellers together in an information-rich environment throughout the vehicle ownership lifecycle, capturing revenue at multiple stages. Through our Web sites, [www.autobytel.com](http://www.autobytel.com) and [www.carsmart.com](http://www.carsmart.com), consumers can research pricing, specifications and other information regarding new and pre-owned vehicles and can purchase, finance, lease, insure, sell or maintain their vehicles. We believe that our services provide benefits for consumers by supplying them with information to make informed and intelligent vehicle decisions throughout the lifecycle of

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vehicle ownership. Consumers can purchase new vehicles through our dealer referral networks and our locate-to-order service, AutobytelDIRECT. In addition, consumers can purchase pre-owned vehicles through our Pre-Owned CyberStore.

In January 2000, we launched AutobytelDIRECT, a locate-to-order service offering a real-time online inventory of thousands of new vehicles, instant up-front pricing, multiple trade-in options, competitive financing and insurance and at-home or office delivery.

Also in January 2000, we announced the formation of Autobytel.Europe with initial investment from Inchcape plc, Pon Holdings B.V., GE Capital and e-LaSer. The Netherlands-based Autobytel.Europe plans to license, invest in and offer joint services to national operating companies throughout Europe to localize the Autobytel.com offerings. In February 2000, we, St. George Bank Limited and others joined in the formation of Autobytel Australia. The Australian investors joining Autobytel.com in the online venture are Trading Post, Astre Automotive, RACV (Royal Automobile Club of Victoria), Fortis Insurance and Strathfield E-Ventures.

In February 2000, we acquired A.I.N., the owner of CarSmart.com, a leading online buying site for new and pre-owned vehicles, for 1.8 million shares of Autobytel.com common stock and \$3 million in cash. As of February 28, 2001, CarSmart.com had over 1,300 dealers, established relationships with more than 200 credit unions and strategic marketing agreements with several of the top Internet portals, including AOL.com, Alta Vista and G02Net. For the years ended December 31, 1999 and 1998 CarSmart.com's unaudited revenues were \$6.4 million and \$3.1 million, respectively. For the years ended December 31, 1999 and 1998, CarSmart.com's operating expenses were \$7.6 million and \$4.2 million, respectively. CarSmart.com's unaudited net loss for the years ended December 31, 1999 and 1998 was \$1.3 million and \$1.2 million, respectively.

In June 2000, we launched our MyGarage service area designed to empower consumers by providing cost effective and efficient processes for dealing with common service and maintenance issues. The site enhances consumer personalization and includes key components such as access to Autobytel.com Accredited Service Centers, the ability to schedule service and maintenance appointments online and receive information such as service reminders and recall information.

In January 2001, we introduced iManager, a multi-functional dealer management system and an upgrade of our Dealer Real Time system. The iManager system provides dealers with immediate purchase request information for new and pre-owned vehicles, the ability to track multiple customers and purchase requests, turnkey customer retention programs, automatic uploading of new and pre-owned vehicle inventory into our database, reporting systems, including transaction status, customer information and Internet department performance, and other features.

In February 2001, we signed an agreement with General Motors Corporation to conduct a 90-day test of a new GM online locate-to-order business model. The model involves modification of our existing Autobytel.com Web site for consumers from the Washington, D.C. metropolitan area. The test program will combine the

independent all makes, all models capability of Autobyte.com with a dealer-set online e-price and locate-to-order vehicle inventory model for Chevrolet vehicles.

We derive the majority of our revenues from fees paid by subscribing dealers, and we expect to be primarily dependent on our dealer networks for revenues in the foreseeable future. Dealers using our services pay initial subscription fees, as well as ongoing monthly fees based, among other things, on the size of territory, demographics and the, indirectly, transmittal of purchase requests to them. In addition, in most states, dealers who participate in AutobyteDIRECT pay a fee of between \$100 and \$1,000 per vehicle sold through AutobyteDIRECT. The fee is based on the gross selling price of the vehicle. Overall program fees were \$54.0 million, \$35.8 million and \$22.9 million in 2000, 1999 and 1998, respectively. Average monthly program fees per dealer were \$949, \$1,045 and \$948 in 2000, 1999 and 1998, respectively.

Our dealer contract terms generally range from one to three years. The majority of our contracts are for a one year term. We are converting our remaining dealers primarily to new contracts with a one year term. The initial subscription fee from the dealer is recognized ratably over the first twelve months of the dealer's contract in order to match the costs of integrating and training the dealer with revenues earned. Amortized revenues from initial subscription fees were \$2.8 million, \$2.5 million and \$2.4 million in 2000, 1999 and 1998, respectively. Monthly fees are recognized in the period the service is provided. Monthly fee revenues were \$50.9 million, \$32.8 million

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and \$18.2 million in 2000, 1999 and 1998, respectively. The amortized revenues from annual fees were \$22,400, \$0.5 million and \$2.3 million in 2000, 1999 and 1998, respectively.

We also derive a portion of our revenues from related products and services on a monthly fee and per transaction basis and from international licensing agreements. In 2000, 1999 and 1998, revenues from related products and services, including international licensing agreements, were \$12.5 million, \$4.5 million and \$0.9 million or 19%, 11% and 4% of total revenues, respectively.

We believe our ability to increase our revenues is directly related to the number of subscribing dealers in our networks and the average monthly fees paid by those dealers and indirectly related to the volume of purchase requests routed through our Web sites. Vehicle purchase requests routed through our online systems were approximately 2.9 million, 2.1 million and 1.3 million in 2000, 1999 and 1998, respectively, or an increase of 39%, 56% and 74% sequentially. From inception through December 31, 2000, we have directed approximately 7.4 million purchase requests to dealers.

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

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

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

In 2000, approximately 3,500 dealers were added to our North American dealer networks, including approximately 1,500 which were added as a part of the CarSmart acquisition, and approximately 1,800 dealers either terminated their affiliation with us or were terminated by us. The net number of dealers as of December 31, 2000 increased by 52% over 1999. As of December 31, 2000, approximately 400 dealers subscribed to both the Autobyte.com and CarSmart.com services. The number of our dealers fluctuates from time to time and as of February 28, 2001, we had approximately 4,800 dealers. Our inability or failure to reduce dealer turnover could have a material adverse effect on our business, results of operations and financial condition.



Dealer participation in our programs may terminate for various reasons including:

- extinction of the manufacturer brand,
- selling of the dealer franchise,
- termination of the franchise by the dealer and
- termination by us.

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

Sales and marketing costs consist primarily of:

- Internet marketing and advertising expenses,

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

We use Internet advertising, as well as traditional media, such as television, radio and print. The majority of our Internet advertising is comprised of:

- bounty fees paid to our affiliate network,
- sponsorship and alliance agreements with Internet portals and
- advertising and marketing affiliations with online automotive information providers.

The Internet portals and online automotive information providers charge a combination of set-up, initial, annual, monthly and variable fees.

- Set-up fees are incurred for the development of the link between Autobyte.com and the Internet portal or online information provider and are expensed in the period the link is established.
- Initial and annual fees are amortized over the period they relate to.
- Monthly fees are expensed in the month they relate to.
- Variable fees are fees paid for purchase requests and are expensed in the period the purchase requests are received.

Our Internet marketing and advertising costs, including set-up, initial, annual, monthly and variable fees, were \$20.6 million, \$14.3 million and \$11.1 million in 2000, 1999 and 1998, respectively. Also included in sales and marketing expenses are the costs associated with signing up new dealers and their ongoing training and support. Sales and marketing costs are recorded as an expense in the period the service is provided. Sales and marketing expenses have historically fluctuated quarter-to-quarter due to varied levels of marketing and advertising and we believe this will continue in the future.

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## RESULTS OF OPERATIONS

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

	YEARS ENDED DECEMBER 31,		
	2000	1999	1998
STATEMENT OF OPERATIONS DATA:			
Revenues:			
Program fees .....	81%	89%	96%
Related products and services .....	19	11	4
Total revenues .....	100	100	100
Operating expenses:			
Sales and marketing .....	98	110	126
Product and technology development .....	34	35	36
General and administrative .....	20	17	25
Stock-based compensation .....	1	3	--
Non-recurring expenses .....	--	1	--
Total operating expenses .....	153	166	187
Loss from operations .....	(53)	(66)	(87)
Other income, net .....	9	8	5
Loss before minority interest losses and provision for income taxes .....	(44)	(58)	(81)
Minority interest losses .....	--	--	--
Loss before provision for income taxes .....	(44)	(58)	(81)
Provision for income taxes .....	--	--	--
Net loss .....	(44)%	(58)%	(81)%

## 2000 COMPARED TO 1999

**Revenues.** Our revenues increased \$26.2 million, or 65%, to \$66.5 million in 2000, compared to \$40.3 million in 1999. The growth in revenues was primarily attributable to a \$18.3 million, or 51%, increase in program fees from paying dealers, including program fees of \$6.1 million from CarSmart.com dealers. Our revenues from related products and services accounted for approximately 19% of revenues in 2000 and 11% of revenues in 1999. The increase was primarily due to additional fees from our international license agreements, Web site advertising, database marketing and finance and insurance products.

**Sales and Marketing.** Sales and marketing expense increased by \$21.1 million, or 48%, to \$65.3 million in 2000 compared to \$44.2 million in 1999. The increase was primarily due to a \$9.0 million, or 57%, increase in print, television and radio advertising to build brand awareness, a \$6.3 million, or 44%, increase in online advertising for increased purchase requests and agreements with additional Internet affiliates, and a \$1.3 million, or 53%, increase in other marketing and advertising expenses. The increase in sales and marketing was further attributable to a \$4.5 million, or 39%, increase in sales, dealer support and call center personnel to support the growth of our business.

**Product and Technology Development.** Product and technology development expense increased by \$8.5 million, or 60%, to \$22.8 million in 2000 compared to \$14.3 million in 1999. The increase was primarily due to \$6.1 million for international software development costs, and a \$2.4 million, or 18%, increase for additional personnel and retention costs, both domestic and international, and Web site data content and licensing fees. We capitalized \$3.3 million of product and technology costs incurred in 2000.

**General and Administrative.** General and administrative expense was \$13.8 million and \$8.6 million for 2000 and 1999, respectively. General and administrative expense increased by \$5.2 million, or 61%. The increase was primarily due to a \$2.7 million, or 78%, increase in recruiting and personnel costs, \$1.5 million for goodwill amortization related to our acquisition of

CarSmart.com, and a \$1.0 million, or 145%, increase in legal and general corporate expenses.

Interest Income, Net. In 2000, interest income increased by \$2.2 million, or 56%, compared to 1999. Interest income increased due to higher cash balances resulting from the initial public offering late in the first quarter of 1999 and the funding of Autobytel.Europe early in the first quarter of 2000.

Foreign Currency Exchange Loss, Net. Autobytel.Europe, a subsidiary of Autobytel.com, operates its business in Europe. As such, it incurs general operating expenses and enters into transactions, including investments in joint

ventures and licensees, which require the use of local currencies. Accordingly, Autobytel.Europe engaged in foreign currency exchange transactions. Due to foreign exchange rate fluctuations, a \$0.7 million loss on cash held in foreign currency was realized in 2000. Also, based on the six month forward exchange rate at December 31, 2000, an unrealized loss of \$0.1 million was recognized on foreign exchange forward contracts expiring in June 2001. From inception through December 31, 2000, Autobytel.Europe's functional currency was the U.S. dollar. On January 1, 2001, Autobytel.Europe adopted the Euro as its functional currency. Foreign exchange transaction gains and losses in Canada were minimal. In the future, we may experience gains or losses attributable to fluctuations in foreign currency exchange rates.

Other Income (Expense), Net. In 2000, there were no significant transactions included in other income (expense). Other expense in 1999 of \$0.3 million consisted primarily of costs related to our Japanese joint venture.

Minority Interest Losses. Minority interest losses represent the share of net losses attributable to the minority shareholders in majority owned subsidiaries. In 2000, \$0.4 million in losses related to our subsidiary, Autobytel.Europe, were allocated to the minority shareholders. Autobytel.Europe was wholly-owned in 1999.

Income Taxes. No provision for federal income taxes has been recorded as we incurred net operating losses through December 31, 2000. As of December 31, 2000, we had approximately \$76.7 million of federal and \$38.2 million of state net operating loss carryforwards that we believe are available to offset future taxable income. These carryforwards expire in various years through 2020. Under the Tax Reform Act of 1986, the amounts of and benefits from our net operating loss carryforwards will be limited due to a cumulative ownership change of more than 50% over a three year period. Based on preliminary estimates, we believe the effect of such limitation will not have a material adverse effect on our business, results of operations and financial condition.

#### 1999 Compared to 1998

Revenues. Our revenues increased \$16.5 million, or 69%, to \$40.3 million in 1999, compared to \$23.8 million in 1998. The growth in revenues was primarily attributable to an increase in the net number of paying dealers and a \$97, or 10%, increase in the average monthly program fee charged to paying dealers. The number of paying dealers increased by 937, or 39%, to 3,323 as of December 31, 1999, compared to 2,386 as of December 31, 1998. Revenues from related products and services accounted for approximately 11% of revenues in 1999 and 4% of revenues in 1998.

Sales and Marketing. Sales and marketing expenses primarily include advertising and marketing expenses paid to our purchase request providers and for developing our brand equity, as well as personnel and other costs associated with sales, training and support. Sales and marketing expense increased by \$14.2 million, or 47%, to \$44.2 million in 1999 compared to \$30.0 million in 1998. The increase was primarily due to a \$3.5 million, or 43%, increase in sales expenses due to additional sales and dealer support personnel, a \$3.2 million, or 29%, increase in fees related to information search aggregators resulting from a higher number of purchase requests, a \$3.1 million, or 52%, increase in television and radio advertising, and a \$4.4 million, or 89%, increase in other advertising and marketing expenses to build brand awareness. We expect to continue to increase our sales, advertising and marketing expenses in the foreseeable future.

Product and Technology Development. Product and technology development expense primarily includes personnel costs relating to enhancing the features, content and functionality of our Web site and Dealer Real Time system, as well as expenses associated with telecommunications and computer infrastructure. Product and technology development expense increased by \$5.8 million, or 67%, to \$14.3 million in 1999, compared to \$8.5 million in 1998. The increase was primarily due to a \$3.6 million, or 68%, increase for additional personnel, recruiting and retention costs, both domestic and international, a \$1.0 million, or 89%, increase in technological infrastructure costs, a \$0.8 million, or 217%, increase in start up and legal expenses related to the development of international joint ventures, and a \$0.4 million, or 21%, increase related to the development of new products and services.

General and Administrative. General and administrative expense was \$8.6 million and \$5.9 million in 1999 and 1998, respectively. General and administrative expense increased by \$2.7 million, or 45%. The increase was primarily due to a \$1.2 million increase in non-cash compensation expense associated with stock options granted in the first quarter of 1999 and the exercise of a warrant in the fourth quarter of 1999, a \$0.9 million, or 420%, increase

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in accounting and other public company infrastructure costs, and a non-recurring expense of \$0.6 million related to the termination of the agreement to acquire W. G. Nichols.

Interest Income, Net. In 1999, interest income of \$3.9 million increased 486% as compared to 1998 due to higher cash balances resulting from the sale of preferred stock late in the fourth quarter of 1998 and the initial public offering late in the first quarter of 1999.

Equity Losses in Unconsolidated Subsidiary. Equity losses in an unconsolidated subsidiary represents our share of losses in our Japanese joint venture. The losses recognized have been limited to the amount of our investment.

Other Income (Expense), Net. In 1999, other income (expense) consists primarily of \$0.4 million of costs related to our Japanese joint venture as compared to a \$1.4 million gain realized from the sale of Auto-by-Tel UK, offset in part by a \$0.8 million charge for the value of warrants issued to investors in 1998.

Income Taxes. No provision for federal income taxes has been recorded as we incurred net operating losses through December 31, 1999. As of December 31, 1999, we had approximately \$55.5 million of federal and \$27.9 million of state net operating loss carryforwards that we believe are available to offset future taxable income; such carryforwards expire in various years through 2019. Under the Tax Reform Act of 1986, the amounts of and benefits from our net operating loss carryforwards will be limited due to a cumulative ownership change of more than 50% over a three year period. Based on preliminary estimates, we believe the effect of such limitation will not have a material adverse effect on our business, results of operations and financial condition.

#### STOCK-BASED COMPENSATION

In the first quarter of 1999, stock options were granted to employees and directors at exercise prices of \$13.20 and \$16 per share which were below the fair market value at the date of grant. In relation to these grants, we will recognize estimated compensation expense of approximately \$2.6 million ratably over the vesting terms of one to four years. Compensation expense of \$0.4 million and \$1.1 million was classified as general and administrative expense in 2000 and 1999, respectively, and approximately \$0.5 million, \$0.5 million and \$40,000 will be classified as general and administrative expense in the years ending 2001, 2002 and 2003, respectively.

#### LIQUIDITY AND CAPITAL RESOURCES

Net cash used in operating activities was \$23.7 million in 2000, \$14.5 million in 1999 and \$16.3 million in 1998. Net cash used in 2000 resulted primarily from the net loss for the year and increased accounts receivable offset by increased accounts payable for sales and marketing, product and

technology development and general and administrative expenditures, provision for bad debt and additional depreciation and goodwill amortization related to the acquisition of A.I.N.

Net cash used in operating activities in 1999 resulted primarily from the net loss for the year, increased accounts receivable and prepaid expenses, partially offset by increased deferred revenues related to growth in the number of our paying dealers, accounts payable and accrued expenses for sales and marketing, product and technology development and general and administrative expenditures, non-cash stock-based compensation expense related to options granted in March 1999 and depreciation expense.

Net cash used in operating activities in 1998 resulted primarily from the net loss for the year and increased accounts receivable, partially offset by depreciation and other non-cash expenses.

Net cash used in investing activities was \$12.0 million in 2000, \$0.9 million in 1999 and \$1.1 million in 1998. Cash used in investing in 2000 was related to the acquisition of A.I.N., expenditures for capitalized software, investments in our joint ventures in Spain, Sweden and France, notes receivable from our joint venture in France and the purchase of property and equipment. Cash for investing activities in 1999 and 1998 was primarily used for the purchase of property and equipment, including computer hardware, telecommunications equipment and furniture.

Net cash provided by financing activities was \$32.3 million in 2000, \$72.9 million in 1999 and \$29.6 million in 1998. Cash provided by financing activities in 2000 was primarily due to funding received from strategic investors for investment in AutobyteEurope. In January 2000, we invested \$5 million in AutobyteEurope which has been

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eliminated in consolidation. Cash for financing activities in 1999 and 1998 was primarily provided by the consummation of our initial public offering in March 1999 and the issuance of preferred stock in 1998. We intend to use the remaining net proceeds from our initial public offering for potential acquisitions, investments in businesses and for general corporate purposes. Proceeds of \$29.4 million from the sale of preferred stock in 1998 were used primarily to finance operations prior to the initial public offering.

As of February 28, 2001, we had approximately \$77.5 million in cash and cash equivalents, of which \$33.2 million represents funds of AutobyteEurope and is reserved for the operations of AutobyteEurope. We believe our current cash and cash equivalents are sufficient to meet our anticipated cash needs for working capital and capital expenditures for at least the next 12 months.

