AUTOBYTEL INC

FORM 10-Q
(Quarterly Report)

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Table of Contents

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

Form 10-Q

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

For the quarterly period ended September 30, 2008

or

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

For the transition period from _____to _____.

Commission file number 0-22239

Autobytel Inc.

(Exact name of registrant as specified in its charter)

Delaware **(State or other jurisdiction of incorporation or organization)**	**33-0711569** **(I.R.S. Employer identification number)**
18872 MacArthur Boulevard, Irvine, California **(Address of principal executive offices)**	**92612** **(Zip Code)**

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

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

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

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

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

As of October 31, 2008, there were 45,219,679 shares of the Registrant's Common Stock outstanding.

INDEX

		Page
	PART I. FINANCIAL INFORMATION	
ITEM 1.	Unaudited Consolidated Condensed Financial Statements:	
	Unaudited Consolidated Condensed Balance Sheets as of September 30, 2008 and December 31, 2007	3
	Unaudited Consolidated Condensed Statements of Operations and Comprehensive Loss for the Three and Nine Months Ended September 30, 2008 and 2007	4
	Unaudited Consolidated Condensed Statements of Cash Flows for the Nine Months Ended September 30, 2008 and 2007	5
	Notes to Unaudited Consolidated Condensed Financial Statements	6
ITEM 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	18
ITEM 3.	Quantitative and Qualitative Disclosures About Market Risk	24
ITEM 4.	Controls and Procedures	24
	PART II. OTHER INFORMATION	
ITEM 1.	Legal Proceedings	25
ITEM 1A.	Risk Factors	25
ITEM 6.	Exhibits	37
Signatures		38

Table of Contents

PART I. FINANCIAL INFORMATION

Item 1. ***Unaudited Consolidated Condensed Financial Statements***

AUTOBYTEL INC.

UNAUDITED CONSOLIDATED CONDENSED BALANCE SHEETS
(Amounts in thousands, except share amounts)

	September 30, 2008	December 31, 2007
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 32,170	$ 27,601
Accounts receivable, net of allowances for bad debts and customer credits of $578 and $534, respectively	12,698	11,692
Prepaid expenses and other current assets	1,794	1,739
Assets held for sale	—	17,160
Total current assets	46,662	58,192
Property and equipment, net	9,229	10,757
Goodwill	—	52,074
Investment and other assets	918	1,133
TOTAL ASSETS	$ 56,809	$ 122,156
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	$ 4,032	$ 5,852
Accrued expenses	5,009	6,470
Deferred revenues	2,082	1,749
Other current liabilities	1,253	1,199
Liabilities held for sale	—	198
Total current liabilities	12,376	15,468
Other non current liabilities	271	436
TOTAL LIABILITIES	12,647	15,904
COMMITMENTS AND CONTINGENCIES (Note 9)		
STOCKHOLDERS' EQUITY:		
Preferred stock, $0.001 par value; 11,445,187 shares authorized; none outstanding	—	—
Common stock, $0.001 par value; 200,000,000 shares authorized; 45,219,679 and 43,788,663 shares issued and outstanding, respectively	44	44
Additional paid-in capital	299,742	296,964
Unrealized gain from investment	680	686
Accumulated deficit	(256,304)	(191,442)
TOTAL STOCKHOLDERS' EQUITY	44,162	106,252
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 56,809	$ 122,156

See accompanying notes.