With respect to years beyond fiscal 2001, we may be required to raise additional capital to meet our long term operating requirements. Since inception, our expenses have exceeded our revenues. We do not expect to be able to fund our operations from internally generated funds until the second half of 2001 when we expect our revenues to exceed our expenses. However, we cannot assure that our revenues will exceed our expenses during such period or thereafter.

Our cash requirements depend on several factors, including:

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

We cannot predict the timing and amount of our cash requirements. If

capital requirements vary materially from those currently planned, we may require additional financing sooner than anticipated. We have no commitments for any additional financing, and there can be no assurance that any such commitments can be obtained on favorable terms, if at all.

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

#### RECENT ACCOUNTING PRONOUNCEMENTS

In June 1998, the FASB issued SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities, which is effective for fiscal years beginning after June 15, 2000 (as amended by SFAS No. 137 and 138). SFAS No. 133 establishes accounting and reporting standards for derivative instruments.

#### ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Autobytel.Europe, which operates in Europe, is a subsidiary of Autobytel.com. Autobytel.Europe incurs general operating expenses and enters into transactions, including investments in joint ventures and licensees, which require the use of local foreign currencies. As a result of these transactions, Autobytel.com is exposed to gains and losses resulting from changes in foreign currency exchange rates. These fluctuations may adversely affect Autobytel.com's consolidated results of operations and financial position. In certain circumstances, Autobytel.Europe enters into

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foreign currency forward contracts in an effort to minimize the risks and costs associated with these fluctuations. Neither Autobytel.com nor Autobytel.Europe enters into foreign currency forward contracts or other financial instruments for trading or speculative purposes.

In July 2000, Autobytel.Europe entered into foreign currency forward exchange contracts with maturity dates of September 26, 2000 and June 26, 2001. These contracts obligate Autobytel.Europe to exchange U. S. dollars for predetermined amounts of Netherlands guilders at specified exchange rates on specified dates. Included in Autobytel.com's consolidated statements of operations are realized and unrealized losses of \$0.7 million and \$0.1 million, respectively, resulting from changes in the spot exchange rate, including those from settled and open contracts.

As of January 1, 2001, the notional value of the open foreign currency forward contracts was matched by an equivalent amount of cash as recorded on our balance sheet. Therefore, in accordance with SFAS No. 133, these open contracts are considered hedged contracts. As such, on an ongoing basis, we will not incur any additional foreign currency financial exposure from potential volatility in exchange rates on these foreign currency forward contracts.

A sensitivity analysis indicates that for each 5% change in exchange rates on foreign currencies utilized by Autobytel.Europe, Autobytel.com would incur no additional losses on open foreign currency forward contracts and \$0.3 million on foreign currency cash balances at December 31, 2000.

#### ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Our Balance Sheets as of December 31, 2000 and 1999 and our Statements of Operations, Stockholders' Equity and Cash Flows for each of the years in the three-year period ended December 31, 2000, together with the reports of Arthur Andersen LLP, independent auditors, begin on page F-1 of this Annual Report on Form 10-K and are incorporated herein by reference.

#### ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information called for in this item shall be filed not later than 120 days after our fiscal year end (December 31, 2000) in our definitive Proxy Statement in connection with our 2001 Annual Meeting of Stockholders pursuant to Regulation 14A of the Securities Exchange Act of 1934, as amended, or in an amendment to this Annual Report on Form 10-K.

ITEM 11. EXECUTIVE COMPENSATION

The information called for in this item shall be filed not later than 120 days after our fiscal year end (December 31, 2000) in our definitive Proxy Statement in connection with our 2001 Annual Meeting of Stockholders pursuant to Regulation 14A of the Securities Exchange Act of 1934, as amended, or in an amendment to this Annual Report on Form 10-K.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The information called for in this item shall be filed not later than 120 days after our fiscal year end (December 31, 2000) in our definitive Proxy Statement in connection with our 2001 Annual Meeting of Stockholders pursuant to Regulation 14A of the Securities Exchange Act of 1934, as amended, or in an amendment to this Annual Report on Form 10-K.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information called for in this item shall be filed not later than 120 days after our fiscal year end (December 31, 2000) in our definitive Proxy Statement in connection with our 2001 Annual Meeting of Stockholders pursuant to Regulation 14A of the Securities Exchange Act of 1934, as amended, or in an amendment to this Annual Report on Form 10-K.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K

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

- (1) Financial Statements:

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Consolidated Statements of Operations.....	F-4
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- (2) Financial Statement Schedules:

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

- (3) Exhibits:

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

(b) Reports on Form 8-K:

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

On October 27, 2000 we filed a Form 8-K under Item 5 announcing our financial results for the third quarter of 2000.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on the 28th day of March 2001.

autobytel.com inc.

By: /s/ MARK W. LORIMER

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Mark W. Lorimer  
Chief Executive Officer,  
President and Director

POWER OF ATTORNEY

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

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

SIGNATURE -----	TITLE -----	DATE -----
/s/ MICHAEL FUCHS ----- Michael Fuchs	Chairman of the Board and Director	March 28, 2001
/s/ MARK W. LORIMER ----- Mark W. Lorimer	Chief Executive Officer, President and Director (Principal Executive Officer)	March 28, 2001
/s/ AMIT KOTHARI ----- Amit Kothari	Vice President, Interim Chief Financial Officer and Controller (Principal Financial and Accounting Officer)	March 28, 2001
/s/ JEFFREY H. COATS ----- Jeffrey H. Coats	Director	March 28, 2001
/s/ MARK N. KAPLAN ----- Mark N. Kaplan	Director	March 28, 2001
/s/ KENNETH J. ORTON ----- Kenneth J. Orton	Director	March 28, 2001
/s/ ROBERT S. GRIMES ----- Robert S. Grimes	Director	March 28, 2001
/s/ PETER TITZ ----- Peter Titz	Director	March 28, 2001
/s/ RICHARD POST ----- Richard Post	Director	March 28, 2001



AUTOBYTEL.COM INC.  
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REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

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

We have audited the accompanying consolidated balance sheets of autobytel.com inc., a Delaware corporation, and subsidiaries as of December 31, 2000 and 1999, and the related consolidated statements of operations, stockholders' equity and cash flows for the years ended December 31, 2000, 1999 and 1998. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of autobytel.com inc. and subsidiaries as of December 31, 2000 and 1999, and the results of their operations and their cash flows for the years ended December 31, 2000, 1999 and 1998 in conformity with accounting principles generally accepted in the United States.

ARTHUR ANDERSEN LLP

Los Angeles, California  
February 6, 2001

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AUTOBYTEL.COM INC.  
CONSOLIDATED BALANCE SHEETS  
(AMOUNTS IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)  
ASSETS

	December 31, 2000	December 31, 1999
	-----	-----
Current assets:		
Cash and cash equivalents, includes restricted amounts of \$15,029 and \$206, respectively.....	\$ 81,945	\$ 85,457
Accounts receivable, net of allowance for doubtful accounts of \$1,494 and \$439, respectively .....	6,638	4,593
Prepaid expenses and other current assets .....	4,127	2,819
	-----	-----
Total current assets .....	92,710	92,869
Property and equipment, net .....	2,537	1,630
Investments .....	1,353	--
Goodwill, net .....	23,755	10
Capitalized software in process .....	3,338	--
Notes receivable .....	530	287
Other assets .....	86	76
	-----	-----
Total assets .....	\$ 124,309	\$ 94,872
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable .....	\$ 9,828	\$ 4,277
Accrued expenses .....	7,519	6,772
Deferred revenues .....	6,360	6,147
Customer deposits .....	185	716
Other current liabilities .....	371	201
	-----	-----
Total current liabilities .....	24,263	18,113
Other long-term liabilities .....	47	53
	-----	-----
Total liabilities .....	24,310	18,166
	-----	-----
Minority Interest .....	8,193	--
Commitments and contingencies		
Stockholders' equity:		
Common stock, \$0.001 par value; 200,000,000 shares authorized; 20,336,083 and 18,234,613 shares issued and outstanding, respectively .....	20	18
Warrants .....	1,332	1,332
Additional paid-in capital .....	186,097	141,957
Accumulated other comprehensive loss .....	(16)	(8)
Accumulated deficit .....	(95,627)	(66,593)
	-----	-----
Total stockholders' equity .....	91,806	76,706
	-----	-----
Total liabilities and stockholders' equity .....	\$ 124,309	\$ 94,872
	=====	=====

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

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AUTOBYTEL.COM INC.

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

	Years Ended December 31,		
	2000	1999	1998
	-----	-----	-----
Revenues .....	\$ 66,532	\$ 40,298	\$ 23,826
Operating expenses:			
Sales and marketing .....	65,266	44,176	30,033
Product and technology development .....	22,847	14,262	8,528
General and administrative .....	13,797	8,595	5,908
	-----	-----	-----
Total operating expenses .....	101,910	67,033	44,469
	-----	-----	-----
Loss from operations .....	(35,378)	(26,735)	(20,643)
Interest income, net .....	6,114	3,922	669
Foreign currency exchange loss, net .....	(106)	(6)	(4)
Equity losses in unconsolidated subsidiary .....	--	(126)	--
Other income (expense) .....	9	(322)	615

Loss before minority interest losses and provision for income taxes .....	(29,361)	(23,267)	(19,363)
Minority interest losses .....	369	--	--
Loss before provision for income taxes .....	(28,992)	(23,267)	(19,363)
Provision for income taxes .....	42	53	35
Net loss .....	\$ (29,034)	\$ (23,320)	\$ (19,398)
Basic and diluted net loss per share .....	\$ (1.45)	\$ (1.48)	\$ (2.30)
Shares used in computing basic and diluted net loss per share .....	20,047,173	15,766,406	8,423,038
Other comprehensive income (loss):			
Net loss .....	\$ (29,034)	\$ (23,320)	\$ (19,398)
Cumulative translation adjustment .....	(8)	11	(19)
Comprehensive loss .....	\$ (29,042)	\$ (23,309)	\$ (19,417)

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

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AUTOBYTEL.COM INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY  
(AMOUNTS IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)

	CONVERTIBLE PREFERRED STOCK		COMMON STOCK		WARRANTS	PAID-IN CAPITAL
	NUMBER OF SHARES	AMOUNT	NUMBER OF SHARES	AMOUNT		
Balance, December 31, 1997 .....	3,945,189	\$ 4	8,324,443	\$ 8	--	\$ 37,123
Issuance of Series C convertible preferred stock at \$8.80 per share .....	3,370,455	3	--	--	--	29,443
Issuance of Series C convertible preferred stock at \$8.80 per share in exchange for advertising .....	121,009	--	--	--	--	1,065
Issuance of warrants in exchange for start-up costs for a Pan-European entity .....	--	--	--	--	792	--
Issuance of warrant in exchange for involvement in a broadband application project .....	--	--	--	--	540	--
Issuance of common stock upon exercise of stock options .....	--	--	181,012	--	--	169
Issuance of common stock at \$13.20 per share .....	--	--	1,000	--	--	13
Amortization of deferred compensation .....	--	--	--	--	--	--
Foreign currency translation adjustment .....	--	--	--	--	--	--
Net loss .....	--	--	--	--	--	--
Balance, December 31, 1998 .....	7,436,653	7	8,506,455	8	1,332	67,813
Conversion of Series A, B and C convertible preferred stock to common stock .....	(7,436,653)	(7)	5,852,290	6	--	1
Issuance of common stock in initial public offering, net of issuance cost .....	--	--	3,500,000	4	--	72,080
Issuance of common stock upon exercise of stock options .....	--	--	362,630	--	--	790
Issuance of common stock under employee stock purchase plan .....	--	--	3,161	--	--	48
Compensation expense recorded for fair market value of warrant in excess of exercise price .....	--	--	10,077	--	--	162
Compensation expense recorded for fair market value of stock options in excess of exercise price .....	--	--	--	--	--	1,063
Foreign currency translation adjustment .....	--	--	--	--	--	--
Net loss .....	--	--	--	--	--	--
Balance, December 31, 1999 .....	--	--	18,234,613	18	1,332	141,957
Issuance of common stock upon acquisition of A.I.N. Corporation .....	--	--	1,800,000	2	--	19,690
Issuance of common stock upon exercise of stock options .....	--	--	280,000	--	--	646
Issuance of common stock under employee stock purchase plan .....	--	--	21,470	--	--	134
Compensation expense recorded for fair market value of stock options in excess of exercise price .....	--	--	--	--	--	393
Net gain on sale of subsidiary stock .....	--	--	--	--	--	23,277

Foreign currency translation adjustment .....	--	--	--	--	--	--
Net Loss .....	--	--	--	--	--	--
Balance, December 31, 2000 .....	-----	-----	-----	-----	-----	-----
	\$	--	20,336,083	\$	20	\$ 1,332 \$ 186,097
	=====	=====	=====	=====	=====	=====

	ADDITIONAL DEFERRED COMPENSATION	TRANSLATION ADJUSTMENT	CUMULATIVE ACCUMULATED DEFICIT	TOTAL
	-----	-----	-----	-----
Balance, December 31, 1997 .....	\$ (1)	\$ --	\$ (23,875)	\$ 13,259
Issuance of Series C convertible preferred stock at \$8.80 per share .....	--	--	--	29,446
Issuance of Series C convertible preferred stock at \$8.80 per share in exchange for advertising .....	--	--	--	1,065
Issuance of warrants in exchange for start-up costs for a Pan-European entity .....	--	--	--	792
Issuance of warrant in exchange for involvement in a broadband application project .....	--	--	--	540
Issuance of common stock upon exercise of stock options .....	--	--	--	169
Issuance of common stock at \$13.20 per share .....	--	--	--	13
Amortization of deferred compensation .....	1	--	--	1
Foreign currency translation adjustment .....	--	(19)	--	(19)
Net loss .....	--	--	(19,398)	(19,398)
Balance, December 31, 1998 .....	-----	-----	-----	-----
Conversion of Series A, B and C convertible preferred stock to common stock .....	--	--	--	--
Issuance of common stock in initial public offering, net of issuance cost .....	--	--	--	72,084
Issuance of common stock upon exercise of stock options .....	--	--	--	790
Issuance of common stock under employee stock purchase plan .....	--	--	--	48
Compensation expense recorded for fair market value of warrant in excess of exercise price .....	--	--	--	162
Compensation expense recorded for fair market value of stock options in excess of exercise price .....	--	--	--	1,063
Foreign currency translation adjustment .....	--	11	--	11
Net loss .....	--	--	(23,320)	(23,320)
Balance, December 31, 1999 .....	-----	-----	-----	-----
Issuance of common stock upon acquisition of A.I.N. Corporation .....	--	--	--	19,692
Issuance of common stock upon exercise of stock options .....	--	--	--	646
Issuance of common stock under employee stock purchase plan .....	--	--	--	134
Compensation expense recorded for fair market value of stock options in excess of exercise price .....	--	--	--	393
Net gain on sale of subsidiary stock .....	--	--	--	23,277
Foreign currency translation adjustment .....	--	(8)	--	(8)
Net Loss .....	--	--	(29,034)	(29,034)
Balance, December 31, 2000 .....	-----	-----	-----	-----
	\$	--	\$ (95,627)	\$ 91,806
	=====	=====	=====	=====

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

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AUTOBYTEL.COM INC.

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

Years Ended December 31,

	2000	1999	1998
Cash flows from operating activities:			
Net loss .....	\$(29,034)	\$(23,320)	\$(19,398)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation and amortization .....	2,752	1,298	1,255
Provision for bad debt .....	1,409	189	187
Loss on disposal of property and equipment .....	30	103	1
Reserve for foreign currency exchange loss .....	132	--	--
Amortization of deferred compensation .....	--	--	1
Issuance of Series C convertible preferred stock in exchange for advertising .....	--	--	1,065
Issuance of warrants in exchange for start-up costs for a Pan-European entity .....	--	--	792
Issuance of warrants in exchange for involvement in broadband application project .....	--	--	540
Compensation expense recorded for fair market value of stock options in excess of exercise price .....	393	1,063	--
Compensation expense recorded for fair market value of warrant in excess of exercise price .....	--	162	--
Equity losses in unconsolidated subsidiary .....	--	126	--
Changes in assets and liabilities:			
Accounts receivable .....	(3,137)	(2,467)	(1,009)
Prepaid expenses and other current assets .....	(670)	(1,466)	(558)
Other assets .....	289	(26)	(252)
Accounts payable .....	4,518	1,362	692
Accrued expenses .....	576	5,857	(132)
Deferred revenues .....	213	2,139	308
Customer deposits .....	(531)	371	218
Other current liabilities .....	(613)	168	(33)
Other long-term liabilities .....	(69)	(70)	32
Net cash used in operating activities .....	----- (23,742)	----- (14,511)	----- (16,291)
Cash flows from investing activities:			
Acquisition of business, net of cash acquired .....	(4,374)	--	--
Investment in foreign entities .....	(1,353)	--	--
Investment in debt security of foreign entities .....	(830)	--	--
Investment in unconsolidated subsidiary .....	--	(126)	--
Notes receivable from foreign entity .....	(268)	--	--
Purchases of property and equipment .....	(1,849)	(823)	(1,147)
Capitalized software costs .....	(3,338)	--	--
Net cash used in investing activities .....	----- (12,012)	----- (949)	----- (1,147)
Cash flows from financing activities:			
Net proceeds from sale of common stock to employees .....	780	72,922	182
Net proceeds from sale of subsidiary company stock .....	31,470	--	--
Net proceeds from issuance of Series C convertible preferred stock .....	--	--	29,446
Net cash provided by financing activities .....	----- 32,250	----- 72,922	----- 29,628
Effect of foreign currency exchange rates on cash .....	(8)	11	(19)
Net increase (decrease) in cash and cash equivalents .....	----- (3,512)	----- 57,473	----- 12,171
Cash and cash equivalents, beginning of period .....	85,457	27,984	15,813
Cash and cash equivalents, end of period .....	----- \$ 81,945	----- \$ 85,457	----- \$ 27,984
Supplemental disclosure of cash flow information:			
Cash paid during the period for income taxes .....	----- \$ 42	----- \$ 53	----- \$ 35
Cash paid during the period for interest .....	----- \$ 51	----- \$ 2	----- \$ 3

Supplemental disclosure of non-cash financing activities (See Note 8):

- In April 1998, 56,776 shares of Series C convertible preferred stock with a fair market value of \$8.80 per share convertible into common stock at the conversion price of \$13.20 per share were issued for advertising.
- In October 1998, 64,233 shares of Series C convertible preferred stock with a fair market value of \$8.80 per share convertible into common stock at the conversion price of \$13.20 per share were issued for advertising.

- In November and December 1998, warrants to purchase 439,800 shares of common stock at \$13.20 per share were issued to investors in Series C convertible preferred stock in exchange

for commitment to fund start-up activities of a Pan-European entity.

- In December 1998, a warrant to purchase 300,000 shares of common stock at \$13.20 per share was issued to an investor in exchange for involvement in a broadband application project.
- In December 1999, a warrant to purchase 33,333 shares of common stock at \$11.25 per share was exercised in a cashless exercise. Under the warrant, 25,235 shares were exchanged for an aggregate fair market value of \$375 to pay for the exercise.
- In February 2000, Autobytel.com acquired all of the outstanding stock of A.I.N. Corporation, the owner of CarSmart.com. The components of the purchase price were as follows:

Cash paid	\$ 3,000
1.8 million shares of Autobytel.com stock at an agreed upon price	19,692
Acquisition costs	1,561
Assumption of net stockholders' deficit	973
	-----
	\$25,226
	=====

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

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AUTOBYTEL.COM.INC.