Table of Contents

AUTOBYTEL INC.
UNAUDITED CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS
(Amounts in thousands, except per-share amounts)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
REVENUES:				
Lead fees	$15,571	$17,576	$ 50,910	$ 51,485
Advertising	1,640	4,318	5,906	13,971
Other revenues	59	17	137	43
Total revenues	17,270	21,911	56,953	65,499
COSTS AND EXPENSES:				
Cost of revenues	11,107	14,934	37,146	39,371
Sales and marketing	4,001	5,260	13,516	16,181
Technology support	3,651	4,577	11,924	13,389
General and administrative	4,551	5,599	15,203	20,507
Amortization of acquired intangible assets	42	42	125	422
Patent litigation settlement	—	—	(2,667)	(12,000)
Goodwill impairment	—	—	52,074	—
Total costs and expenses	23,352	30,412	127,321	77,870
Operating loss	(6,082)	(8,501)	(70,368)	(12,371)
Interest and other income	271	486	1,116	1,425
Foreign currency exchange loss	—	—	—	(7)
Provision for income taxes	—	—	—	—
Loss from continuing operations	(5,811)	(8,015)	(69,252)	(10,953)
Discontinued operations, net	184	1,427	4,390	9,980
NET LOSS	$ (5,627)	$ (6,588)	$ (64,862)	$ (973)
BASIC LOSS PER COMMON SHARE:				
Loss from continuing operations	$ (0.13)	$ (0.18)	$ (1.57)	$ (0.25)
Discontinued operations, net	—	0.03	0.10	0.23
Basic loss per common share	$ (0.13)	$ (0.15)	$ (1.47)	$ (0.02)
DILUTED LOSS PER COMMON SHARE:				
Loss from continuing operations	$ (0.13)	$ (0.18)	$ (1.57)	$ (0.25)
Discontinued operations, net	—	0.03	0.10	0.23
Diluted loss per common share	$ (0.13)	$ (0.15)	$ (1.47)	$ (0.02)
Comprehensive loss				
Net loss	$ (5,627)	$ (6,588)	$ (64,862)	$ (973)
Unrealized gain (loss) from investment	33	—	(6)	—
Comprehensive loss	$ (5,594)	$ (6,588)	$ (64,868)	$ (973)

See accompanying notes.

Table of Contents

AUTOBYTEL INC.

UNAUDITED CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS
(Amounts in thousands)

	Nine Months Ended September 30,	
	2008	2007
Cash flows from operating activities:		
Net loss	$(64,862)	$ (973)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	3,426	2,151
Amortization of intangible assets	125	465
Provision for bad debts	673	301
Provision for customer credits	792	1,051
Gain on sale of AIC business	—	(2,762)
Gain on sale of RPM business	—	(3,072)
Gain on sale of AVV business	(4,204)	—
Share-based compensation	2,129	3,758
Foreign currency exchange gain	—	7
Loss on goodwill impairment	52,074	—
Changes in assets and liabilities, net of discontinued operations:		
Accounts receivable	(2,364)	(82)
Prepaid expenses and other current assets	(44)	(160)
Other non-current assets	84	(127)
Accounts payable	(1,826)	(1,190)
Accrued expenses	(1,456)	(969)
Deferred revenues	338	(580)
Other liabilities	(107)	(70)
Net cash used in operating activities	(15,222)	(2,252)
Cash flows from investing activities:		
Maturities of short-term investments	14,050	3,000
Purchases of short-term investments	(14,050)	—
Distribution of foreign investment	—	354
Purchases of property and equipment	(2,254)	(7,316)
Proceeds from sale of AIC business	—	2,573
Proceeds from sale of RPM business	—	7,093
Proceeds from sale of AVV business	21,396	—
Net cash provided by investing activities	19,142	5,704
Cash flows from financing activities:		
Distribution to minority interest stockholder	—	(184)
Proceeds from exercise of stock options and awards issued under the employee stock purchase plan	649	2,259
Net cash provided by financing activities	649	2,075
Net increase in cash and cash equivalents	4,569	5,527
Cash and cash equivalents, beginning of period	27,601	22,743
Cash and cash equivalents, end of period	$ 32,170	$28,270

See accompanying notes.

AUTOBYTEL INC.
NOTES TO UNAUDITED CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

1. Organization and Operations of Autobytel

Autobytel Inc. (the "Company" or "Autobytel") is an Internet automotive marketing services company that assists automotive dealers and manufacturers sell cars and related products and services. The Company owns and operates consumer-facing automotive web sites, including its newest site, MyRide.com ®, which is designed to help consumers find, see, buy and learn almost anything related to automobiles. The Company's other web sites are Autobytel.com ®, Autoweb.com ®, Car.com sm, CarSmart.com ®, AutoSite.com ®, and CarTV.com ®. By providing a convenient and comprehensive automotive consumer experience across the purchase and ownership lifecycle, Autobytel seeks to provide automotive dealers and manufacturers with opportunities to connect with a steady, diverse stream of motivated, serious shoppers, while providing dealers and manufacturers with targeted brand and product advertising opportunities. In addition to its web sites, the Company generates leads and advertising opportunities for dealers and manufacturers through its marketing network, which includes the AutoReach advertising network, co-branded websites, such as ESPN.com, and lead referral affiliates such as AOL, Edmunds and Kelly Blue Book.

The Company is a Delaware corporation incorporated on May 17, 1996, with its principal corporate offices located in Irvine, California. The Company's common stock is listed on The NASDAQ Global Market under the symbol ABTL.