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

1. ORGANIZATION AND OPERATIONS OF AUTOBYTEL.COM

autobytel.com inc., along with its subsidiaries (collectively Autobytel.com), is an internationally branded online automotive commerce company that provides consumers with automotive solutions throughout the lifecycle of vehicle ownership. Autobytel.com owns branded Internet sites for new and pre-owned vehicle information and automotive services that link buyers and sellers in an information-rich environment. Through its Web sites (www.autobytel.com and www.carsmart.com), consumers can research pricing, specifications and other information related to new and pre-owned vehicles and purchase, finance, lease, insure, sell or maintain their vehicles. When consumers indicate they are ready to buy a vehicle, they can be connected to participating dealers in the United States and Canada, or to other sellers through its classified ads.

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

Since its inception in January 1995, Autobytel.com has invested in marketing its brand name and developing infrastructure to support anticipated future operating growth. As a result, Autobytel.com has experienced significant operating losses and has an accumulated deficit of \$95,627 as of December 31, 2000. Management believes current cash and cash equivalents are sufficient to meet anticipated cash needs for working capital and capital expenditures for at least the next 12 months.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

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

Investments in which Autobytel.com has the ability to exercise significant influence, but not control, are accounted for using the equity method. Autobytel.com accounts for its investments in Autobytel Japan and Autobytel Australia under the equity method. The application of the equity method against its investment in Autobytel Japan has been suspended, as its original investment of \$126 was fully expensed in 1999. Autobytel.com has no basis in its equity investment in Autobytel Australia and, accordingly, has not recorded any losses. Autobytel.com will resume application of the equity method when its share of net income equals its share of net losses unrecognized during the suspension period.

All other investments in affiliates are carried at cost. Autobytel.com accounts for its investments in Auto-By-Tel AB, Automoviles Bytel S.A., Autoatnet S.A. and Autobytel France S.A. using the cost method.

All intercompany transactions and balances have been eliminated in consolidation.

#### Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and

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disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

#### Cash and Cash Equivalents

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

As of December 31, 2000, \$15,000 is held in a restricted interest bearing account as a reserve for three foreign exchange forward contracts expiring in June 2001.

#### Financial Instruments

Autobytel.com does not hold or issue financial instruments for speculative purposes. Autobytel.com enters into off-balance sheet foreign currency forward exchange instruments in order to hedge certain financing and investment transactions denominated in foreign currencies. Gains and losses on the investing and financing transactions are included in other income(expense).

#### Concentration of Credit Risk

Financial instruments that potentially subject Autobytel.com to significant concentrations of credit risk consist primarily of accounts receivable. Accounts receivable are primarily derived from fees billed to subscribing dealers and international licensees. Autobytel.com generally requires no collateral to support customer receivables and maintains reserves for potential credit losses. Historically, such losses have been minor and within management's expectations. As of December 31, 2000 and 1999, no subscribing dealer, international licensee or other customer accounted for greater than 10% of accounts receivable.

#### Property and Equipment

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

#### Goodwill

Goodwill is amortized using the straight-line method over its estimated useful life, generally 15 years. Amortization expense for the year ended December 31, 2000 was \$1,482.

#### Capitalized Software in Process

In accordance with Financial Accounting Standards Board (FASB) Statement of Financial Accounting Standards (SFAS) No. 86, "Accounting for the Costs of Computer Software to be Sold, Leased or Otherwise Marketed", Autobytel.com expenses software development costs until technological feasibility has been established. Costs incurred subsequent to technological feasibility are capitalized on a product by product basis. Amortization is provided using (i) the ratio that current gross revenues for a product bear to the total of current anticipated future gross revenues from that product or (ii) the straight-line method over the remaining estimated economic life of the product, whichever is greater. As of December 31, 2000, capitalized software in process costs totaled \$3,338. Related amortization expense will be recorded when the product is available for general release to customers.

#### Stock-Based Compensation

Autobytel.com accounts for stock-based compensation in accordance with the provisions of Accounting Principles Board Opinion (APB) No. 25, "Accounting for Stock Issued to Employees." Under APB No. 25,

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compensation expense is recognized over the vesting period based on the excess of the fair market value over the exercise price on the grant date. (See Note 9.)

In 1996, Autobytel.com adopted SFAS No. 123, "Accounting for Stock-Based Compensation." Autobytel.com has elected to continue accounting for stock-based compensation issued to employees using APB No. 25 and, accordingly, proforma disclosures required under SFAS No. 123 have been presented. (See Note 9.)

#### Revenue Recognition

Autobytel.com's revenues primarily consist of fees paid by subscribing dealers located in the United States and Canada. These fees are comprised of an initial fee and a monthly fee. The initial fee is recognized ratably over the service period of 12 months. The monthly fee is recognized in the period services are provided.

Autobytel.com also derives revenues from license and service agreements with international licensees. These agreements grant the licensees the right to use Autobytel.com's proprietary software, technology and other business procedures to market new and used vehicles in exchange for certain fees. Revenues from these fees are recognized in accordance with the provisions of Statement of Position (SOP) 97-2, "Software Revenue Recognition." These fees include: (i) orientation fees, which are recognized on the effective date of the license and service agreements, (ii) localization and development fees and minimum annual maintenance fees, which are recognized as services are provided, and (iii) minimum annual license fees, which are recognized ratably over a 12 month period beginning on the date the international Web site is launched.

Deferred revenues are comprised of unearned fees.

#### Risks Due to Concentration of Significant Customers and Export Sales

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



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

#### Sales and Marketing

Sales and marketing expense primarily includes Internet marketing and advertising expenses, fees paid to purchase request providers, promotion and advertising expenses to build brand awareness and encourage potential customers to visit Autobytel.com's Web sites and personnel and other costs associated with sales, marketing, training and support of Autobytel.com's dealer networks. Sales and marketing costs are recorded as expenses as incurred. For the years ended December 31, 2000, 1999 and 1998, Internet marketing and advertising costs were \$20,564, \$14,288 and \$11,090 and television advertising expenses were \$10,720, \$8,485 and \$5,296 respectively.

#### Product and Technology Development

Product and technology development expense primarily includes personnel costs related to enhancing the features, content and functionality of Autobytel.com's Web sites and its Internet-based dealer communications platform. It also includes expenses associated with the customization of Autobytel.com's software for international licensees and telecommunications and computer infrastructure. Product and technology development expenditures are expensed as incurred or capitalized as appropriate.

#### General and Administrative

General and administrative expense primarily consists of executive, financial and legal personnel expenses, costs related to being a public company and non-cash compensation charges related to stock options granted in 1999. Non-cash compensation expense in 2000 and 1999 was \$393 and \$1,063, respectively. (See Note 9.) A non-

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recurring charge of \$601 associated with an aborted acquisition was charged to general and administrative expense in 1999.

#### Foreign Currency Translation

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

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

#### Computation of Basic and Diluted Net Loss Per Share

Net loss per share has been calculated under SFAS No. 128, "Earnings per Share." SFAS No. 128 requires companies to compute earnings per share under two different methods (basic and diluted). Basic net loss per share is calculated by dividing the net loss by the weighted average shares of common stock outstanding during the period. For the years ended December 31, 2000, 1999 and 1998, diluted net loss per share is equal to basic net loss per share since potential common shares from the conversion of preferred stock, stock options and warrants are antidilutive. Autobytel.com evaluated the requirements of the Securities and Exchange Commission Staff Accounting Bulletin (SAB) No. 98, and concluded that there are no nominal issuances of common stock or potential common stock which would be required to be shown as outstanding for all periods as outlined in SAB No. 98.

#### New Accounting Pronouncements

In June 1998, the FASB issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," which is effective for fiscal years beginning after June 15, 2000 (as amended by SFAS No. 137 and 138). SFAS No. 133 establishes accounting and reporting standards for derivative instruments. Autobytel.com adopted SFAS No. 133 in January 2001.

### 3. Acquisition of A.I.N. Corporation

On February 15, 2000, Autobytel.com acquired all of the outstanding stock of A.I.N. Corporation, the owner of CarSmart.com, an online buying site for new and used vehicles, for \$3,000 in cash and 1.8 million shares of its common stock with an agreed upon value of \$19,690. The acquisition has been accounted for using the purchase method of accounting. The purchase price has been allocated to the assets acquired and liabilities assumed on the basis of their respective fair values on the acquisition date.

The excess of the purchase price over the fair value of the assets acquired and liabilities assumed has been recorded as goodwill in the amount of \$25,226 and will be amortized over a 15 year period.

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

The following summarized unaudited pro forma consolidated results of operation are presented as if the acquisition of A.I.N. Corporation had been made at the beginning of 1999. The unaudited pro forma results are not

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necessarily indicative of future earnings or earnings that would have been reported had the acquisition been completed as presented.

	For the Years Ended December 31,	
	2000	1999
	-----	-----
	(Unaudited)	
Revenue	\$ 67,806	\$ 45,120
Net loss before provision for income taxes	(30,095)	(27,181)
Provision for income taxes	42	56
Net loss	(30,137)	(27,237)
Basic and diluted net loss per share	\$ (1.50)	\$ (1.55)

### 4. AUTOBYTEL.EUROPE LLC

Autobytel.Europe LLC (Autobytel.Europe), formerly Auto-By-Tel International LLC and a wholly owned subsidiary of Autobytel.com, was incorporated in August 1997 and began operations in the fourth quarter of 1999. Autobytel.Europe was formed to expand the Autobytel.com business model and operations throughout Europe.

In January 2000, Autobytel.Europe and Autobytel.com entered into an operating agreement with strategic investors to carryout the expansion plan. In the first quarter of 2000, a total of \$36,700 was invested in Autobytel.Europe. The investment was comprised of a \$31,700 contribution from strategic investors in exchange for a 22.5% minority interest. Autobytel.com contributed \$5,000, an exclusive, royalty-free, perpetual license to use or sublicense the "Autobytel" brand name and proprietary software, and assigned its existing License and Services Agreements for the United Kingdom, Scandinavia and Finland to Autobytel.Europe. Autobytel.com retains a 77.5% controlling interest.

Autobytel.Europe is considered a start-up company. In accordance with Staff Accounting Bulletin 51, the difference between Autobytel.com's carrying amount of the investment in Autobytel.Europe and the underlying net book value of Autobytel.Europe immediately after the investment was reflected as a capital transaction and credited directly to Autobytel.com's equity.

5. PROPERTY AND EQUIPMENT

Property and equipment consists of the following:

	For the Years Ended December 31,	
	2000	1999
	-----	-----
Computer software and hardware	\$ 4,639	\$ 3,294
Furniture and equipment	1,614	1,073
Leasehold improvements	806	558
	-----	-----
	7,059	4,925
Less -- Accumulated depreciation and amortization	(4,522)	(3,295)
	-----	-----
	\$ 2,537	\$ 1,630
	=====	=====

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6. COMMITMENTS AND CONTINGENCIES

Operating Leases

Autobytel.com leases its facilities and certain office equipment under operating leases which expire on various dates through 2005. At December 31, 2000, future minimum lease payments are as follows:

Years Ending December 31,	
-----	
2001.....	\$ 1,428
2002.....	593
2003.....	374
2004.....	289
2005.....	233
Thereafter.....	--
	-----
	\$ 2,917
	=====

Rent expense was \$1,202, \$756 and \$509 for the years ended December 31, 2000, 1999 and 1998, respectively.

Marketing and Advertising Agreements

In March 2000, Autobytel.com entered into a three year Internet marketing agreement with NBCi, a company that operates a search engine. The agreement permits Autobytel.com to maintain certain promotional rights and linkage with NBCi, and provides for certain advertising. The payments under the agreement consist of an annual fee and a monthly fee. Autobytel.com expenses the annual fee ratably over a 12-month period and the monthly fee in the period advertising is provided. As of December 31, 2000, the minimum future payments under the agreement amounted to approximately \$8,900.

Autobytel.com has agreements with other search engines, Internet service and automotive information providers, including Prodigy, AT&T WorldNet, Edmund's, Kelley Blue Book and Intellichoice, that make available to consumers vehicle research data over the Internet. These agreements are generally for a term of one to four years and require that Autobytel.com pay a combination of

set-up, initial, annual, monthly and variable fees based on the volume of purchase requests received by Autobytel.com. The set-up fees are expensed as incurred, the initial fees and annual fees are amortized over the period they relate to. The monthly fees are expensed in the month they relate to and variable fees are expensed in the period purchase requests are received. As of December 31, 2000, the minimum future commitments under these agreements were approximately \$10,900.

Autobytel.com has agreements with network and cable television stations under which it has the right to purchase television advertising. As of December 31, 2000, there were no minimum future commitments under these agreements. Amounts incurred for television advertising are expensed as advertisements are aired.

#### Employment Agreements

Autobytel.com has agreements with Mark W. Lorimer, Chief Executive Officer, Dennis Benner, Executive Vice President-Corporate Development, Ariel Amir, Executive Vice President and General Counsel, and Andrew F. Donchak, Senior Vice President and Chief Marketing Officer. In the event of termination without cause each executive is entitled to receive a lump sum severance payment equal to the greater of the base salary plus, in certain cases, bonus that would have been received by the executive over the remaining term of the agreement or for one to two years as specified in the applicable agreement, except that Mr. Donchak's payment is equal to one year base salary. Messrs. Lorimer, Benner and Amir are also entitled to additional severance payments in the event of termination within a specified time period of a change of control. The terms of Messrs. Lorimer, Benner and Amir's agreements range from two to three years with one year renewals or an extension upon mutual agreement.

Autobytel.Europe has employment agreements with Max Rens, Chief Executive Officer, and Peter Oostenenk, Chief Financial Officer. The agreements provide for one year's annual salary in the event of termination without cause. These agreements may be terminated by Autobytel.Europe upon three months notice.

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#### Litigation

Autobytel.com may become subject to legal proceedings from time to time in the normal course of business. Autobytel.com is not currently involved in any litigation that management believes will have a material adverse effect on its financial position or results of operations.

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

The selling shareholders of A.I.N. Corporation are obligated to fully indemnify Autobytel.com for all losses, including attorney's fees, expenses, settlements and judgements, arising out of the lawsuit. The indemnification obligation was initially secured by 450,000 shares of Autobytel.com common stock transferred to the selling shareholders as part of the acquisition of A.I.N. Corporation, as well as \$250 in cash. As of December 31, 2000, the obligation was secured by the 450,000 shares of common stock and \$95 in cash after expenses.

In July 1998, Autobytel.com and certain of its past and current officers were sued by a former employee. The plaintiff claimed, among other things, that he was wrongfully terminated. In December 2000, a verdict in favor of plaintiff in the amount of \$1.9 million was rendered. Autobytel.com intends to vigorously

contest the judgement.

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

#### 7. RETIREMENT SAVINGS PLAN

Autobytel.com has a retirement savings plan which qualifies as a deferred salary arrangement under Section 401(k) of the Internal Revenue Code (the 401(k) Plan.) The 401(k) Plan covers all full time employees of Autobytel.com who are over 21 years of age and have worked for Autobytel.com for at least 3 months. Under the 401(k) Plan, participating employees are allowed to defer up to 15% of their pretax salaries up to a maximum of \$10.5 per year. Company contributions to the 401(k) Plan are discretionary. In January 2000, Autobytel.com began to match employee contributions 50 cents per dollar up to a maximum of \$3 per year in Autobytel.com common stock. During 2000, Autobytel.com matched employee contributions by contributing \$326 or 68,686 shares of common stock at the current fair market value on the date the shares were issued.

#### 8. STOCKHOLDERS' EQUITY

##### Initial Public Offering

In March 1999, Autobytel.com consummated its initial public offering and issued 3,500,000 shares of common stock at a price of \$23 per share. An additional 1,000,000 shares of common stock were offered by selling stockholders at a price of \$23 per share. Autobytel.com received proceeds of approximately \$72,084, net of underwriting discounts, fees and other initial public offering costs.

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At the closing of the offering, outstanding shares of Series A, Series B and Series C convertible preferred stock were automatically converted to an aggregate total of 5,852,290 shares of common stock.

In addition, the selling stockholders granted the underwriters a 30-day option to purchase up to an additional 637,500 shares of common stock to cover over-allotments. The underwriters exercised this option in April 1999.

##### Preferred Stock

As of December 31, 2000, 11,445,187 shares of preferred stock with a \$0.001 par value were authorized and undesignated.

##### Warrants

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

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

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

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

## 9. STOCK OPTION PLANS

### 1996 Stock Option Plan

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

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### 1996 Stock Incentive Plan

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

### 1998 Stock Option Plan

Autobyte.com's 1998 Stock Option Plan (the 1998 Option Plan) was adopted in December 1998 and amended in September 1999. Autobyte.com has reserved 1,500,000 shares under the 1998 Option Plan. The 1998 Option Plan provides for the granting to employees of incentive stock options within the meaning of the Code, and for the granting to employees of nonstatutory stock options.

The exercise price of non-statutory options granted under the 1998 Option Plan cannot be lower than 85% of the fair market value of the common stock on the date of grant. The exercise price of all incentive stock options granted cannot be lower than the fair market value on the grant date. With

respect to any participants who beneficially own more than 10% of the voting power of all classes of stock of Autobyte.com, the exercise price of any stock option granted to such person must be at least 110% of the fair market value on the grant date, and the maximum term of such option is five years. The term of all other options granted under the 1998 Option Plan may be up to 10 years. Under the 1998 Option Plan, certain nonstatutory stock options (Performance Options) vest over a time period determined by the Board of Directors, however, the vesting could be accelerated based on the performance of Autobyte.com's common stock.

In December 1998, the Board of Directors granted Performance Options to purchase 700,000 shares of common stock to certain executives at an exercise price of \$13.20 per share, which represents the fair market value on the date of grant. These options vest over a seven-year period, but the vesting could be accelerated based on the performance of Autobyte.com's common stock. The accelerated vesting schedule provides that the grants will vest in six installments, one installment vesting each six months over a three-year period if pre-established average trading prices of the common stock are achieved. Those installments will vest if the average trading price exceeds the exercise price by \$6.60, \$13.20, \$19.80, \$26.40, \$33.00 and \$39.60, respectively, in the applicable six month period after the date of grant. All other stock options granted under the 1998 Option Plan vest according to vesting schedules determined by the Board of Directors.

The 1998 Option Plan provides that, unless otherwise provided in the stock option agreement, in the event of any merger, consolidation, or sale or transfer of all or any part of Autobyte.com's business or assets, all rights of the optionee with respect to the unexercised portion of any option will become immediately vested and may be exercised immediately, except to the extent that any agreement or undertaking of any party to any such merger, consolidation, or sale or transfer of assets makes specific provisions for the assumption of the obligations of Autobyte.com with respect to the 1998 Option Plan.

#### 1999 Stock Option Plan

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

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

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

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

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

#### 1999 Employee and Acquisition Related Stock Option Plan

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

2000 Stock Option Plan

Autobytel.com's 2000 Stock Option Plan (the 2000 Option Plan) was approved by the Board of Directors in April 2000 and the stockholders at the Annual Meeting held on June 15, 2000. The 2000 Option Plan provides for the granting of both incentive stock options and nonqualified stock options to eligible employees, consultants and outside directors of Autobytel.com. Autobytel.com has reserved 3 million shares under the 2000 Option Plan.

In May 2000, the Board of Directors granted Performance Options to purchase 250,000 shares of common stock to a certain executive at an exercise price of \$6.19 per share, which represents the fair market value on the date of grant. These options vest over a five year period, but the vesting could be accelerated based on the performance of Autobytel.com's common stock. The accelerated vesting schedule provides that the grants will vest in five installments, the first installment on the eight month anniversary of the grant date and the remaining installments on each subsequent seven month anniversary period, if pre-established average trading prices of the common stock are achieved. These installments will vest if the average trading price exceeds \$11.00, \$16.00, \$21.00, \$26.00 and \$31.00, respectively, in the applicable period after the date of grant. All other stock options granted under the 2000 Option Plan vest according to vesting schedules determined by the Board of Directors.

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

Stock Option Changes

A summary of the status of Autobytel.com's stock options as of December 31, 1998, 1999 and 2000, and changes during the years then ended is presented below:

	NUMBER OF OPTIONS	WEIGHTED AVERAGE EXERCISE PRICE
	-----	-----
Outstanding at December 31, 1997 .....	2,177,745	\$ 6.92
Granted .....	1,630,340	13.20
Exercised .....	(181,012)	0.94
Canceled .....	(767,733)	6.93
	-----	-----
Outstanding at December 31, 1998 .....	2,859,340	10.87
Granted .....	2,235,598	12.51
Exercised .....	(362,630)	2.19
Canceled .....	(813,747)	13.25
	-----	-----
Outstanding at December 31, 1999 .....	3,918,561	12.12
Granted .....	4,653,244	7.08



Exercised .....	(280,000)	2.29
Canceled .....	(1,612,025)	11.14
		-----
Outstanding at December 31, 2000 .....	6,679,780	\$ 9.26
	=====	=====
Exercisable at December 31, 1998 .....	738,860	\$ 6.42
	=====	=====
Exercisable at December 31, 1999 .....	1,331,924	\$ 8.90
	=====	=====
Exercisable at December 31, 2000 .....	2,160,318	\$ 10.89
	=====	=====
Weighted-average fair value of options granted during 1998 (1,630,340 options) .....		\$ 3.25
Weighted-average fair value of options granted during 1999 (2,235,598 options) .....		\$ 3.81
Weighted-average fair value of options granted during 2000 (4,653,244 options) .....		\$ 4.82

The fair value of each option granted through December 31, 2000 is estimated using the Black-Scholes option-pricing model on the date of grant using the following assumptions: (i) no dividend yield, (ii) volatility of 102.71% and 55.90% for the years ended December 31, 2000 and 1999, respectively, and effectively zero for the year ended December 31, 1998, (iii) weighted-average risk-free interest rate of approximately 6.07%, 5.36% and 4.80% for the years ended December 31, 2000, 1999 and 1998, respectively, and (iv) an expected life of four to seven years.

The following table summarizes information about stock options outstanding at December 31, 2000:

Range of Exercise Price -----	Options Outstanding			Options Exercisable	
	Number of Options -----	Weighted Average Remaining Life (in years) -----	Weighted Average Exercise Price -----	Number of Options -----	Weighted Average Exercise Price -----
Less than \$1.00.....	18,444	5.51	\$0.90	18,444	\$0.90
\$1.00 - \$5.99.....	886,555	8.22	4.15	355,555	4.50
\$6.00 - \$10.99.....	3,236,820	8.74	7.24	432,348	7.82
\$11.00 - \$15.99.....	2,271,961	6.40	13.20	1,232,859	13.28
\$16.00 - \$19.99.....	266,000	8.42	17.68	121,112	17.85
	-----	-----	-----	-----	-----
Less than \$1.00 - \$19.99.....	6,679,780	7.85	\$9.26	2,160,318	\$10.89
	=====	=====	=====	=====	=====

#### Stock-Based Compensation

From January to March 1999, Autobyte.com granted stock options to purchase 388,236 shares of common stock under the 1999 Stock Option Plan. These stock options were granted to employees and directors at exercise prices of \$13.20 and \$16.00 per share which were below the fair market value at the date of grant. In relation to these grants, Autobyte.com will recognize non-cash compensation expense of approximately \$2,600 ratably over the vesting term of one to four years. Compensation expense of approximately \$393 and \$1,063 was recognized as operating expense in 2000 and 1999, respectively.

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#### Pro Forma Disclosure

Had compensation cost for Autobyte.com's stock option grants for its stock-based compensation plans been determined consistent with SFAS No. 123, Autobyte.com's net loss and net loss per share for the years ended December 31, 2000, 1999 and 1998 would approximate the pro forma amounts below:

Years Ended December 31,		
-----	-----	-----
2000	1999	1998

	-----	-----	-----
Net loss, as reported .....	\$ (29,034)	\$ (23,320)	\$ (19,398)
Net loss per share, as reported	(1.45)	(1.48)	(2.30)
Net loss, pro forma .....	(36,901)	(27,850)	(21,109)
Net loss per share, pro forma .	(1.84)	(1.77)	(2.51)

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

#### 10. STOCK PURCHASE PLAN

##### 1996 Employee Stock Purchase Plan

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

During the years ended December 31, 2000 and 1999, 21,740 and 3,161 shares of common stock were issued under the Purchase Plan, respectively.

#### 11. INCOME TAXES

No provision for federal income taxes has been recorded as Autobytel.com incurred net operating losses through December 31, 2000. Provision for income taxes primarily consists of franchise taxes paid to the state of Delaware. As of December 31, 2000, Autobytel.com had approximately \$76,700 and \$38,200 of federal and state net operating loss carryforwards available to offset future taxable income. These net operating loss carryforwards expire in various years through 2020. Under the Tax Reform Act of 1986, the amounts of and benefits from Autobytel.com's net operating loss carryforwards will be limited under the provisions of Internal Revenue Code Section 382. Based on estimates, management believes the effect of such limitation will not have a material adverse effect on Autobytel.com.

Autobytel.com accounts for income taxes in accordance with SFAS No. 109, "Accounting for Income Taxes." Under SFAS No. 109, deferred income tax assets and liabilities are determined based on the differences between the book and tax basis of assets and liabilities and are measured using the currently enacted tax rates and laws. Net deferred income tax assets, totaling approximately \$35,900 as of December 31, 2000 and \$24,700 as of December 31, 1999, consist primarily of the tax effect of net operating loss carryforwards, reserves and accrued expenses which are not yet deductible for tax purposes. Autobytel.com has provided a full valuation allowance on these deferred income tax assets because of uncertainty regarding their realization.

#### 12. RELATED PARTY TRANSACTIONS

Peter R. Ellis

In March 1998, Autobytel.com extended to co-founding member and stockholder, Peter R. Ellis a \$250 loan bearing interest at 8% per annum compounded quarterly with principal and accrued interest due in full in March

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2003. The loan was secured by Mr. Ellis's stock in Autobytel.com. Mr. Ellis repaid the loan, including accrued interest, in January 2000.

In June 1998, Mr. Ellis resigned from Autobytel.com as Chief Executive Officer. In August 1998, Autobytel.com executed a two year agreement with Mr.

Ellis to provide advisory services. Under the agreement, Mr. Ellis received \$40, \$20 and \$500 in 2000, 1999 and 1998, respectively. The amounts paid to Mr. Ellis under this agreement are included in operating expenses in the accompanying consolidated statements of operations. In January 2000, Mr. Ellis gave Autobytel.com a 90-day termination notice of the agreement.

Consulting Agreement

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

13. BUSINESS SEGMENT

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

14. SUBSEQUENT EVENTS (UNAUDITED)

Change in Functional Currency

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

EXHIBIT INDEX

NUMBER	DESCRIPTION	SEQUENTIALLY NUMBERED PAGE
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2.1	Agreement and Plan of Merger dated October 14, 1999, entered into among autobytel.com inc., Autobytel Acquisition I Corp., A.I.N. Corporation, and shareholders of A.I.N. Corporation is incorporated herein by reference to Exhibit 2.1 of the Form 8-K filed with the Securities and Exchange Commission (the "SEC") on February 15, 2000	
2.2	Amendment to Agreement and Plan of Merger dated January 25, 2000, entered into among autobytel.com inc., Autobytel Acquisition I Corp., A.I.N. Corporation, and shareholders of A.I.N. Corporation is incorporated herein by reference to Exhibit 2.2 of the Form 8-K filed with the SEC on February 15, 2000	
2.3	Amendment No. 2 to Agreement and Plan of Merger dated February 14, 2000, entered into among autobytel.com inc., Autobytel Acquisition I Corp., A.I.N. Corporation, and shareholders of A.I.N. Corporation is incorporated herein by reference to Exhibit 2.3 of the Form 8-K filed with the SEC on February 15, 2000	
2.4	Agreement and Plan of Merger dated December 17, 1999 among autobytel.com inc., Autobytel Acquisition II Corp., A.I.N. Corporation and the shareholders of A.I.N. is incorporated herein by reference to Exhibit 2.1 of Form 8-K filed with the SEC on	

February 25, 2000 (the "February 2000 8-K").

- 2.5 Amendment to Agreement and Plan of Merger dated January 25, 2000 among autobytel.com inc., Autobytel Acquisition II Corp., A.I.N. Corporation and the shareholders of A.I.N. is incorporated herein by reference to Exhibit 2.2 of the February 2000 8-K.
- 2.6 2nd Amendment to Agreement and Plan of Merger dated February 14, 2000 among autobytel.com inc., Autobytel Acquisition II Corp., A.I.N. Corporation and the shareholders of A.I.N. is incorporated herein in reference to Exhibit 2.3 of the February 2000 8-K.
- 3.1 Amended and Restated Certificate of Incorporation of autobytel.com inc. certified by the Secretary of State of Delaware (filed December 14, 1998 and amended March 1, 1999) is incorporated herein by reference to Exhibit 3.1 of Amendment No. 2 (filed on March 5, 1999) to autobytel.com inc.'s Registration Statement on Form S-1 (File No. 333-70621) originally filed with the SEC on January 15, 1999 and declared effective (as amended) on March 25, 1999 (the "Registration Statement")
- 3.2 Second Certificate of Amendment of the Fifth Amended and Restated Certificate of Incorporation is incorporated herein by reference to Exhibit 3.1 of Form 10-Q for the Quarter Ended June 30, 1999 filed with the SEC on August 12, 1999
- 3.3 Amended and Restated Bylaws of autobytel.com inc. is incorporated herein by reference to Exhibit 3.1 of Form 10-Q for the Quarter Ended September 30, 2000 filed with the SEC on November 13, 2000 (the "September 2000 10-Q").
- 4.1 Form of Stock Certificate is incorporated herein by reference to Exhibit 4.1 of Amendment No. 2 to the Registration Statement filed with the SEC on March 5, 1999
- 4.2 Amended and Restated Investors' Rights Agreement dated October 21, 1997 as amended from time to time, between autobytel.com inc. and the Investors named in Exhibit A thereto is incorporated herein by reference to Exhibit 4.2 of the Registration Statement filed with the SEC on January 15, 1999
- 9.1 Voting Proxy dated January 11, 1999 by Peter R. Ellis is incorporated herein by reference to Exhibit 9.1 of the Registration Statement filed with the SEC on January 15, 1999
- 10.1 Form of Indemnification Agreement between autobytel.com inc. and its directors and officers is incorporated herein by reference to Exhibit 10.1 of the Registration Statement filed with the SEC on January 15, 1999

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NUMBER	DESCRIPTION	SEQUENTIALLY NUMBERED PAGE
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10.2	Employment Agreement dated July 1, 1998 between autobytel.com inc. and Mark W. Lorimer is incorporated herein by reference to Exhibit 10.2 of the Registration Statement filed with the SEC on January 15, 1999	
10.3	First Amendment dated as of July 31, 1998 to Employment Agreement between Autobytel.com and Mark W. Lorimer is incorporated herein by reference to Exhibit 10.5 of Form 10-Q for the Quarter Ended September 30, 1999 filed with the SEC on November 12, 1999	
10.4	Letter agreement dated July 28, 2000 between autobytel.com inc. and Andrew F. Donchak.	
10.5	Employment Agreement, dated as of May 3, 2000, between Dennis Benner and autobytel.com inc. is incorporated herein by reference to Exhibit 10.5 of the September 2000 10-Q.	

- 10.6 Employment Agreement, dated as of April 3, 2000 between Ariel Amir and autobytel.com inc.
- 10.7 Contract of Employment, dated September 1, 2000, between Max Rens and Autobytel.Europe Holdings, B.V. is incorporated herein by reference to Exhibit 10.4 of the September 2000 10-Q.
- 10.8 Employment Agreement dated as of February 14, 2000 among A.I.N. Corporation, autobytel.com inc. and Michael Gorun is incorporated herein by reference to Exhibit 10.8 of Annual Report on Form 10-K for the Year Ended December 31, 1999 filed with the SEC on March 23, 2000 (the "1999 10-K").
- 10.9 1996 Employee Stock Purchase Plan is incorporated herein by reference to Exhibit 10.7 of Amendment No. 1 to the Registration Statement filed with the SEC on February 9, 1999
- 10.10 1998 Stock Option Plan is incorporated herein by reference to Exhibit 10.8 of Amendment No. 1 to the Registration Statement filed with the SEC on February 9, 1999
- 10.11 1999 Stock Option Plan is incorporated herein by reference to Exhibit 10.30 of Amendment No. 1 to the Registration Statement filed with the SEC on February 9, 1999
- 10.12 1999 Employee and Acquisition Related Stock Option Plan is incorporated herein by reference to Exhibit 10.1 of the Registration Statement filed on Form S-8 (file no. 333-90045) with the SEC on November 1, 1999
- 10.13 Amendment No. 1 to the autobytel.com inc. 1998 Stock Option Plan dated September 22, 1999 is incorporated herein by reference to Exhibit 10.2 of Form 10-Q for the Quarter Ended September 30, 1999 filed with the SEC on November 12, 1999
- 10.14 Amendment No. 1 to the autobytel.com inc. 1999 Stock Option Plan, dated September 22, 1999 is incorporated herein by reference to Exhibit 10.1 of Form 10-Q for the Quarter Ended September 30, 1999 filed with the SEC on November 12, 1999
- 10.15 Form of Dealership Agreements are incorporated herein by reference to Exhibit 10.12 of the Registration Statement filed with the SEC on January 15, 1999
- 10.16+ Data License and Web Site Agreement dated April 1, 1997 between IntelliChoice, Inc. and Auto-By-Tel Marketing Corporation and autobytel.com inc. is incorporated herein by reference to Exhibit 10.16 of the Registration Statement filed with the SEC on January 15, 1999
- 10.17+ Kelley Blue Book/Auto-By-Tel Agreement dated November 19, 1997, as amended July 1, 1998, between Kelley Blue Book and Auto-By-Tel Corp. is incorporated herein by reference to Exhibit 10.17 of the Registration Statement filed with the SEC on January 15, 1999
- 10.18+ License and Services Agreement dated November 23, 1998 between autobytel.com inc. and Auto-by-Tel UK Limited is incorporated herein by reference to Exhibit 10.24 of the Registration Statement filed with the SEC on January 15, 1999

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NUMBER	DESCRIPTION	SEQUENTIALLY NUMBERED PAGE
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10.19+	Share Purchase Agreement dated November 23, 1998 between autobytel.com inc. and Inchcape Automotive Limited is incorporated herein by reference to Exhibit 10.25 of the Registration Statement filed with the SEC on January 15, 1999	
10.20	Advisory Agreement dated August 20, 1998 between autobytel.com inc. and Peter R. Ellis is incorporated herein by reference to Exhibit 10.29 of the Registration Statement filed with the SEC on	

January 15, 1999

- 10.21 Form of Gold Term Subscription Agreement is incorporated herein by reference to Exhibit 10.31 of Amendment No. 1 to the Registration Statement filed with the SEC on February 9, 1999
- 10.22 Form of Platinum Term Continuation Rider is incorporated herein by reference to Exhibit 10.32 of Amendment No. 1 to the Registration Statement filed with the SEC on February 9, 1999
- 10.23 Amended and Restated Operating Agreement dated as of January 6, 2000 among AutobyteEurope LLC, autobyte.com inc., GE Capital Equity Holdings, Inc., Inchcape Overseas Investments B.V. and Pon Holdings B.V. is incorporated herein by reference to Exhibit 10.31 of the 1999 10-K
- 10.24 1996 Stock Option Plan and related agreements are incorporated herein by reference to Exhibit 10.5 of Amendment No. 1 to the Registration Statement filed with the SEC on February 9, 1999.
- 10.25 1996 Stock Incentive Plan and related agreements are incorporated herein by reference to Exhibit 10.6 of Amendment No. 1 to the Registration Statement filed with the SEC on February 9, 1999.
- 10.26+ Intercompany Software License Agreement dated as of January 6, 2000 between autobyte.com inc. and AutobyteEurope LLC is incorporated herein by reference to Exhibit 10.34 of the 1999 10-K.
- 10.27 Form of autobyte.com Gold Term Services Agreement is incorporated herein by reference to Exhibit 10.35 of the 1999 10-K.
- 10.28 Form of CarSmart.com Internet Marketing Agreement is incorporated herein by reference to Exhibit 10.36 of the 1999 10-K.
- 10.29 autobyte.com inc. Retirement Savings Plan is incorporated herein by reference to Exhibit 99.1 of the Registration Statement filed on Form S-8 (file no. 333-33038) with the SEC on June 15, 2000.
- 10.30 Letter agreement, dated July 14, 2000, between ABN AMRO Bank N.V. and AutobyteEurope Holdings B.V. regarding foreign currency forward transaction is incorporated herein by reference to Exhibit 10.1 of the September 2000 10-Q.
- 10.31 Letter agreement, dated July 19, 2000 between ABN AMRO Bank N.V. and AutobyteEurope Holdings B.V. regarding foreign currency forward transaction is incorporated herein by reference to Exhibit 10.2 of the September 2000 10-Q.
- 10.32 Letter agreement, dated July 24, 2000 between ABN AMRO Bank N.V. and AutobyteEurope Holdings B.V. regarding foreign currency forward transaction is incorporated herein by reference to Exhibit 10.3 of the September 2000 10-Q.
- 10.33 First Amendment to Amended and Restated Operating Agreement, dated as of January 27, 2000 among autobyte.com inc, GE Capital Holdings, Inc., Inchcape Overseas Investments B.V. and Pon Holdings B.V. is incorporated herein by reference to Exhibit 10.1 of Form 10-Q for the Quarter Ended March 31, 2000 filed with the SEC on May 15, 2000.

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NUMBER	DESCRIPTION	SEQUENTIALLY NUMBERED PAGE
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10.34	Second Amendment to Amended and Restated Operating Agreement, dated as of April 6, 2000 among autobyte.com inc., GE Capital Holdings, Inc., Inchcape Overseas Investments B.V., Pon Holdings B.V. and e-LaSer S.A.	
10.35	autobyte.com inc. 2000 Stock Option Plan is incorporated herein	

by reference to Exhibit 99.1 of the Registration Statement filed on Form S-8 (file no. 333-39396) with the SEC on June 15, 2000.