From its inception through December 31, 2002 and for the years ended December 31, 2007, 2006 and 2005, the Company has experienced annual operating losses and has an accumulated deficit of $256 million as of September 30, 2008. The Company believes current cash, cash equivalents are sufficient to meet anticipated cash needs for working capital and capital expenditures for at least the next 12 months. The Company's results of operations and financial condition may be affected by its dependence on, and the general economic conditions of, the automotive industry.

2. Basis of Presentation, Unaudited Interim Financial Statements

The unaudited consolidated condensed financial statements of Autobytel, presented herein are presented on the same basis and can be compared to the unaudited consolidated financial statements reported in the Company's prior quarterly information in the Company's 2007 Annual Report on Form 10-K, filed with the SEC. The accompanying consolidated condensed balance sheet as of December 31, 2007 has been derived from the audited consolidated financial statements included in Autobytel's Annual Report on Form 10-K for the year ended December 31, 2007.

Autobytel has made its disclosures in accordance with accounting principles generally accepted in the United States of America as they apply to interim reporting, but condensed or omitted certain information and disclosures normally included in notes to consolidated financial statements in accordance with the Securities and Exchange Commission's rules and regulations. The unaudited consolidated condensed financial statements should be read in conjunction with the consolidated financial statements and the notes thereto in Autobytel's Annual Report on Form 10-K for the year ended December 31, 2007.

In the opinion of Autobytel's management, the accompanying unaudited interim consolidated condensed financial statements contain all adjustments (consisting of normal recurring adjustments) to fairly present Autobytel's consolidated condensed financial position as of September 30, 2008 and the consolidated condensed statements of operations and cash flows for the three and nine months then ended, as applicable. The statement of operations and cash flows for the periods ended September 30, 2008 and 2007 are not necessarily indicative of the results of operations or cash flows expected for the year or any other period.

The Company sold certain assets and liabilities of its Automotive Information Center ("AIC") data operations on January 1, 2007, sold its wholly-owned subsidiary, Retention Performance Marketing, Inc., ("RPM") on June 30, 2007, and sold certain assets and liabilities of its AVV Inc. ("AVV") business on January 23, 2008, collectively the "Divestitures" (See Note 7). Accordingly, the Divestures are presented in the unaudited consolidated condensed financial statements as discontinued operations. As discontinued operations, revenues and expenses of the Divestitures are presented on a net basis and stated separately from the respective captions in continuing operations in the Consolidated Condensed Statements of Operations. Expenses included in discontinued operations are direct costs of the Divestures that will be eliminated from future operations. The assets and liabilities of AVV have been aggregated and classified as held for sale under current assets and current liabilities, in the Company's Consolidated Condensed Balance Sheet as of December 31, 2007.

AUTOBYTEL INC.
NOTES TO UNAUDITED CONSOLIDATED CONDENSED FINANCIAL STATEMENTS - (continued)

Certain reclassifications have been made to prior period information to conform to the current period presentations.

3. Recent Accounting Pronouncements

In September 2006, Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standard ("SFAS") 157, "Fair Value Measurements" ("SFAS 157"). SFAS 157 defines fair value, establishes a frame work for measuring fair value and expands disclosure about fair value measurements. SFAS 157 does not require new fair value measurements but provides guidance on how to measure fair value by providing a fair value hierarchy used to classify the source of information. SFAS 157 is effective for fiscal years beginning after November 15, 2007. However, on February 12, 2008, the FASB issued FASB Staff Position ("FSP") FAS 157-2, which delays the effective date for all non-financial assets and liabilities except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). FSP FAS 157-2 defers the effective date of SFAS 157 to fiscal years beginning after November 15, 2008, and interim periods within the fiscal years for items within the scope of FSP FAS 157-2. Therefore, effective for 2008, we adopted SFAS 157, except as it applies to those non-financial assets and non-financial liabilities as noted in FSP FAS 157-2. The adoption of SFAS 157 for financial assets and liabilities as of January 1, 2008 did not have an impact on Autobytel's consolidated financial position, results of operations or cash flows. The Company does not expect that the adoption of FSP FAS 157-2 in 2009 will have a material effect on its consolidated financial position, results of operations or cash flows.