- 10.36 Employment Agreement dated November 7, 2000 between autobytel.com inc. and Howard Layson.
- 10.37 Employment Agreement dated August 30, 1999 between autobytel.com inc. and Amit Kothari.
- 21.1 Subsidiaries of autobytel.com inc.
- 23.1 Consent of Arthur Andersen LLP, Independent Public Accountants
- 23.2 Consent of Manheim Auctions
- 24.1 Power of Attorney (reference is made to the signature page)

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

July 28, 2000  
VIA FAX AND FEDERAL EXPRESS

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

Dear Mr. Donchak:

This letter will confirm our offer to you for the position of Senior Vice President and Chief Marketing Officer, autobytel.com inc. located at its corporate headquarters in Irvine, California. It is expected you will commence employment as soon as possible and in no event later than August 28, 2000.

- Base Salary: \$245,000 annualized, paid on a bi-weekly basis
- Bonus: A bonus to be calculated in the manner determined by the Board, targeted to be 50% of your base salary earned in any year.
- Options: 150,000 - exercise price shall be the closing stock price on the date of hire or Board ratification, whichever is later.
- Change of Control: Your options will fully vest in the event of a Change of Control in which the Option Plan is not adopted by the acquiring entity, or in the event your employment is terminated without cause within 1 year of the Change of Control.
- Severance: 1 year of base salary in the event your employment is terminated without cause.
- Relocation Reimbursement: Not to exceed \$5,000

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

Please execute a copy of this letter and return it in the envelope provided confirming your acceptance of this offer and its terms. This offer shall expire at the close of business on Monday, July 31, 2000.

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Mr. Andrew F. Donchak  
July 28, 2000

We look forward to your joining autobytel.com inc.

Sincerely,

/s/ Mark W. Lorimer

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Mark W. Lorimer  
President and CEO

Mwl/jd  
Enclosures

AGREED, this 28 day of July, 2000.

/s/ Andrew F. Donchak

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Andrew F. Donchak

## EMPLOYMENT AGREEMENT

This Employment Agreement ("Agreement") is made and entered into, at Irvine, California, as of the 3rd day of April, 2000, by and between autobyte.com inc., a corporation duly organized under the laws of the State of Delaware (the "Company"), with offices at 18872 MacArthur Boulevard, Second Floor, Irvine, California, 92612-1400, and ARIEL AMIR (hereinafter referred to as the "Executive"), who resides at 619 Orchid Avenue, Corona del Mar, California 92625.

## RECITALS

WHEREAS: The Company currently employs and desires to continue to employ the Executive as Senior Vice President, General Counsel, and Secretary of the Company.

WHEREAS: The Executive is currently employed and desires to continue to be so employed by the Company, subject to the following terms and conditions.

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

## ARTICLE 1

## TERM OF EMPLOYMENT

The Company hereby employs the Executive as Senior Vice President, General Counsel, and Secretary of the Company and the Executive hereby accepts such employment by the Company for a period of two (2) years (the "Term") commencing from April 3, 2000 (the "Commencement Date") and expiring on the second anniversary of the Commencement Date (the "Termination Date"), unless extended at the mutual option of the parties. Notwithstanding the above, in the event of a Change of Control of the Company prior to March 31, 2001 and while the Executive remains employed by the Company, the Term shall automatically extend for a period of two (2) years commencing from the date of the Change of Control, and in the event of a Change of Control between March 31, 2001 and the Termination Date, the Term shall automatically extend for a period of one (1) year commencing from the date of the Change of Control. For purposes of this Agreement "Change of Control" means the occurrence of any of the following: (i) the consummation of the sale, lease, transfer, conveyance or other disposition (other than by way of merger or consolidation but not including any initial or secondary public offering) in one or a series of related transactions of all or substantially all of the assets of the Company taken as a whole to any person (a "Person") or group of persons acting together (a "Group") (other than any of the Company's wholly-owned subsidiaries, any Company employee pension or benefits plan, or any person or entity owning at least five (5) percent of the common stock of the Company as of March 31, 1999), (ii) the adoption of a plan relating to the liquidation or dissolution of the Company, (iii) the consummation of any transactions (including any stock or other purchase, sale, acquisition, disposition, merger or consolidation, but not including any initial or secondary public offering) the result of which is that any Person or Group (other than any of the Company's wholly-owned subsidiaries, any Company employee pension or benefits plan, or any person or entity owning at least five (5) percent of the common stock of the Company as of March 31, 1999), becomes the beneficial owners of more than 40 percent of the aggregate voting power of all classes of stock of the Company having the right to elect directors under ordinary circumstances; or (iv) the first day on which a majority of the members of the board of directors of the Company (the "Board") are not individuals who were nominated for election or elected to the Board with the approval of two-thirds of the members of the Board just prior to the time of such nomination or election.

ARTICLE 2

DUTIES AND OBLIGATIONS

2.1 During the Term of this Agreement, the Executive shall: (i) devote his full business time, attention and energies to the business of the Company; (ii) shall use his best efforts to promote the interests of the Company; (iii) shall perform all functions and services as the Senior Vice President, General Counsel, and Secretary of the Company, including general management and supervision over the legal operations of the business and employees of the Company; (iv) shall act in accordance with the policies and directives of the Company; and (v) shall report directly to the Chief Executive Officer and President of the Company.

2.2 The Executive covenants and agrees that, while actually employed by the Company, he shall not engage in any other business duties or pursuits whatsoever, or directly or indirectly render any services of a business or commercial nature to any other person or organization, including, but not limited to, providing services to any business that is in competition with or similar in nature to the Company, whether for compensation or otherwise, without the prior written consent of the Chief Executive Officer. However, the expenditure of reasonable amounts of time for educational, charitable, or professional activities shall not be deemed a breach of this Agreement, if those activities do not materially interfere with the services required under this Agreement, and shall not require the prior written consent of the Chief Executive Officer. Notwithstanding anything herein contained to the contrary, this Agreement shall not be construed to prohibit the Executive from making passive personal investments or conducting personal business, financial or legal affairs or other personal matters if those activities do not materially interfere with the services required hereunder. In addition to the foregoing, notwithstanding anything contained herein to the contrary, this Agreement shall not be construed to prohibit the Executive from serving as a director or board member of any other corporation, company, or other business entity, subject to the approval of the Chief Executive Officer.

ARTICLE 3

COMPENSATION

3.1 As compensation for the services to be rendered by the Executive pursuant to this Agreement, the Company hereby agrees to pay the Executive a base salary equal to at least Two Hundred Thousand Dollars (\$200,000.00) per year during the Term of this Agreement, which rate shall be reviewed by the Board at least annually and may be increased (but not reduced) by the Board and Chief Executive Officer in such amounts as the Board deems appropriate. The base salary shall be paid in substantially equal bimonthly installments, in accordance with the normal payroll practices of the Company.

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

3.3 The Company shall have the right to deduct or withhold from the compensation due to the Executive hereunder any and all sums required for federal income and employee social security taxes and

all state or local income taxes now applicable or that may be enacted and become applicable during the Term.

3.4 The Company may provide for shareholder approval of any performance

based compensation provided herein and may provide for the compensation committee to establish any applicable performance goals and determine whether such performance goals have been met.

3.5 The Company and the Executive agree that the terms and conditions set forth on Schedule I hereto are hereby deemed incorporated by reference in and made a part of any stock option agreements between the Company and the Executive and shall govern any stock options to purchase shares of the Company's common stock held by the Executive (the "Options").

#### ARTICLE 4

##### EMPLOYEE BENEFITS

4.1 The Company agrees that the Executive shall be entitled to all ordinary and customary perquisites afforded to executive employees of the Company, at the Company's sole expense (except to the extent employee contribution may be required under the Company's benefit plans as they may now or hereafter exist), which shall in no event be less than the benefits afforded to the Executive on the date hereof and the other executive employees of the Company as of the date hereof or from time to time, but in any event shall include any qualified or non-qualified pension, profit sharing and savings plans, any death benefit and disability benefit plans, life insurance coverages, any medical, dental, health and welfare plans or insurance coverages and any stock purchase programs that are approved by the Board on terms and conditions at least as favorable as provided to the Executive on the date hereof and other senior executives of the Company as of the date hereof or from time to time.

4.2 The Executive shall be entitled to four (4) weeks of paid vacation for each year of his employment hereunder (including three weeks for 1999), which, to the extent unused in any given year, may be carried over in accordance with the policies of the Company then in effect. Notwithstanding anything to the contrary, however, the Executive shall not be entitled to carry over any unused vacation for a period exceeding two (2) years.

#### ARTICLE 5

##### BUSINESS EXPENSES

5.1 The Company shall pay or reimburse the Executive for all reasonable and authorized business expenses incurred by the Executive during the Term; such payment or reimbursement shall not be unreasonably withheld so long as said business expenses have been incurred for and promote the business of the Company and are normally and customarily incurred by employees in comparable positions at other comparable businesses in the same or similar market. Notwithstanding the above, the Company shall not pay or reimburse the Executive for the costs of any membership fees or dues for private clubs, civic organizations, and similar organizations or entities, unless such organizations and the fees and costs associated therewith have first been approved in writing by the Chief Executive Officer.

5.2 As a condition to reimbursement under this Article 5, the Executive shall furnish to the Company adequate records and other documentary evidence required by federal and state statutes and regulations for the substantiation of each expenditure. The Executive acknowledges and agrees that failure to furnish the required documentation may result in the Company denying all or part of the expense for which reimbursement is sought.

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#### ARTICLE 6

##### TERMINATION OF EMPLOYMENT

6.1 TERMINATION FOR CAUSE. The Company may, during the Term, without notice to the Executive, terminate this Agreement and discharge the Executive for Cause, whereupon the respective rights and obligations of the parties hereunder shall terminate; provided, however, that the Company shall immediately pay the Executive any amount due and owing pursuant to Articles 3, 4, and 5,

prorated to the date of termination. As used herein, the term "for Cause" shall refer to the termination of the Executive's employment as a result of any one or more of the following: (i) any conviction of, or pleading of nolo contendere by, the Executive for any crime or felony; (ii) any willful misconduct of the Executive which has a materially injurious effect on the business or reputation of the Company; (iii) the gross dishonesty of the Executive which has a materially injurious effect on the business or reputation of the Company; or (iv) failure to consistently discharge his duties under this Agreement which failure continues for thirty (30) days following written notice from the Company detailing the area or areas of such failure. For purposes of this Section 6.1, no act or failure to act, on the part of the Executive, shall be considered "willful" if it is done, or omitted to be done, by the Executive in good faith or with reasonable belief that his action or omission was in the best interest of the Company. The Executive shall have the opportunity to cure any such acts or omissions (other than item (i) above) within fifteen (15) days of the Executive's receipt of a notice from the Company finding that, in the good faith opinion of the Company, the Executive is guilty of acts or omissions constituting "Cause".

6.2 TERMINATION WITHOUT CAUSE. Anything in this Agreement to the contrary notwithstanding, the Company shall have the right, at any time in its sole and subjective discretion, to terminate this Agreement without Cause upon not less than thirty (30) days prior written notice to the Executive. The term "termination without Cause" shall mean the termination of the Executive's employment for any reason other than those expressly set forth in Section 6.1, or no reason at all, and shall also mean the Executive's decision to terminate this Agreement by reason of any act, decision or omission by the Company or the Board that: (A) materially modifies, reduces, changes, or restricts the Executive's salary, bonus opportunities, options or other compensation benefits or perquisites, or the Executive's authority, functions, services, duties, rights, and privileges as, or commensurate with the Executive's position as, Senior Vice President, General Counsel, and Secretary of the Company as described in Section 2.1 hereof; (B) relocates the Executive without his consent from the Company's offices located at 18872 MacArthur Boulevard, Irvine, California, 92612-1400 to any other location in excess of fifty (50) miles beyond the geographic limits of Irvine, California; (C) deprives the Executive of his titles and positions of Senior Vice President, General Counsel, and Secretary of the Company; or (D) involves or results in any failure by the Company to comply with any provision of this Agreement, other than an isolated, insubstantial and inadvertent failure not occurring in bad faith and which is remedied by the Company promptly after receipt of notice thereof given by the Executive (each a "Good Reason"). In the event the Company or the Executive shall exercise the termination right granted pursuant to this Section 6.2, the Company shall, within thirty (30) days of notice of termination to or from the Executive (as the case may be), pay to the Executive in a single lump-sum payment the base salary that would have been received by the Executive if he had remained employed by the Company for the remaining balance of the Term but in no event less than twelve (12) months; provided, however, that for purposes of calculating the payment pursuant to this sentence, the Executive's base salary per year shall be the highest rate in effect during the Term. The Company also shall (i) continue to provide to the Executive and his beneficiaries, at its sole cost, the insurance coverages referred to in Section 4.1 above, and (ii) pay to the Executive in a single lump-sum payment the aggregate cost of the benefits (other than insurance coverages) under Section 4.1 hereof, in each case to the extent he would have received such insurance coverages and benefits had he remained employed by the Company for the remaining balance of the Term but in no event less than twelve (12) months.

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6.3 TERMINATION FOR DEATH OR DISABILITY. The Executive's employment shall terminate automatically upon the Executive's death during the Term. If the Company determines in good faith that the Disability (as defined below) of the Executive has occurred during the Term, it shall give written notice to the Executive of its intention to terminate his employment. In such event, the Executive's employment with the Company shall terminate effective on the 30th day after receipt of such notice by the Executive, provided that, within the thirty (30) days after such receipt, the Executive shall not have returned to full-time performance of his duties.

For purposes of this Agreement, "Disability" shall mean the inability of the Executive to perform his duties to the Company on account of physical or

mental illness or incapacity for a period of ninety (90) consecutive calendar days, or for a period of one hundred eighty (180) calendar days, whether or not consecutive, during any three hundred sixty-five (365) day period.

6.4 TERMINATION WITHOUT GOOD REASON. Anything in this Agreement to the contrary notwithstanding, the Executive shall have the right, at any time in his sole and subjective discretion, to terminate this Agreement without Good Reason upon not less than thirty (30) days prior written notice to the Company. In the event the Executive voluntarily terminates his employment hereunder other than for Good Reason, the respective rights and obligations of the parties hereunder shall terminate; provided, however, that the Company shall immediately pay the Executive any amount due and owing pursuant to Articles 3, 4, and 5, prorated to the date of termination.

6.5 TERMINATION PRIOR TO OR FOLLOWING A CHANGE OF CONTROL. Notwithstanding the foregoing, in the event the employment of the Executive is terminated during the six (6) month period immediately prior to, or the first twelve (12) months following a Change of Control either: (i) by the Executive for Good Reason; or (ii) by the Company other than for Cause, Disability or death, then the provisions of Section 6.2 hereof shall not apply, and the Company shall, within thirty (30) days of notice of termination to the Executive, pay to the Executive in a single lump-sum payment the base salary that would have been received by the Executive if he had remained employed by the Company for two (2) years (calculated at the highest base salary rate during the Term). In addition, the Company shall continue to provide to the Executive and his beneficiaries, at its sole cost, the insurance coverages referred to in Section 4.1 above for one (1) year. For purposes of this Section 6.5, "Term" shall be the period of time of this Agreement as defined by Article 1 hereof, which includes any extension thereof by reason of a Change of Control prior to or after March 31, 2001.

6.6 Upon the Executive's termination under this Article 6, the Company's obligations with respect to any stock option to purchase shares of the Company's common stock granted to the Executive shall be determined by the terms and conditions of such option as set forth in the Executive's written option agreement regarding such option, including the terms and conditions set forth on Schedule I hereto which Schedule I terms and conditions shall govern such stock option.

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## ARTICLE 7

### PARACHUTE TAX INDEMNITY

#### 7.1 GROSS-UP PAYMENT.

(a) If it shall be determined that any amount paid, distributed or treated as paid or distributed by the Company to or for the benefit of the Executive (whether paid or payable or distributed or distributable pursuant to the terms of this Agreement or otherwise, but determined without regard to any additional payments required under this Article 7) (a "Payment") would be subject to the excise tax imposed by Section 4999 of the Internal Revenue Code of 1986, as amended (the "Code") or any interest or penalties are incurred by the Executive with respect to such excise tax (such excise tax, together with any such interest and penalties, being hereinafter collectively referred to as the "Excise Tax"), then the Executive shall be entitled to receive an additional payment (a "Gross-Up Payment") in an amount such that after payment by the Executive of all federal, state and local taxes (including any interest or penalties imposed with respect to such taxes), including without limitation, any income taxes (including any interest or penalties imposed with respect thereto) and Excise Tax imposed on the Gross-up Payment, the Executive retains an amount of the Gross-Up Payment equal to the Excise Tax imposed upon the Payments, provided, however, that in no event will the amount of the Gross-Up Payment payable pursuant to this Article 7 exceed Two Hundred Fifty Thousand Dollars (\$250,000).

(b) The determinations of whether and when a Gross-Up Payment is required under this Article 7 shall be made by independent tax counsel (the "Tax Counsel") based on its good faith interpretation of applicable law. The amount

of such Gross-Up Payment and the valuation assumptions to be utilized in arriving at such determination shall be made by an independent nationally recognized accounting firm (the "Accounting Firm") which shall provide detailed supporting calculations both to the Company and the Executive within 15 business days of the receipt of notice from the Executive that there has been a Payment, or such earlier time as is requested by the Company. The Tax Counsel and Accounting Firm shall initially be appointed by the Company after consultation in good faith with the Executive and subject to the approval of the Executive (which approval shall not be unreasonably withheld), provided, however, that if the potential amount of the Gross-Up Payment (but for the limit in Section 7.1(a) above) could exceed Two Hundred Fifty Thousand Dollars (\$250,000), the Executive shall have the opportunity to appoint a new Tax Counsel and Accounting Firm after consultation in good faith with the Company. If the Tax Counsel and Accounting Firm selected by the Company determine that the amount of the Gross-Up Payment is less than Two Hundred Fifty Thousand Dollars (\$250,000), but Executive provides an opinion of a second independent Tax Counsel that the Gross-Up Payment (but for the limit in Section 7.1(a) above) could be greater than Two Hundred Fifty Thousand Dollars (\$250,000) then Executive shall be entitled to appoint the Tax Counsel and the Accounting Firm after consultation in good faith with the Company and subject to the approval of the Company (which approval shall not be unreasonably withheld). All fees and expenses of any Tax Counsels and Accounting Firms referred to above shall be borne by the Company. Any Gross-Up Payment, as determined pursuant to this Article 7, shall be paid by the Company to the Executive within ten (10) days of the receipt of the Accounting Firm's determination. Any determinations by the Tax Counsel and Accounting Firm shall be binding upon the Company and the Executive, provided, however, if it is later determined that there has been an underpayment of Excise Tax and that Executive is required to make an additional Excise Tax payment(s) on any Payment or Gross-Up Payment, the Company shall provide a similar full gross-up on such additional liability, subject to the overall Two Hundred Fifty Thousand Dollars (\$250,000) limit set forth in Section 7.1(a) above.