In February 2007, the FASB issued SFAS 159, "The Fair Value Option for Financial Assets and Financial Liabilities - including an amendment of FASB Statement 115" ("SFAS 159"), which is effective for fiscal years beginning after November 15, 2007. This statement permits entities to choose to measure many financial instruments and certain other items at fair value. This statement also establishes presentation and disclosure requirements designed to facilitate comparisons between entities that choose different measurement attributes for similar types of assets and liabilities. Unrealized gains and losses on items for which the fair value option is elected would be reported in earnings. The Company adopted the provisions of SFAS 159 as of January 1, 2008 and did not elect the fair value option to measure certain financial instruments.

AUTOBYTEL INC.
NOTES TO UNAUDITED CONSOLIDATED CONDENSED FINANCIAL STATEMENTS - (continued)

4. Computation of Basic and Diluted Net Loss Per Share

The following table sets forth the computation of basic and diluted loss per share from continuing operations and discontinued operations, and net loss per share:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
	(in thousands, except share and per share data)			
BASIC (LOSS) EARNINGS PER SHARE				
Loss applicable to continuing operations	$ (5,811)	$ (8,015)	$ (69,252)	$ (10,953)
Income applicable to discontinued operations	184	1,427	4,390	9,980
Loss applicable to common stock	$ (5,627)	$ (6,588)	$ (64,862)	$ (973)
Weighted average common shares outstanding	44,183,581	43,660,961	44,027,354	43,291,107
Basic (loss) earnings per share				
Loss from continuing operations	$ (0.13)	$ (0.18)	$ (1.57)	$ (0.25)
Discontinued operations, net	—	0.03	0.10	0.23
Basic loss per share	$ (0.13)	$ (0.15)	$ (1.47)	$ (0.02)
DILUTED (LOSS) EARNINGS PER SHARE				
Loss applicable to continuing operations	$ (5,811)	$ (8,015)	$ (69,252)	$ (10,953)
Income applicable to discontinued operations	184	1,427	4,390	9,980
Loss applicable to common stock	$ (5,627)	$ (6,588)	$ (64,862)	$ (973)
Weighted average common shares outstanding	44,183,581	43,660,961	44,027,354	43,291,107
Dilutive effect of employee stock options	—	—	—	—
Diluted shares	44,183,581	43,660,961	44,027,354	43,291,107
Diluted (loss) earnings per share				
Loss from continuing operations	$ (0.13)	$ (0.18)	$ (1.57)	$ (0.25)
Discontinued operations, net	—	0.03	0.10	0.23
Diluted loss per share	$ (0.13)	$ (0.15)	$ (1.47)	$ (0.02)

For the three months ended September 30, 2008 and 2007, 6,850,856 and 7,770,298, respectively, anti-dilutive potential shares of common stock have been excluded from the calculation of diluted earnings per share, and for the nine months ended September 30, 2008 and 2007, 7,697,705 and 8,045,931, respectively, anti-dilutive potential shares of common stock have been excluded from the calculation of diluted earnings per share.

AUTOBYTEL INC.
NOTES TO UNAUDITED CONSOLIDATED CONDENSED FINANCIAL STATEMENTS - (continued)

5. Share-Based Compensation

For the three months ended September 30, 2008 and 2007, the Company recorded $0.6 million and $1.2 million, respectively, of share-based compensation expense, or $0.01 and $0.03 earnings per share, respectively. For the nine months ended September 30, 2008 and 2007, the Company recorded $2.1 million and $3.8 million of share-based compensation expense, or $0.05 and $0.09 earnings per share for each period, respectively. Share-based compensation expense is included in costs and expenses in the accompanying Consolidated Condensed Statement of Operations as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
	(in thousands)			
Cost of revenues	$ 21	$ 44	$ 77	$ 131
Sales and marketing	165	273	554	806
Technology support	45	254	295	649
General and administrative	330	669	1,195	2,144
Share-based compensation expense included in continuing operations	561	1,240	2,121	3,730
Share-based compensation expense included in discontinued operations	—	—	8	28
Total share-based compensation expense	561	1,240	2,129	3,758
Amount capitalized to internal use software	—	—	—	10
Total share-based compensation costs	$ 561	$ 1,240	$ 2,129	$ 3,768

Restricted Stock

During the three months ended September 30, 2008, the Company granted an aggregate of 1,020,000 restricted stock awards that are subject to forfeiture. The forfeiture restrictions lapse as to one-third of the restricted stock awards on the first anniversary of the award date and ratably over twenty-four months thereafter. The lapsing of the forfeiture restrictions is accelerated under certain conditions, including upon a change of control of the Company. Compensation expense for restricted stock awards is measured on the grant date using the quoted market price of the Company’s common stock on the grant date. The grant date fair value of the restricted stock granted was $1.06.