(c) For purposes of any determinations made by any Tax Counsel and Accounting Firm acting under Section 7.1(b) above:

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(i) All Payments and Gross-Up Payments with respect to Executive shall be deemed to be "parachute Payments" under Section 280G(b)(2) of the Code and to be "excess parachute payments" under Section 280G(b)(1) of the Code that are fully subject to the Excise Tax under Section 4999 of the Code, except to the extent (if any) that such Tax Counsel determines in writing in good faith that a Payment in whole or in part does not constitute a "parachute payment" or otherwise is not subject to Excise Tax;

(ii) The value of any non-cash benefits or deferred or delayed payments or benefits shall be determined in a manner consistent with the principles of Section 280G of the Code; and

(iii) Executive shall be deemed to pay federal, state and local income taxes at the actual marginal rate applicable to individuals in the calendar year in which the Gross-Up Payment is made, net of any applicable reduction in federal income taxes for any state and local taxes paid on the amounts in question.

7.2 CLAIMS AND PROCEEDINGS. The Executive shall notify the Company in writing of any Excise Tax claim by the Internal Revenue Service that, if successful, would require the payment by the Company of a Gross-Up Payment. Such notification shall be given as soon as practicable but no later than twenty (20) business days after the Executive is informed in writing of such claim and shall apprise the Company of the nature of such claim and the date on which such claim is to be paid. The Executive shall not pay such claim prior to the expiration of the 30-day period following the date on which it gives such notice to the Company (or such shorter period ending on the date that any payment of taxes with respect to such claim is due). If the Company notifies the Executive in writing prior to the expiration of such period that it desires to contest such Excise Tax claim, the Executive shall: (i) give the Company any information reasonably requested by the Company relating to such claim; (ii) take such action in connection with contesting such claim as the Company shall reasonably request in writing from time to time, including, without limitation, accepting legal representation with respect to such claim by an attorney reasonably

selected by the Company after consultation in good faith with Executive and subject to approval by Executive (which approval shall not be unreasonably withheld) under the circumstances set forth in Section 7.1; (iii) cooperate with the Company in good faith in order to effectively contest such claim; and (iv) permit the Company to participate in any proceeding relating to such claim; provided, however, that the Company shall bear and pay directly all costs and expenses (including additional interest and penalties) incurred in connection with such contest and shall indemnify and hold the Executive harmless, on an after-tax basis, from any Excise Tax or income tax (including interest and penalties with respect thereto) imposed as a result of such representation and payment of costs and expense. Without limitation of the foregoing provisions of this Article 7, if the Gross-Up Payment payable hereunder (determined on the basis of the amount being contested), together with any previous Gross-Up Payment made by the Company to the Executive hereunder (collectively the "Aggregate Gross-Up Payment"), would not exceed Two Hundred Fifty Thousand Dollars (\$250,000) (determined without regard to the Two Hundred Fifty Thousand Dollars (\$250,000) limit in Section 7.1(a)), the Company shall control the Excise Tax portion of any proceedings taken in connection with such contest and, at its sole option, may pursue or forego any and all administrative appeals, proceedings, hearings and conferences with the taxing authority in respect of such Excise Tax claim and may, at its sole option, either direct the Executive to pay the tax claimed and sue for a refund or contest the Excise Tax claim in any permissible manner, and the Executive agrees to prosecute such contest to a determination before any administrative tribunal, in a court of initial jurisdiction and in one or more appellate courts, as the Company shall determine. If the Company directs the Executive to pay such Excise Tax claim and sue for a refund, the Company shall advance the amount of such payment to the Executive, on an interest-free basis, and shall indemnify and hold the Executive harmless, on an after-tax basis, from any Excise Tax or income tax (including interest and penalties) imposed with respect to such advance or with respect to any imputed income with respect to such advance; and provided, however, that any Company-directed extension of the statute of limitations relating

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to payment of taxes for the Executive's taxable year with respect to which such contested Excise Tax amount is claimed to be due shall be effective only if it can be and is limited to the contested Excise Tax liability. Notwithstanding anything to the contrary herein, the Executive shall control the settlement or contest, as the case may be, of all non-Excise Tax issues and of any Excise Tax issues with respect to which the Aggregate Gross-Up Payment payable hereunder (but for the limit in Section 7.1(a) above) would exceed Two Hundred Fifty Thousand Dollars (\$250,000). The Executive shall be entitled to settle or contest, as the case may be, any non-Excise Tax issue raised by the Internal Revenue Service or any other taxing authority, so long as such action does not have a material adverse effect on an Excise Tax contest being pursued by and under the control of the Company.

7.3 REFUNDS. If, after the Executive's receipt of an amount advanced by the Company pursuant to this Article 7 for payment of Excise Taxes, the Executive files an Excise Tax refund claim and receives any refund with respect to such claim, the Executive shall (subject to the Company's complying with the requirements of this Article 7) except as provided below, promptly pay to the Company the amount of any such refund of Excise Tax (together with any interest paid or credited thereon, but after any and all taxes applicable thereto), plus the amount (after any and all taxes applicable thereto) of the refund (if any is applied for and received) of any income tax paid by Executive with respect to and as a result of his prior receipt of any previously paid Gross-Up Payment indemnifying Executive with respect to any such Excise Tax later so refunded. In the event Executive files for a refund of the Excise Tax and such request would, if successful, require Executive to refund any amount to the Company pursuant to this provision, then Executive shall be required to seek a refund of the Income Tax portion of any corresponding Gross-Up Payment so long as such refund request would not have a material adverse effect on Executive (which determination shall be made by independent tax counsel selected by Executive after good faith consultation with the Company and subject to approval of the Company, which approval shall not be unreasonably withheld). Notwithstanding the above, Executive shall have no obligation to pay any portion of any such tax refund(s) to the Company if and to the extent that the Excise Tax to which such refund relates was not eligible for a Gross-Up Payment by reason of the Two Hundred Fifty Thousand Dollars (\$250,000) limit in Section 7.1(a) above. For this



purpose, if the total Excise Tax paid with respect to Executive exceeds the maximum amount eligible for Gross-Up Payment coverage by reason of the Two Hundred Fifty Thousand Dollars (\$250,000) limit in Section 7.1(a) above, any subsequent Excise Tax refunds shall first be applied against the portion of any Excise Tax payments that are not covered by the Gross-Up Payments provided under this Article 7. If, after the Executive's receipt of an amount advanced by the Company pursuant to this Article 7, a determination is made that the Executive shall not be entitled to any refund with respect to such claim and the Company does not notify the Executive in writing of its intent to contest such denial of refund prior to the expiration of thirty (30) days after such determination, then such advance shall be forgiven and shall not be required to be repaid and the amount of such advance shall offset, to the extent thereof, the amount of the Gross-Up Payment required to be paid.

#### ARTICLE 8

##### NO MITIGATION OR OFFSET; INSURANCE

8.1 NO MITIGATION OR OFFSET. The Executive shall not be required to seek other employment or to reduce any severance benefit payable to him under Article 6 hereof, and no severance benefit shall be reduced on account of any compensation received by the Executive from other employment. The Company's obligation to pay severance benefits under this Agreement shall not be reduced by any amount owed by the Executive to the Company.

##### 8.2 INDEMNIFICATION; INSURANCE.

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(a) If the Executive is a party or is threatened to be made a party to any threatened, pending or completed claim, action, suit or proceeding, or appeal therefrom, whether civil, criminal, administrative, investigative or otherwise, because he is or was an officer of the Company, or at the express request of the Company is or was serving, for purposes reasonably understood by him to be for the Company, as a director, officer, partner, employee, agent or trustee (or in any other capacity of an association, corporation, general or limited partnership, joint venture, trust or other entity), the Company shall indemnify the Executive against any reasonable expenses (including attorneys' fees and disbursements), and any judgments, fines and amounts paid in settlement incurred by him in connection with such claim, action, suit, proceeding or appeal therefrom to the extent such expenses, judgments, fines and amounts paid in settlement were not advanced by the Company on his behalf pursuant to subsection (b) below, to the fullest extent permitted under Delaware law. The Company shall provide Executive with D&O insurance coverage at least as favorable to Executive as what the Company maintains as of the date hereof or such greater coverage as the Company may maintain from time to time.

(b) Provided that the Executive shall first have agreed to in writing to repay such amounts advanced if it is determined by an arbitrator or court of competent jurisdiction that the Executive was not entitled to indemnification, upon the written request of the Executive specifying the amount of a requested advance and the intended use thereof, the Company shall indemnify Executive for his expenses (including attorneys' fees and disbursements), judgments, fines and amounts paid in settlement incurred by him in connection with such claim, action, suit, proceeding or appeal whether civil, criminal, administrative, investigative or otherwise, in advance of the final disposition of any such claim, action, suit, proceeding or appeal therefrom to the fullest extent permitted under Delaware law.

#### ARTICLE 9

##### RESTRICTIVE COVENANTS

9.1 COVENANT NOT TO DISCLOSE CONFIDENTIAL INFORMATION. During the Term and following termination of this Agreement, the Executive agrees that, without the Company's prior written consent, he will not use or disclose to any person, firm, association, partnership, entity or corporation, any confidential information concerning: (i) the business operations or internal structure of the Company; (ii) the customers of the Company; (iii) the financial condition of the Company; and (iv) other confidential information pertaining to the Company, including without limitation, trade secrets, technical data, marketing analyses

and studies, operating procedures, customer and/or inventor lists, or the existence or nature of any of the Company's agreements (other than this Agreement and any other option or compensation related agreements involving the Executive); provided, however, that the Executive shall be entitled to disclose such information: (i) to the extent the same shall have otherwise become publicly available (unless made publicly available by the Executive); (ii) during the course of or in connection with any actual or potential litigation, arbitration, or other proceeding based upon or in connection with the subject matter of this Agreement; (iii) as may be necessary or appropriate to conduct his duties hereunder, provided the Executive is acting in good faith and in the best interest of the Company; or (iv) as may be required by law or judicial process.

9.2 COVENANT NOT TO COMPETE. The Executive acknowledges that he has established and will continue to establish favorable relations with the customers, clients and accounts of the Company and will have access to trade secrets of the Company. Therefore, in consideration of such relations and to further protect trade secrets, directly or indirectly, of the Company, the Executive agrees that during the Term and for a period of one (1) year from the date of termination of the Executive, the Executive will not, directly or indirectly, without the express written consent of the Board:

(i) own or have any interest in or act as an officer, director, partner, principal, employee, agent, representative, consultant or independent contractor of, or in any way assist in, any business

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which is engaged, directly or indirectly, in any business competitive with the Company in those automotive markets and/or automotive products lines in which the Company competes within the United States at any time during the Term, or become associated with or render services to any person, firm, corporation or other entity so engaged ("Competitive Businesses"); provided, however; that the Executive may own without the express written consent of the Company not more than two (2) percent of the issued an outstanding securities of any company or enterprise whose securities are listed on a national securities exchange or actively traded in the over the counter market;

(ii) solicit clients, customers or accounts of the Company for, on behalf of or otherwise related to any such Competitive Businesses or any products related thereto; or

(iii) solicit any person who is or shall be in the employ or service of the Company to leave such employ or service for employment with the Executive or an affiliate of the Executive.

Notwithstanding the foregoing, if any court determines that the covenant not to compete, or any part thereof, is unenforceable because of the duration of such provision or the geographic area or scope covered thereby, such court shall have the power to reduce the duration, area or scope of such provision to the extent necessary to make the provision enforceable and, in its reduced form, such provision shall then be enforceable and shall be enforced.

9.3 SPECIFIC PERFORMANCE. Recognizing that irreparable damage will result to the Company in the event of the breach or threatened breach of any of the foregoing covenants and assurances by the Executive contained in Sections 9.1 and 9.2 hereof, and that the Company's remedies at law for any such breach or threatened breach may be inadequate, the Company and its successors and assigns, in addition to such other remedies which may be available to them, shall be entitled to an injunction to be issued by any court of competent jurisdiction ordering compliance with this Agreement or enjoining and restraining the Executive, and each and every person, firm or company acting in concert or participation with him, from the continuation of such breach. The obligations of the Executive and rights of the Company pursuant to this Article 9 shall survive the termination of this Agreement. The covenants and obligations of the Executive set forth in this Article 9 are in addition to and not in lieu of or exclusive of any other obligations and duties the Executive owes to the Company, whether expresses or implied in fact or law.

## ARTICLE 10

## GENERAL PROVISIONS

10.1 This Agreement is intended to be the final, complete and exclusive agreement between the parties relating to the employment of the Executive by the Company with respect to the Term and all prior or contemporaneous understandings, representations and statements, oral or written, are merged herein. The terms and conditions of any stock option agreements signed by the Executive prior to the date hereof shall incorporate the terms and conditions set forth on Schedule I hereto, which Schedule I terms and conditions shall govern such stock options. No modification waiver, amendment, discharge or change of this Agreement shall be valid unless the same is in writing and signed by the party against which the enforcement thereof is or may be sought.

10.2 No waiver, by conduct or otherwise, by any party of any term, provision, or condition of this Agreement, shall be deemed or construed as a further or continuing waiver of any such term, provision, or condition nor as a waiver of a similar or dissimilar condition or provision at the same time or at any prior or subsequent time.

10.3 The rights under this Agreement, or by law or equity, shall be cumulative and may be exercised at any time and from time to time. No failure by any party to exercise, and no delay in exercising, any rights shall be construed or deemed to be a waiver thereof, nor shall any single or partial exercise by any party preclude any other or future exercise thereof or the exercise of any other right.

10.4 Except as otherwise provided in this Agreement, any notice, approval, consent, waiver or other communication required or permitted to be given or to be served upon any person in connection with this Agreement shall be in writing. Such notice shall be personally served, sent by telegram, tested telex, fax or cable, or sent prepaid by either registered or certified mail with return receipt requested or Federal Express and shall be deemed given (i) if personally served or by Federal Express, when delivered to the person to whom such notice is addressed, (ii) if given by telegram, telex, fax or cable, when sent, or (iii) if given by mail, two (2) business days following deposit in the United States mail. Any notice given by telegram, telex, fax or cable shall be confirmed in writing by overnight mail or Federal Express within forty-eight (48) hours after being sent. Such notices shall be addressed to the party to whom such notice is to be given at the party's address set forth below or as such party shall otherwise direct.

If to the Company:           autobytel.com inc.

18872 MacArthur Boulevard  
Irvine, California 92612-1400  
Facsimile: (949) 862-1323  
Attn: General Counsel

If to the Executive:       Ariel Amir  
619 Orchid Avenue,  
Corona del Mar, California 92625.

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

10.6 This Agreement shall be construed and enforced in accordance with the laws of the State of California, without giving effect to the principles of conflict of laws thereof, except that the indemnification provisions of Section 8.2 shall be governed by Delaware law without regard to conflict of laws principles.

10.7 This Agreement may be executed in any number of counterparts, each

of which shall be deemed an original, but all of which shall constitute one instrument.

10.8 The provisions of this Agreement are agreed to be severable, and if any provision, or application thereof, is held invalid or unenforceable, then such holding shall not affect any other provision or application.

10.9 As used herein, and as the circumstances require, the plural term shall include the singular, the singular shall include the plural, the neuter term shall include the masculine and feminine genders, and the feminine term shall include the neuter and the masculine genders.

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

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

autobytel.com inc.

By: /s/ Mark W. Lorimer

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Mark W. Lorimer  
Chief Executive Officer and President

/s/ Ariel Amir

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Ariel Amir

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#### SCHEDULE I

(a) Vesting. Unless a more favorable vesting schedule is approved by the Board, the Compensation Committee or other appropriate committee of the Board, any Option shall vest based on the continued employment of the Executive, fifty percent (50%) on the first anniversary of the applicable grant date and fifty percent (50%) on the second anniversary of the applicable grant date; provided, however, that the foregoing shall not apply to the Options granted to Executive on March 22, 1999.

(b) Payment Upon Exercise. Payment for the shares subject to any Option may be tendered in cash or by certified, bank cashier's or teller's check or by shares of the Company's common stock (valued at fair market value (as determined by the Company) as of the date of tender) already owned by the Executive, or some combination of the foregoing or through cashless exercise or such other form of consideration which has been approved by the Board, including a promissory note given by the Executive.

(c) Termination for Cause. As of the date of the Executive's termination for Cause (as defined below), any unvested or unexercised portion of any Option shall terminate immediately and shall be of no further force or effect. As used herein, the term "for Cause" shall refer to the termination of the Executive's employment as a result of any one or more of the following: (i) any conviction of, or pleading of nolo contendere by, the Executive for any crime or felony;

(ii) any gross willful misconduct of the Executive which has a materially injurious effect on the business or reputation of the Company; (iii) the gross dishonesty of the Executive which has a materially injurious effect on the business or reputation of the Company; or (iv) failure to consistently discharge his duties under this Agreement which failure continues for thirty (30) days following written notice from the Company detailing the area or areas of such failure. For purposes hereof, no act or failure to act, on the part of the Executive, shall be considered "willful" if it is done, or omitted to be done, by the Executive in good faith or with reasonable belief that his action or omission was in the best interest of the Company. The Executive shall have the opportunity to cure any such acts or omissions (other than item (i) above) within fifteen (15) days of the Executive's receipt of notice from the Company finding that, in the good faith opinion of the Company, the Executive is guilty of acts or omissions constituting "Cause".

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

(e) Termination due to Death or Disability. As of the date of the Executive's termination due to

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

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

(g) Termination Prior to or Following a Change of Control. In the event of a Change of Control (as defined below) while the Executive is employed by the Company, or the Executive's employment is terminated by the Company without Cause or by the Executive for Good Reason within six (6) months prior to a Change of Control, any unvested installment of any Option shall immediately vest and become exercisable from the date of such Change of Control, or if earlier the date of termination, until the date that is two (2) years following: (i) the Change of Control date, or (ii) if earlier the date of termination. For purposes hereof, "Change of Control" means the occurrence of any of the following: (i) the sale, lease, transfer, conveyance or other disposition (other than by way of merger or consolidation but not including any initial or secondary public offering) in one or a series of related transactions of all or substantially all of the assets of the Company taken as a whole to any person (a "Person") or group of persons acting together (a "Group") (other than any of the Company's wholly-owned subsidiaries, any Company employee pension or benefits plan, or any person or entity owning at least five (5) percent of the common stock of the Company as of March 31, 1999), (ii) the adoption of a plan relating to the liquidation or dissolution of the Company, (iii) the consummation of any transactions (including any stock or other purchase, sale, acquisition, disposition, merger or consolidation, but not including any initial or secondary public offering) the result of which is that any Person or Group (other than any of the Company's wholly-owned subsidiaries, any Company employee pension or benefits plan, or any person or entity owning at least five (5) percent of the common stock of the Company as of March 31, 1999), becomes the beneficial owners of more than 40 percent of the aggregate voting power of all classes of stock of the Company having the right to elect directors under ordinary circumstances; or (iv) the first day on which a majority of the members of the Board are not individuals who were nominated for election or elected to the Board with the approval of two-thirds of the members of the Board just prior to the time of such nomination or election.

AUTOBYTEL.EUROPE LLC  
SECOND AMENDMENT TO AMENDED AND  
RESTATED OPERATING AGREEMENT

This SECOND AMENDMENT TO AMENDED AND RESTATED OPERATING AGREEMENT, (this "AMENDMENT") is entered into as of the 6th day of April, 2000, by and among Autobytel.Europe LLC, a Delaware limited liability company, autobytel.com inc., a Delaware corporation, GE Capital Equity Holdings, Inc., a Delaware corporation, Inchcape Overseas Investments B.V., a Netherlands corporation, Pon Holdings B.V., a Netherlands corporation, and e-LaSer SA, a French company.

RECITALS

WHEREAS, the parties hereto entered into the Amended and Restated Operating Agreement dated January 6, 2000 and the First Amendment to Amended and Restated Operating Agreement dated January 27, 2000 (collectively, the "AGREEMENT");

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

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

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

TERMS OF AGREEMENT

- 1. Terms Amended. Pursuant to and in accordance with Section 14.1 of the Agreement, Section 9.1 is hereby amended and restated as follows:  
  
"DISTRIBUTIONS. Except as provided in SECTION 14.3 hereof, in connection with the dissolution and liquidation of the Company, the Company shall make distributions to the Members, in accordance with, and in proportion to, their respective Ownership Percentages, out of the available net cash flow (after the establishment of reserves under SECTION 9.2 hereof) within three (3) months after the end of each calendar year, subject to the prior approval by the Members pursuant to Section 4.2 hereof. Notwithstanding anything in this Agreement to the contrary, neither the Company nor any person on behalf of the Company shall make any distributions except to the extent permitted under the Act or other applicable law."
- 2. No Other Changes. Except as provided in this Amendment, all provisions of the Agreement are hereby ratified and acknowledged to be in full force and effect.

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

AUTOBYTEL.EUROPE LLC

By: /s/ Ariel Amir

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Name: Ariel Amir  
Title: Manager

MEMBERS:

AUTOBYTE.COM INC.

By: /s/ Mark W. Lorimer

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Name: Mark W. Lorimer  
Title: President & CEO

GE CAPITAL EQUITY HOLDINGS, INC.

By: /s/ John Flannery

-----  
Name: John Flannery  
Title: Managing Director

INCHCAPE OVERSEAS INVESTMENTS B.V.

By: /s/ R.G.M. Verhoef /s/ R.W.M. Klaitenberg

-----  
Name: R.G.M. Verhoef R.W.M. Klaitenberg  
Title: proxy holder proxy holder

PON HOLDINGS B.V.

By: /s/ Henk Rottinghuis

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Name: Henk Rottinghuis  
Title: Director

E-LASER SA

By: /s/ Christian Marchandise

-----  
Name: Christian Marchandise  
Title: Director General



## EMPLOYMENT AGREEMENT

This Employment Agreement (the "Agreement") is made and entered into, at Irvine, California, as of November 7, 2000, by and between autobyte.com inc., a corporation duly organized under the laws of the State of Delaware, with its principal offices at 18872 MacArthur Blvd., Second Floor, Irvine, California, 92612-1400, a Delaware corporation, (hereinafter, collectively referred to as the "Company"), and Howard Layson, domiciled at 600 W. Grove, #1092, Tempe, AZ, 85283.

WHEREAS: Company desires to employ Howard Layson (hereinafter, sometimes referred to herein as "Employee"), as Director of Special Projects for the Company.

WHEREAS: Employee desires to be so employed by the Company, subject to the following terms and conditions.

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

## ARTICLE 1. TERM OF EMPLOYMENT

Section 1.1 The Company hereby employs Howard Layson as Director of Special Projects, of the Company, on an "at-will" basis and Employee hereby accepts such employment by the Company, on such basis, commencing on TBD.

## ARTICLE 2. DUTIES AND OBLIGATIONS OF EMPLOYEE

Section 2.1 Employee shall be employed as a full time employee of the Company. In such capacity, Employee shall do and perform all services, acts, or things necessary or advisable as Director of Special Projects of the Company, subject at all times to all present and future policies and requirements of the Company in connection with Company's business. Employee shall perform all services required hereunder to the best of his/her ability.

## ARTICLE 3. OBLIGATIONS OF THE COMPANY

Section 3.1 The Company shall provide Employee with the compensation, incentives, benefits, and business expense reimbursement specified elsewhere in this Agreement. Employee and the Company acknowledge that such compensation, incentives, benefits, and business expense reimbursement are commensurate with the duties and obligations required of Employee hereunder.

## ARTICLE 4. COMPENSATION OF EMPLOYEE

Section 4.1 As compensation for services to be rendered by Employee pursuant to this Agreement, the Company hereby agrees to pay Employee a semi-monthly (twenty-four (24) pay periods per year) salary of (\$175,000 annually) payable at such times or on such dates that employees of the Company are regularly and customarily paid during a subsequent 12 month period.

Section 4.2 Additionally, Employee will be granted stock options under ABT's 1999 Stock Option Plan to purchase 75,000 shares of ABT common stock at an exercise price equal to the trading price on the close of business on the date of hire. So long as you are employed by ABT or any subsidiary thereof, one-fourth of the option grant will vest on the

first anniversary of the date of grant and the remainder of the option grant will vest at a rate of 1/48th of the entire grant per month, with the entire grant also vesting as otherwise provided in such plan.

Section 4.3 The Company shall have the right to deduct or withhold from the compensation due to Employee hereunder any and all sums required for federal income and social security taxes and all state or local taxes now applicable or that may be enacted and become applicable during the term of your employment.

Section 4.4 Employee will be eligible to receive an annual performance bonus of up to a maximum of 30% for fiscal year 2001. Bonus payment will be based on attainment of performance objectives, unless terminated for Cause as defined below. Employee will receive a signing bonus of \$20,00 for moving expenses and performance expectations for fiscal year 2000.

As used herein, the term "for Cause" shall refer to the termination of your employment as a result of any one or more of the following: (i) your conviction for a felony; (ii) your gross willful misconduct which has a direct and material injurious effect on the business or reputation of ABT; or (iii) your gross dishonesty which is directly and materially injurious to the business and reputation of ABT.

#### ARTICLE 5. EMPLOYEE BENEFITS

Section 5.1 The Company agrees that Employee shall be eligible to participate in the company's group benefits package. The Company will pay for all or part of the premium costs based upon plan selection and dependents' covered. Medical, dental and life insurance benefits are effective on the 1st of the month following 30 days of employment.

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Section 5.2 Employee shall be eligible to participate in the Company's 401(k) retirement savings plan on the first enrollment period following 90 days of employment. Enrollment in the Plan takes place on January 1st and July 1st of each year.

Section 5.3 Paid vacation is provided to all regular full-time Company personnel. Vacation is accrued monthly at a rate equal to two (2) weeks (80 hours) per year during the first five years of employment. After completing five (5) years of employment, employees will begin to accrue at a rate equal to three (3) weeks (120 hours) per year. Employees begin accruing vacation in the first month in which they have completed 120 hours of service. However, paid vacation may not be taken until an employee has completed six (6) months of service. Vacation taken prior to six (6) months will be unpaid, and may only be taken with supervisor approval. Only accrued, but unused vacation will be paid out to employees in the event of termination.

Section 5.4 Regular full-time employees are eligible for up to six (6) days of paid sick time off per year. Employees who have been employed since January 1st will be eligible for the full six (6) days of paid sick time off. Employees hired after the first of the year will receive a pro-rated amount of time based upon their date of hire. Because sick time does not accrue, balances are not paid out to an employee in the event of termination.

#### ARTICLE 6. BUSINESS EXPENSES

Section 6.1 The Company shall pay or reimburse Employee for all reasonable and authorized business expenses incurred by Employee during the term of employment; such payment or reimbursement shall not be unreasonably withheld so long as said business expenses have been incurred for and promote the business of the Company and are normally and customarily incurred by employees in comparable positions at other comparable businesses in the same or similar market. Notwithstanding the above, the Company shall not pay or reimburse Employee for the costs of any membership fees or dues for private clubs, civic organizations, and similar organizations or entities, unless and until such organizations and the fees and costs associated therewith have been approved in

writing by the Board of Directors of the Company.

Section 6.2 The Company shall reimburse Employee for business-related mileage at the reimbursement rate approved by the United States Internal Revenue Service, as such rate may change from time to time. Notwithstanding the foregoing, the Company shall not reimburse Employee for mileage traveled to the Company's office from Employee's residence, or from the Company's office to Employee's residence. Nothing contained in this Section 6.2 shall be construed as requiring the Company to reimburse Employee for the cost of gasoline for his/her motor vehicle.

Section 6.3 As a condition to reimbursement, Employee shall furnish to the Company adequate records and other documentary evidence required by federal and state

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statutes and regulations for the substantiation of each expenditure as an income tax deduction. Employee acknowledges and agrees that failure to furnish the required documentation may result in the Company denying all or part of the expense for which reimbursement is sought.

#### ARTICLE 7. TERMINATION OF EMPLOYMENT

The Company is an "At-Will" employer. You are free to terminate your employment with the Company at any time, with or without reason, and the Company has the right to terminate your employment at any time with or without reason. Although the Company may choose to terminate employment for cause, cause is not required.

#### ARTICLE 8. RESTRICTIVE COVENANTS

Section 8.1 Employee shall devote all or substantially all of his/her entire productive time, ability and attention to the business of the Company during the term of employment. Employee shall not engage in any other business duties or pursuits whatsoever, or directly or indirectly render any services of a business, commercial, or professional nature to any other person or organization, including, but not limited to, providing services to any business that is in competition with or similar in nature to the Company, whether for compensation or otherwise, without the prior written consent of the Company's Board of Directors. However, the expenditure of reasonable amounts of time for educational, charitable, or professional activities shall not be deemed a breach of this Agreement, if those activities do not materially interfere with the services required under this Agreement, and shall not require the prior written consent of the Company's Board of Directors. Notwithstanding anything herein contained to the contrary, this Agreement shall not be construed to prohibit Employee from making passive personal investments or conducting private business affairs if those activities do not materially interfere with the services required hereunder.

Section 8.2 During the term of employment and following termination of this Agreement, Employee agrees that, without the Company's prior written consent, he will not disclose to any person, firm, association, partnership, corporation or other entity, any information concerning: (a) the business operations or internal structure of the Company; (b) the customers of the Company; (c) the financial condition of the Company; and (d) other confidential information pertaining to the Company, including without limitation, trade secrets, technical data, marketing analyses and studies, operating procedures, customer and/or inventor lists, or the existence or nature of any of the Company's agreements; provided, however, that Employee shall be entitled to disclose such information: (i) to the extent the same shall have otherwise become publicly available (unless made publicly available by Employee); or (ii) during the course of or in connection with any litigation, arbitration, or other proceeding based upon or in connection with the subject matter of this Agreement.

Section 8.3 Employee acknowledges that a breach or violation of the covenants contained in Section 8.2 will cause severe and irreparable harm to the Company and that recovery by the Company of monetary damages will not constitute an adequate remedy. Accordingly, in the event of any breach or violation of such covenants by Employee, and with the Company not having an adequate remedy at law, the Company will have the right to have Section 8.2 of this Agreement specifically enforced by any court having equity jurisdiction, without requirement of bond or showing of actual damages, provided that nothing contained herein shall limit or restrict any other rights or remedies that the Company may have. Each of the rights and remedies of the Company enumerated in this Section shall be independent of the other, and shall be in addition to, and not in lieu of, any other rights and remedies available to the Company under law or in equity. Section 8.4 As used in this Article 8, the term Company shall include all affiliated entities of the Company, including without limitation, corporations, partnerships and limited liability companies.

#### ARTICLE 9. GENERAL PROVISIONS

Section 9.1 This document contains the entire agreement between the parties with respect to the subject matter hereof.

Section 9.2 No waiver, by conduct or otherwise, by any party of any term, provision, or condition of this Agreement, shall be deemed or construed as a further or continuing waiver of any such term, provision, or condition.

Section 9.3 No modification, waiver, amendment, discharge or change of this Agreement, shall be valid unless the same is in writing and signed by the party against whom enforcement of such modification, waiver, amendment, discharge, or change is sought.

Section 9.4 Except as hereinafter provided, all claims, disputes and other matters in question between the parties hereto arising out of, or relating to this Agreement or the breach thereof, shall be resolved solely by mediation and arbitration in accordance with the provisions of this Section 9.4.

- 9.4.1 With respect to any dispute between the parties, the parties shall attempt in good faith first to mediate such dispute and use their best efforts to reach agreement on the matters in dispute. After a written request for non-binding mediation, which shall specify in detail the facts of this dispute, and within ten (10) business days from the date of delivery of the demand, the matter shall be submitted to a mediator mutually agreeable to the parties (the "Mediator") in Irvine, California. The party who did not initiate the mediation may submit a statement of

facts to the Mediator, and provide a copy to the other party within five (5) business days of the mediation hearing. The mediator shall hear the matter and provide an informal opinion and advice, none of which shall be binding upon the parties, but is expected by the parties to help resolve the dispute. Pursuant to Evidence Code Section 1152.5(c) the parties agree: (i) Evidence of anything said or of any admission made in the course of the mediation is not admissible in evidence, and disclosure of any such evidence shall not be compelled, in any arbitration proceeding or civil action in which, pursuant to law, testimony can be compelled to be given; (ii) Unless the document otherwise provides, no document prepared for the purpose of, or in the course of, or

pursuant to, the mediation, or copy thereof, is admissible in evidence, and disclosure of any such document shall not be compelled, in any arbitration proceeding or civil action in which, pursuant to law, testimony can be compelled to be given; and (iii) The Mediator's fee shall be shared equally by the parties. If the dispute has not been resolved, the matter shall then be submitted to arbitration in accordance with section 9.4.2

9.4.2 Any dispute between the parties that is to be resolved by arbitration as provided in Section 9.4.1 shall be conducted pursuant to the provisions of California Code of Civil Procedure Sections 1280 through 1287.6, except as provided below. Any such arbitration shall be held and conducted in Irvine, California, and shall be conducted by a sole arbitrator mutually selected by the parties. If the parties cannot agree on a sole arbitrator within ten (10) business days from the first request for arbitration, each party shall each select one arbitrator and the two (2) selected arbitrators shall select the third arbitrator. The parties further agree: (i) Any request for arbitration shall be in writing and must be made within a reasonable time after the claim, dispute or other matter in question has arisen; provided, however, that in no event shall the demand for arbitration be made after the date that institution of legal or equitable proceedings based on such claim, dispute, or other matter would be barred by the applicable statute of limitations; (ii) The arbitrator or arbitrators appointed must be former or retired judges or attorneys at law with at least ten (10) years experience in employment, financing, and other matters; (iii) All proceedings involving the parties shall be reported by a certified shorthand court reporter and written transcripts of the proceedings shall be prepared and made available to the parties; (iv) The arbitrator or arbitrators shall prepare in writing and provide to the parties an award together with the reasons upon which

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the award of the arbitrators is based; (v) The final award by the arbitrator or arbitrators must be made within ninety (90) days from the date the arbitration proceedings are initiated; (vi) The prevailing parties shall be awarded reasonable attorney's fees, expert and non-expert witness costs and expenses, and other costs and expenses incurred in connection with the arbitration, unless the arbitrator or arbitrators for good cause determine otherwise; (vii) Costs and fees of the arbitrator or arbitrators shall be borne by the non-prevailing parties, unless the arbitrator or arbitrators for good cause determine otherwise; and (viii) The award or decision of the arbitrator or arbitrators, which may include equitable relief, shall be final and judgment may be entered on it in accordance with applicable law in any court having jurisdiction over the matter.

NOTICE: BY INITIALING IN THE SPACE BELOW THE PARTIES ARE AGREEING TO HAVE ANY DISPUTE ARISING OUT OF THE MATTERS INCLUDED IN THIS SECTION DECIDED BY NEUTRAL ARBITRATION AS PROVIDED BY CALIFORNIA LAW AND THE PARTIES ARE GIVING UP ANY RIGHTS THE PARTIES MIGHT POSSESS TO HAVE THE DISPUTE LITIGATED IN COURT OR JURY TRIAL. BY INITIALING IN THE SPACE BELOW THE PARTIES ARE GIVING UP THEIR JUDICIAL RIGHTS TO DISCOVERY AND APPEAL, UNLESS THOSE RIGHTS ARE SPECIFICALLY INCLUDED IN THE PROVISIONS OF THIS SECTION. IF THE PARTIES REFUSE TO SUBMIT TO ARBITRATION AFTER AGREEING TO THIS PROVISION, THE PARTIES MAY BE COMPELLED TO ARBITRATE UNDER THE AUTHORITY OF THE CALIFORNIA CODE OF CIVIL PROCEDURE. THEIR AGREEMENT TO THE ARBITRATION PROVISION IS VOLUNTARY.

THE PARTIES HAVE READ AND UNDERSTAND THE FOREGOING AND AGREE TO SUBMIT DISPUTES ARISING OUT OF THE MATTERS INCLUDED IN THIS SECTION TO NEUTRAL ARBITRATION.

Company Initials /s/ DWB  
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Employee's Initials /s/ HL  
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Section 9.5 The rights under this Agreement, or by law or equity, shall be cumulative and may be exercised at any time and from time to time. No failure by any party to exercise, and no delay in exercising, any rights shall be construed or deemed to be a waiver thereof, nor shall any single or partial exercise by any party preclude any other or future exercise thereof or the exercise of any other right.

Section 9.6 Except as otherwise provided in this Agreement, any notice, approval, consent, waiver or other communication required or permitted to be given or to be served

upon any person in connection with this Agreement shall be in writing. Such notice shall be personally served, sent by facsimile, reputable courier or sent prepaid by registered or certified mail with return receipt requested and shall be deemed given (i) if personally served, when delivered to the person to whom such notice is addressed, (ii) if given by facsimile, confirmed in accordance with the records of the facsimile machine through which the notice is sent, (iii) if sent by reputable courier, when received by the party to which it is sent as reflected on the courier's receipt and records, or (iv) if given by mail, two (2) business days following deposit in the United States mail. Such notices shall be addressed to the party to whom such notice is to be given at the party's address set forth below or as such party shall otherwise direct.

IF TO THE COMPANY, TO:  
autobyte.com inc.  
18872 MacArthur Blvd., Second Floor  
Irvine, California 92612-1400  
Attn.: General Counsel

IF TO EMPLOYEE:  
Howard Layson  
600 W. Grove, #1092  
Tempe, AZ 85283

Section 9.7 The terms and conditions of this Agreement shall inure to the benefit of and be binding upon the successors and assigns of the parties hereto.

Section 9.8 This Agreement shall be construed and enforced in accordance with the laws of the State of California.

Section 9.9 This Agreement may be executed in any number of counterparts, each of which shall be deemed an original, but all of which shall constitute one instrument.

Section 9.10 The provisions of this Agreement are agreed to be severable, and if any provision, or application thereof, is held invalid or unenforceable, then such holding shall not affect any other provision or application.

Section 9.11 As used herein, and as the circumstances require, the plural term shall include the singular, the singular shall include the plural, the neuter term shall include the masculine and feminine genders, and the feminine term shall include the neuter and the masculine genders.

Section 9.12 Each party hereto shall pay its or their own expenses incident to the negotiation, preparation and consummation of this Agreement, including all fees and expenses of its or their respective counsel.

ARTICLE 10. EMPLOYEE CONFIDENTIALITY AGREEMENT

As a further condition of his/her employment by Company, Employee agrees to execute an "Employee Confidentiality Agreement".