AUTOBYTEL INC.
NOTES TO UNAUDITED CONSOLIDATED CONDENSED FINANCIAL STATEMENTS - (continued)

Stock Options

The Company granted 1,487,000 and 453,667 stock options for the three months ended September 30, 2008 and 2007, respectively, with a weighted-average fair market value per option granted of $0.53 and $2.24, respectively. The Company granted 2,069,167 and 949,167 stock options for the nine months ended September 30, 2008 and 2007, respectively, with a weighted-average fair market value per option granted of $0.62 and $2.28, respectively.

There were no stock option exercises during the three months ended September 30, 2008. The Company issued 205,799 shares of common stock upon exercise of stock options for the three months ended September 30, 2007. The Company issued 320,000 and 964,412 shares of common stock upon exercise of stock options for the nine months ended September 30, 2008 and 2007, respectively.

The fair market value of the stock options at the date of grant was estimated using the Black-Scholes option-pricing model on the date of grant and the following weighted average assumptions:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
Dividend yield	—	—	—	—
Volatility	62%	62%	62%	63%
Risk-free interest rate	3.0%	4.9%	2.9%	4.7%
Expected life (years)	4.1	4.4	4.1	4.4

Performance Based Awards

To induce James E. Riesenbach to join the Company as President and Chief Executive Officer, on March 20, 2006, the Company entered into an agreement with Mr. Riesenbach whereby the Company granted 1,000,000 options to him at an exercise price of $4.68 per share. Of the 1,000,000 options granted, 600,000 were service-based awards and met the criteria for granted options in accordance with SFAS 123(R), “Share-Based Payment” (“SFAS 123(R)”), as of March 20, 2006. The remaining 400,000 options are performance-based awards where the future performance criteria will be defined at a future date. On July 17, 2007, the Compensation Committee of the Board of Directors established performance criteria for the vesting of 200,000 performance-based options held by Mr. Riesenbach, which were subsequently achieved, and on March 4, 2008, the Compensation Committee of the Board of Directors established performance criteria for the vesting of the remaining 200,000 performance-based options. Therefore, under SFAS 123(R), the 400,000 performance-based awards were deemed granted, 200,000 as of July 17, 2007 and another 200,000 as of March 4, 2008, and the Company began recognizing compensation expense for these awards as of their SFAS 123(R) grant date.

To induce Monty A. Houdeshell to join the Company as Chief Financial Officer, on January 30, 2007, the Company entered into an agreement with Mr. Houdeshell whereby the Company granted 300,000 options to him at an exercise price of $3.74 per share. Of the 300,000 options granted, 250,000 were service-based awards and met the criteria for granted options in accordance with SFAS 123(R) as of January 30, 2007. The remaining 50,000 options are performance-based awards where the future performance criteria will be defined at a future date. On July 17, 2007, the Compensation Committee of the Board of Directors established performance criteria for the vesting of 16,667 performance-based options held by Mr. Houdeshell, which were subsequently achieved, and on March 4, 2008, the Compensation Committee of the Board of Directors established performance criteria for the vesting of another 16,667 performance-based options held by Mr. Houdeshell. Therefore, under SFAS 123(R), the 33,334 performance-based awards with defined performance criteria were deemed granted, 16,667 as of July 17, 2007 and another 16,667 as of March 4, 2008, and the Company began recognizing compensation expense for these awards as of their SFAS 123(R) grant date. At September 30, 2008, there remains an additional 16,666 performance-based options that are not deemed granted under SFAS 123 (R) and are not included in the options outstanding at that date.

6. Selected Balance Sheet Accounts

Investment

Autobytel has an investment in one publicly traded company’s equity securities that it classifies as available-for-sale in accordance with SFAS 115, “Accounting for Certain Investments in Debt and Equity Securities.” As discussed in Note 3, the Company adopted the non-deferred portion of SFAS 157 on January 1, 2008. In accordance with SFAS 157, the Company records its investments based on “Level 1” inputs, which are quoted market prices in active markets for identical assets or liabilities. As of September 30, 2008 and December 31, 2007 the balance of the investment was $680,000 and $686,000, respectively, and is classified as a long term asset. As discussed in Note 9 the Company’s investment is subject to a legal complaint.

AUTOBYTEL INC.
NOTES TO UNAUDITED CONSOLIDATED CONDENSED FINANCIAL STATEMENTS - (continued)

Goodwill Impairment

The Company evaluates the carrying value of enterprise goodwill for impairment in accordance with SFAS 142, “Goodwill and Other Intangible Assets.” Under SFAS 142, goodwill is tested for impairment by comparing its fair value to its carrying value. Testing for impairment of goodwill is a two-step process. The first step requires the Company to compare the enterprise’s carrying value to its fair value. If the fair value is less than the carrying value, enterprise goodwill is potentially impaired and the Company then completes the second step to measure the impairment loss, if any. The second step requires the calculation of the implied fair value of goodwill by deducting the fair value of all tangible and intangible net assets from the fair value of the reporting unit. If the implied fair value of goodwill is less than the carrying amount of enterprise goodwill, an impairment loss is recognized equal to the difference. The Company evaluates enterprise goodwill, at a minimum, on an annual basis, in the second quarter of each year or whenever events or changes in circumstances suggest that the carrying amount of goodwill may not be recoverable.

As of June 30, 2008 the Company performed its annual impairment test by first comparing the carrying value of Autobytel to its fair value based on market capitalization at that date. As the carrying value exceeded the fair value, the second step impairment measurement was performed based on a discounted projection of future cash flows and market methods of determining fair value. As a result of this testing, a non-cash impairment charge of $52.1 million was recorded at June 30, 2008.

AUTOBYTEL INC.
NOTES TO UNAUDITED CONSOLIDATED CONDENSED FINANCIAL STATEMENTS - (continued)

Property and Equipment

Property and equipment consisted of the following at:

	September 30, 2008	December 31, 2007
	(in thousands)	
Computer software and hardware	$ 10,577	$ 11,327
Furniture and equipment	1,742	1,615
Leasehold improvements	1,626	1,574
Capitalized internal use software	7,740	9,049
Development in process	1,277	93
	22,962	23,658
Less – Accumulated depreciation and amortization	(13,733)	(12,901)
	$ 9,229	$ 10,757

At September 30, 2008 and December 31, 2007, capitalized internal use software, net of amortization, and development in process were $5.1 million and $6.0 million, respectively.

The Company periodically reviews long-lived assets to determine if there is any impairment of these assets in accordance with SFAS 144, “Accounting for the Impairment or Disposal of Long-Lived Assets.” The Company assesses the impairment of these assets, or the need to accelerate amortization, whenever events or changes in circumstances indicate that the carrying value may not be recoverable. The Company’s judgments regarding the existence of impairment indicators are based on legal factors, market conditions and operational performance of our long-lived assets. The Company evaluates the assets for impairment based on the estimated future undiscounted cash flows expected to result from the use of the assets and their eventual disposition. Should the carrying amount of an asset exceed its estimated future undiscounted cash flows, an impairment loss is recorded for the excess of the asset’s carrying amount over its fair value. Fair value is generally determined based on a valuation process that provides an estimate of a fair value of these assets using a discounted cash flow model, which includes assumptions and estimates.

Accrued Liability Related to Workforce Reductions

In the third quarter of 2008, the Board of Directors of the Company, at the recommendation of management, approved a reduction of its workforce by approximately 35%, or 75 employees (the “Reduction”). The Reduction reinforces management’s commitment to improve cash flow and reduce further losses. As a result, the Company recorded a $1.8 million charge of an expected $2.0 million of total costs related to the Reduction, consisting of severance and other related termination expenses, during the three months ended September 30, 2008 as follows:

	Three Months Ended September 30, 2008
	(in millions)
Sales and marketing	$ 0.5
Technology support	0.7
General and administrative	0.6
Total	$ 1.8

The Company paid approximately $0.3 million of the severance and other related termination costs during the three months ended September 30, 2008. As of September 30, 2008 the remaining accrued liability related to the Reduction was approximately $1.5 million. The Company expects the majority of the accrued liability to be paid in the fourth quarter of 2008.

AUTOBYTEL INC.
NOTES TO UNAUDITED CONSOLIDATED CONDENSED FINANCIAL STATEMENTS - (continued)

7. Discontinued Operations

On January 31, 2007, the Company completed the sale of certain assets and liabilities of the AIC operations to R.L. Polk ("Polk") for $3.0 million. The Company received cash of $2.1 million, net of $0.4 million associated with AIC's deferred revenues and prepaid expenses at January 31, 2007. The balance of $0.5 million was deposited by Polk in an escrow account that was distributed to the Company in the second quarter of 2007. As part of the transaction, the Company received a license to use data supplied by Polk at no cost for a period of three years and the Company licensed to Polk certain data at no cost for a period of three years and certain software at no cost in perpetuity. The Company recognized a gain on the sale of the AIC operations of $2.8 million in the three months ended March 31, 2007.