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

autobytel.com inc.

EMPLOYEE:

By: /s/ Dennis W. Benner

/s/ Howard Layson

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Dennis Benner  
Executive V.P.,  
Corporate Development

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Howard Layson

## EMPLOYMENT AGREEMENT

This Employment Agreement (the "Agreement") is made and entered into, at Irvine, California, as of August 30, 1999, by and between autobytel.com inc., a corporation duly organized under the laws of the State of Delaware, with its principal offices at 18872 MacArthur Blvd., Second Floor, Irvine, California, 92612-1400, a Delaware Corporation, and its affiliated companies, including DealerSites.com Corporation, a corporation duly organized under the laws of the State of Delaware, with offices in Houston, Texas, (hereinafter, collectively referred to as the "Company"), and AMIT KOTHARI, domiciled at 27 Union Jack #B, Marina del Ray, California 90292.

WHEREAS: Company desires to employ Amit Kothari (hereinafter, sometimes referred to herein as "Employee"), as Corporate Controller for the Company.

WHEREAS: Employee desires to be so employed by the Company, subject to the following terms and conditions.

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

## ARTICLE 1. TERM OF EMPLOYMENT

Section 1.1 The Company hereby employs Amit Kothari as Corporate Controller of the Company, on an "at-will" basis and Employee hereby accepts such employment by the Company, on such basis, commencing on or about September 15, 1999.

## ARTICLE 2. DUTIES AND OBLIGATIONS OF EMPLOYEE

Section 2.1 Employee shall be employed as a full time employee of the Company. In such capacity, Employee shall do and perform all services, acts, or things necessary or advisable as Corporate Controller of the Company, subject at all times to all present and future policies and requirements of the Company in connection with Company's business. Employee shall perform all services required hereunder to the best of his/her ability.

## ARTICLE 3. OBLIGATIONS OF THE COMPANY

Section 3.1 The Company shall provide Employee with the compensation, incentives, benefits, and business expense reimbursement specified elsewhere in this Agreement. Employee and the Company acknowledge that such compensation, incentives, benefits, and business expense reimbursement are commensurate with the duties and obligations required of Employee hereunder.

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## ARTICLE 4. COMPENSATION OF EMPLOYEE

Section 4.1 As compensation for services to be rendered by Employee pursuant to this Agreement, the Company hereby agrees to pay Employee a semi-monthly (twenty-four (24) pay periods per year) salary of \$4,791.67 payable at such times or on such dates that Employees of the Company are regularly and customarily paid.

Section 4.2 Employee will be granted stock options under ABT's 1999 Stock Option Plan to purchase 20,000 shares of ABT common stock at an exercise price equal to the closing price of ABT's common stock on the



date of hire subject to approval by the Board of Directors. One-fourth of the option grant will vest on the first anniversary of the date of grant and the remainder of the option grant will vest at a rate of 1/48th of the entire grant per month, with the entire grant also vesting as otherwise provided in such plan.

Section 4.3 Employee will receive an annual bonus of \$15,000 subject to achievement of predetermined objectives.

Section 4.4 Employee will receive a performance bonus of \$18,500 based on three specific performance objectives that are set for each 12 month period beginning October 1, 1999, so that the accomplishment of all three objectives each year will result in a \$18,500 bonus for each of two years, or a total of \$37,000.

Section 4.5 Employee will be eligible to receive reimbursement of \$10,000 for relocation.

Section 4.6 The Company shall have the right to deduct or withhold from the compensation due to Employee hereunder any and all sums required for federal income and social security taxes and all state or local taxes now applicable or that may be enacted and become applicable during the Term.

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#### ARTICLE 5. EMPLOYEE BENEFITS

Section 5.1 The Company agrees that Employee shall be eligible to participate in the company's group benefits package. The company will pay for all or part of the premium costs based upon plan selection and dependents' covered. Medical, dental and life insurance benefits are effective on the 1st of the month following 30 days of employment.

Section 5.2 Employee shall be eligible to participate in the Company's 401(K) retirement savings plan on the first enrollment period following 90 days of employment. Enrollment in the Plan takes place on January 1st and July 1st of each year.

Section 5.3 Paid vacation is provided to all regular full-time ABT personnel. Vacation is accrued monthly at a rate equal to two (2) weeks (80 hours) per year during the first five years of employment. After completing five (5) years of employment, employees will begin to accrue at a rate equal to three (3) weeks (120 hours) per year. Employees begin accruing vacation in the first month in which they have completed 120 hours of service. However, paid vacation may not be taken until an employee has completed six (6) months of service. Vacation taken prior to six (6) months will be unpaid, and may only be taken with supervisor approval. Only accrued, but unused vacation will be paid out to employees in the event of termination.

Section 5.4 Regular full-time employees are eligible for up to six (6) days of paid sick time off per year. Employees who have been employed since January 1st will be eligible for the full six (6) days of paid sick time off. Employees hired after the first of the year will receive a pro-rated amount of time based upon their date of hire. Because sick time does not accrue, balances are not paid out to an employee in the event of termination.

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#### ARTICLE 6. BUSINESS EXPENSES

Section 6.1 The Company shall pay or reimburse Employee for all reasonable and authorized business expenses incurred by Employee during the Term; such payment or reimbursement shall not be unreasonably withheld so long as said business expenses have been incurred for and

promote the business of the Company and are normally and customarily incurred by employees in comparable positions at other comparable businesses in the same or similar market. Notwithstanding the above, the Company shall not pay or reimburse Employee for the costs of any membership fees or dues for private clubs, civic organizations, and similar organizations or entities, unless and until such organizations and the fees and costs associated therewith have been approved in writing by the Board of Directors of the Company.

Section 6.2 The Company shall reimburse Employee for business-related mileage at the reimbursement rate approved by the United States Internal Revenue Service, as such rate may change from time to time. Notwithstanding the foregoing, the Company shall not reimburse Employee for mileage traveled to the Company's office from Employee's residence, or from the Company's office to Employee's residence. Nothing contained in this Section 6.2 shall be construed as requiring the Company to reimburse Employee for the cost of gasoline for his/her motor vehicle.

Section 6.3 As a condition to reimbursement, Employee shall furnish to the Company adequate records and other documentary evidence required by federal and state statutes and regulations for the substantiation of each expenditure as an income tax deduction. Employee acknowledges and agrees that failure to furnish the required documentation may result in the Company denying all or part of the expense for which reimbursement is sought.

#### ARTICLE 7. TERMINATION OF EMPLOYMENT

ABT is an "At-Will" employer. You are free to terminate your employment with ABT at any time, with or without reason, and ABT has the right to terminate your employment at any time with or without reason. Although ABT may choose to terminate employment for cause, cause is not required.

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#### ARTICLE 8. RESTRICTIVE COVENANTS

Section 8.1 Employee shall devote all or substantially all of his/her entire productive time, ability and attention to the business of the Company during the Term. Employee shall not engage in any other business duties or pursuits whatsoever, or directly or indirectly render any services of a business, commercial, or professional nature to any other person or organization, including, but not limited to, providing services to any business that is in competition with or similar in nature to the Company, whether for compensation or otherwise, without the prior written consent of the Company's Board of Directors. However, the expenditure of reasonable amounts of time for educational, charitable, or professional activities shall not be deemed a breach of the Agreement, if those activities do not materially interfere with the services required under this Agreement, and shall not require the prior written consent of the Company's Board of Directors. Notwithstanding anything herein contained to the contrary, this Agreement shall not be construed to prohibit Employee from making passive personal investments or conducting private business affairs if those activities do not materially interfere with the services required hereunder.

Section 8.2 During the Term and following termination of this Agreement, Employee agrees that, without the Company's prior written consent, he will not disclose to any person, firm, association, partnership, entity or corporation, any information concerning: (a) the business operations or internal structure of the Company; (b) the customers of the Company; (c) the financial condition of the Company; and (d) other confidential information pertaining to the Company, including without limitation, trade secrets, technical data, marketing analyses and studies, operating procedures, customer and/or inventor lists, or the existence or nature of any of the Company's agreements; provided, however, that Employee shall be entitled to disclose such information: (i) to the extent the same shall have otherwise become publicly available (unless made publicly available by Employee); or (ii) during the course of or in connection with any litigation, arbitration, or other proceeding based upon or in connection with the subject matter of this Agreement.

Section 8.3 Employee acknowledges that a breach or violation of the covenants contained in Section 8.2 will cause severe and irreparable harm to the Company and that recovery by the Company of monetary damages will not constitute an adequate remedy. Accordingly, in the event of any breach or violation of such covenants by Employee, and with the Company not having an adequate remedy at law, the Company will have the right to have Section 8.2 of this Agreement specifically enforced by any court having equity jurisdiction, without requirement of bond or showing of actual damages, provided that nothing contained herein shall limit or restrict any other rights or remedies that the Company may have. Each of the rights and remedies of the Company enumerated in this Section shall be independent of the other, and shall be in addition to, and not in lieu of, any other rights and remedies available to the Company under law or in equity.

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#### ARTICLE 9. GENERAL PROVISIONS

Section 9.1 This document contains the entire agreement between the parties with respect to the subject matter hereof.

Section 9.2 No waiver, by conduct or otherwise, by any party of any term, provision, or condition of this Agreement, shall be deemed or construed as a further or continuing waiver of any such term, provision, or condition.

Section 9.3 No modification, waiver, amendment, discharge or change of this Agreement, shall be valid unless the same is in writing and signed by the party against whom enforcement of such modification, waiver, amendment, discharge, or change is sought.

Section 9.4 Except as hereinafter provided, all claims, disputes and other matters in question between the parties hereto arising out of, or relating to this Agreement or the breach thereof, shall be resolved solely by mediation and arbitration in accordance with the provisions of this Section 9.4.

9.4.1 With respect to any dispute between the parties, the parties shall attempt in good faith first to mediate such dispute and use their best efforts to reach agreement on the matters in dispute. After a written request for non-binding mediation, which shall specify in detail the facts of this dispute, and within ten (10) business days from the date of delivery of the demand, the matter shall be submitted to a mediator mutually agreeable to the parties (the "Mediator") in Irvine, California. The party who did not initiate the mediation may submit a statement of facts to the Mediator, and provide a copy to the other party within five (5) business days of the mediation hearing. The mediator shall hear the matter and provide an informal opinion and advice, none of which shall be binding upon the parties, but is expected by the parties to help resolve the dispute. Pursuant to Evidence Code Section 1152.5(c) the parties agree: (i) Evidence of anything said or of any admission made in the course of the mediation is not admissible in evidence, and disclosure of any such evidence shall not be compelled, in any arbitration proceeding or civil action in which, pursuant to law, testimony can be compelled to be given; (ii) Unless the document otherwise provides, no document prepared for the purpose of, or in the course of, or pursuant to, the mediation, or copy thereof, is admissible in evidence, and disclosure of any such document shall not be compelled, in any arbitration proceeding or civil action in which, pursuant to law, testimony can be compelled to be given; and (iii) The Mediator's fee shall be shared equally by the parties. If the dispute has not been resolved, the matter shall then be submitted to arbitration in accordance with section 9.4.2

9.4.2 Any dispute between the parties that is to be resolved by arbitration as provided in Section 9.4.1 shall be conducted pursuant to the provisions of California Code of Civil Procedure Sections 1280 through 1287.6, except as provided below. Any such arbitration shall be held and conducted in Irvine, California, and shall be conducted by a sole arbitrator mutually selected by the parties. If the parties cannot agree on a sole arbitrator within ten (10) business days from the first request for arbitration, each party shall each select one arbitrator and the two (2) selected arbitrators shall select the third arbitrator. The parties further agree: (i) Any request for arbitration shall be in writing and must be made within a reasonable time after the claim, dispute or other matter in question has arisen; provided, however, that in no event shall the demand for arbitration be made after the date that institution of legal or equitable proceedings based on such claim, dispute, or other matter would be barred by the applicable statute of limitations; (ii) The arbitrator or arbitrators appointed must be former or retired judges or attorneys at law with at least ten (10) years experience in employment, financing, and other matters; (iii) All proceedings involving the parties shall be reported by a certified shorthand court reporter and written transcripts of the proceedings shall be prepared and made available to the parties; (iv) The arbitrator or arbitrators shall prepare in writing and provide to the parties an award together with the reasons upon which the award of the arbitrators is based; (v) The final award by the arbitrator or arbitrators must be made within ninety (90) days from the date the arbitration proceedings are initiated; (vi) The prevailing parties shall be awarded reasonable attorney's fees, expert and non-expert witness costs and expenses, and other costs and expenses incurred in connection with the arbitration, unless the arbitrator or arbitrators for good cause determine otherwise; (vii) Costs and fees of the arbitrator or arbitrators shall be borne by the non-prevailing parties, unless the arbitrator or arbitrators for good cause determine otherwise; and (viii) The award or decision of the arbitrator or arbitrators, which may include equitable relief, shall be final and judgment may be entered on it in accordance with applicable law in any court having jurisdiction over the matter.

NOTICE: BY INITIALING IN THE SPACE BELOW THE PARTIES ARE AGREEING TO HAVE ANY DISPUTE ARISING OUT OF THE MATTERS INCLUDED IN THIS SECTION DECIDED BY NEUTRAL ARBITRATION AS PROVIDED BY CALIFORNIA LAW AND THE PARTIES ARE GIVING UP ANY RIGHTS THE PARTIES MIGHT POSSESS TO HAVE THE DISPUTE LITIGATED IN COURT OR JURY TRIAL. BY INITIALING IN THE SPACE BELOW THE PARTIES ARE GIVING UP THEIR JUDICIAL RIGHTS TO DISCOVERY AND APPEAL, UNLESS THOSE RIGHTS ARE SPECIFICALLY INCLUDED IN THE PROVISIONS OF THIS SECTION. IF THE PARTIES REFUSE TO SUBMIT TO ARBITRATION AFTER AGREEING TO THIS PROVISION, THE PARTIES MAY BE COMPELLED TO ARBITRATE UNDER THE AUTHORITY OF THE CALIFORNIA CODE OF CIVIL PROCEDURE. THEIR AGREEMENT TO THE ARBITRATION PROVISION IS VOLUNTARY.

THE PARTIES HAVE READ AND UNDERSTAND THE FOREGOING AND AGREE TO SUBMIT DISPUTES ARISING OUT OF THE MATTERS INCLUDED IN THIS SECTION TO NEUTRAL ARBITRATION.

Company Initials /s/ HP

Employee's Initials /s/ AK

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Section 9.5 The rights under this Agreement, or by law or equity, shall be cumulative and may be exercised at any time and from time to time. No failure by any party to exercise, and no delay in exercising, any rights shall be construed or deemed to be a waiver thereof, nor shall any single or partial exercise by any party preclude any other or future exercise thereof or the exercise of any other right.

Section 9.6 Except as otherwise provided in this Agreement, any notice, approval, consent, waiver or other communication required or permitted to be given or to be served upon any person in connection with this Agreement shall be in writing. Such notice shall be personally served, sent by telegram, tested telex or cable, or sent prepaid by registered or certified mail with return receipt requested and shall be deemed given (i) if personally served, when delivered to the person to whom such notice is addressed, (ii) if given by telegram, telex or cable, when sent, or (iii) if given by mail, two (2) business days following deposit in the United States mail. Any notice given by telegram, telex or cable shall be confirmed in writing within forty-eight (48) hours after being sent. Such notices shall be addressed to the party to whom such notice is to be given at the party's address set forth below or as such party shall otherwise direct.

IF TO THE COMPANY, TO:  
autobytel.com inc.

IF TO EMPLOYEE:  
Amit Kothari

18872 MacArthur Blvd., Second Floor  
Irvine, California 92612-1400  
Attn.: Mark W. Lorimer  
President/Chief Executive Officer

27 Union Jack #B  
Marina del Ray,  
California 90292

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Section 9.7 The terms and conditions of this Agreement shall inure to the benefit of and be binding upon the successors and assigns of the parties hereto.

Section 9.8 This Agreement shall be construed and enforced in accordance with the laws of the State of California.

Section 9.9 This Agreement may be executed in any number of counterparts, each of which shall be deemed an original, but all of which shall constitute one instrument.

Section 9.10 The provisions of this Agreement are agreed to be severable, and if any provision, or application thereof, is held invalid or unenforceable, then such holding shall not effect any other provision or application.

Section 9.11 As used herein, and as the circumstances require, the plural term shall include the singular, the singular shall include the plural, the neuter term shall include the masculine and feminine genders, and the feminine term shall include the neuter and the masculine genders.

Section 9.12 Each party hereto shall pay its or their own expenses incident to the negotiation, preparation and consummation of this Agreement, including all fees and expenses of its or their respective counsel.

#### ARTICLE 10. EMPLOYEE CONFIDENTIALITY AGREEMENT

As a further condition of his/her employment by Company, Employee agrees to execute an "Employee Confidentiality Agreement".

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

autobytel.com inc.

EMPLOYEE:

By: /s/ Hoshi Printer

/s/ Amit Kothari

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Hoshi Printer  
Sr. Vice President, CFO

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Amit Kothari

## Subsidiaries of autobytel.com inc.:

Autobytel Services Corporation, a Delaware corporation.

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

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

Kre8.net inc., a Delaware corporation.

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

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

Autobytel.Europe LLC, a Delaware limited liability company.

AutoVisions Communications, Inc., a Delaware corporation.

Autobytel Acquisition I Corp., a Delaware corporation.

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

Autobytel.ca inc., a Delaware corporation.

Autobytel Information Services Inc., a Delaware corporation.

Autobytel.Europe Holdings B.V., a corporation organized under the laws of the Netherlands.

Autobytel.Europe Investment B.V., a corporation organized under the laws of the Netherlands.

Autobytel France SA, a corporation organized under the laws of France.

CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS

As independent public accountants, we hereby consent to the incorporation of our reports included in this Form 10-K, into the Company's previously filed Registration Statements File No. 333-90045, File No. 333-77943, File No. 333-33038 and File No. 333-39396 on Form S-8.

/s/ ARTHUR ANDERSEN

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ARTHUR ANDERSEN LLP

March 26, 2001  
Los Angeles, California



MANHEIM  
AUCTIONS

March 8, 2001  
Telephone: 404-269-7065  
Fax: 404-843-5378  
Online: [www.george.largay@cox.com](http://www.george.largay@cox.com)

Ariel Amir

Executive Vice President and General Counsel  
Autobyte.com inc.  
18872 MacArthur Boulevard

Irvine, CA 92612-1400

Dear Mr. Amir:

This letter will serve as permission to use our statistics, with proper attribution, in your Annual Report on Form 10-K for the fiscal year ended December 31, 2000.

As reflected in the attached 2001 Used Car Market Report, the size of the U.S. automotive market (new and used) in 1999 and 2000 was \$702 billion and \$744 billion, respectively. Broken into the new and used components, those dollars are 1999: new=\$348 billion, used=\$353 billion, total=\$702 billion (rounded up); 2000 new=\$380 billion, used=\$363 billion, total=\$744 billion (rounded up).

I'll overnight hard copies of this letter and the full report to you later today.

Sincerely,

/s/ George Largay

George Largay  
Director of Communications

1400 LAKE HEARN DRIVE, NE  
ATLANTA, GEORGIA 30319  
800-777-2053  
<http://www.manheim.com>