On June 30, 2007, the Company sold all of the outstanding capital stock of Retention Performance Marketing, Inc. ("RPM") to OneCommand, Inc. ("OneCommand"), formerly known as Call Command, Inc., pursuant to a Stock Purchase Agreement ("RPM Agreement") for an aggregate purchase price of $7.6 million, subject to a working capital adjustment. Substantially all the assets and certain liabilities of the RPM business were included in the sale and consisted primarily of accounts receivable, prepaid expenses, certain property and equipment, intangible assets, accounts payable and accrued expenses. The Company received cash of $7.1 million and the balance of $0.5 million, which was deposited by OneCommand in an escrow account that was distributed to the Company in the fourth quarter of 2007 upon determination of the working capital adjustment in accordance with the terms of the RPM Agreement. The Company recognized a gain on the sale of the RPM business of $3.6 million during the year ended December 31, 2007.

On January 23, 2008, the Company completed the sale of certain assets and liabilities of its AVV, Inc. data extraction and customer relationship management software business to Dominion Enterprises ("Dominion") for approximately $22.75 million in cash, plus a working capital payment of approximately $1.0 million. The Company recorded a gain on sale of approximately $4.2 million in connection with the transaction in the three months ended March 31, 2008. The parties also agreed to a $1.9 million escrow in connection with the transaction. Per the escrow agreement, certain contingencies may apply to full recovery of the escrow amount upon the one year anniversary of the sale. Dominion has notified the escrow holder of a claim against the escrowed amount in connection with Dominion's claim for indemnification under the AVV business purchase agreement with respect to the Insweb Patent Litigation described under Note 9 to these Notes to Unaudited Consolidated Condensed Financial Statements-Commitments and Contingencies- *Litigation* . Federal and state income tax expense of approximately $0.1 million was recorded as a reduction to the income from discontinued operations.

AUTOBYTEL INC.
NOTES TO UNAUDITED CONSOLIDATED CONDENSED FINANCIAL STATEMENTS - (continued)

For the three months ended September 30, 2008 and 2007, the results of operations of AVV, AIC and RPM are reported as discontinued operations, net of taxes, as follows:

STATEMENTS OF OPERATIONS
(Amounts in thousands)

	Three Months Ended September 30, 2008				Three Months Ended September 30, 2007			
	AVV	AIC	RPM	Total	AVV	AIC	RPM	Total
REVENUES:	—	—	—	—	$2,696	—	—	$2,696
COSTS AND EXPENSES:								
Cost of revenues	—	—	—	—	25	—	—	25
Sales and marketing	—	—	—	—	501	—	—	501
Technology support	—	—	—	—	511	—	—	511
General and administrative	—	—	—	—	240	—	—	240
Amortization of intangibles	—	—	—	—	—	—	—	—
TOTAL COSTS AND EXPENSES	—	—	—	—	1,277	—	—	1,277
Gain on sale	—	—	—	—	—	—	$ 24	24
Provision (benefit) for income taxes	$(184)	—	—	$(184)	16	—	—	16
DISCONTINUED OPERATIONS, NET	$ 184	—	—	$ 184	$1,403	—	$ 24	$1,427

For the nine months ended September 30, 2008 and 2007, the results of operations of AVV, AIC and RPM are reported as discontinued operations, net of taxes, as follows:

STATEMENTS OF OPERATIONS
(Amounts in thousands)

	Nine Months Ended September 30, 2008				Nine Months Ended September 30, 2007			
	AVV	AIC	RPM	Total	AVV	AIC	RPM	Total
REVENUES:	$ 568	—	—	$ 568	$7,998	$ 210	$7,145	$15,353
COSTS AND EXPENSES:								
Cost of revenues	—	—	—	—	70	10	3,346	3,426
Sales and marketing	150	—	—	150	1,519	68	3,303	4,890
Technology support	114	—	—	114	1,666	193	287	2,146
General and administrative	53	—	—	53	594	32	53	679
Amortization of Intangibles	—	—	—	—	—	—	43	43
TOTAL COSTS AND EXPENSES	317	—	—	317	3,849	303	7,032	11,184
Gain on sale	4,204	—	—	4,204	—	2,762	3,072	5,834
Provision for income taxes	65	—	—	65	23	—	—	23
DISCONTINUED OPERATIONS, NET	$4,390	—	—	$4,390	$4,126	$2,669	$3,185	$ 9,980

AUTOBYTEL INC.
NOTES TO UNAUDITED CONSOLIDATED CONDENSED FINANCIAL STATEMENTS - (continued)

8. Patent Litigation Settlement

In 2004, the Company brought a lawsuit for patent infringement against Dealix Corporation ("Dealix"). In December 2006, the Company entered into a settlement agreement with Dealix. The agreement provides that Dealix will pay the Company a total of $20.0 million in settlement payments for a mutual release of claims and a license from the Company to Dealix and the Cobalt Group of certain of the Company's patent and patent applications. On March 13, 2007, the Company received the initial $12.0 million settlement payment with the remainder to be paid out in installments of $2.7 million on the next three annual anniversary dates of the initial payment. On March 14, 2008, the Company received the first of three $2.7 million settlement payments pursuant to the settlement agreement. The Company recorded the payments as patent litigation settlement, in the period payment was received, as reduction to costs and operating expenses. The remaining payments are guaranteed by WP Equity Partners, Inc., a Warburg Pincus affiliate. The Company has been unable to assess with reasonable assurance the collectability of the remaining payments under the Settlement Agreement as it does not have financial information to support the credit-worthiness of the debtor or guarantor. Therefore, the Company does not have reasonable assurance that it will receive any remaining payments on their respective due dates or at all.

9. Commitments and Contingencies

Litigation

In August 2001, a purported class action lawsuit was filed in the United States District Court for the Southern District of New York against Autobytel and certain of the Company's current and former directors and officers (the "Autobytel Individual Defendants") and underwriters involved in the Company's initial public offering. A Consolidated Amended Complaint, which is now the operative complaint, was filed on April 19, 2002. This action purports to allege violations of the Securities Act of 1933 ("Securities Act") and the Securities Exchange Act of 1934 ("Exchange Act"). Plaintiffs allege that the underwriter defendants agreed to allocate stock in the Company's initial public offering to certain investors in exchange for excessive and undisclosed commissions and agreements by those investors to make additional purchases of stock in the aftermarket at pre-determined prices. Plaintiffs allege that the prospectus for the Company's initial public offering was false and misleading in violation of the securities laws because it did not disclose these arrangements. The action seeks damages in an unspecified amount. The action is being coordinated with approximately 300 other nearly identical actions filed against other companies. On October 9, 2002, the District Court dismissed the Autobytel Individual Defendants from the case without prejudice. On December 5, 2006, the Second Circuit vacated a decision by the District Court granting class certification in six of the coordinated cases, which are intended to serve as test, or "focus" cases. The plaintiffs selected these six cases, which do not include the Company. On April 6, 2007, the Second Circuit denied the petition for rehearing filed by the plaintiffs, but noted that the plaintiffs could ask the District Court to certify more narrow classes than those that were rejected. On August 14, 2007, the plaintiffs filed amended complaints in the six focus cases. The amended complaints include a number of changes, such as changes to the definition of the purported class of investors and the elimination of the individual defendants as defendants. The six focus case issuers and the underwriters named as defendants in the focus cases filed motions to dismiss the amended complaints against them on November 14, 2007. On September 27, 2007, the plaintiffs moved to certify a class in the six focus cases. On March 26, 2008, the District Court dismissed the Securities Act claims of those members of the putative classes in the focus cases who sold their securities for a price in excess of the initial offering price and those who purchased outside the previously certified class period. With respect to all other claims, the motions to dismiss were denied. On October 10, 2008, at the request of the plaintiffs, the plaintiff's motion for class certification was withdrawn, without prejudice. Due to the inherent uncertainties of litigation, the Company cannot accurately predict the ultimate outcome of the matter. If the Company is found liable, the Company is unable to estimate or predict the potential damages that might be awarded, whether such damages would be greater than its insurance coverage, or whether such damages would have a material impact on its results of operations, financial condition or cash flows in any future period.

Between April and September 2001, eight separate purported class actions virtually identical to the one filed against Autobytel were filed against Autoweb.com, Inc. ("Autoweb"), certain of Autoweb's former directors and officers (the "Autoweb Individual Defendants") and underwriters involved in Autoweb's initial public offering. A Consolidated Amended Complaint, which is now the operative complaint, was filed on April 19, 2002. It purports to allege violations of the Securities Act and the Exchange Act. Plaintiffs allege that the underwriter defendants agreed to allocate stock in Autoweb's initial public offering to certain investors in exchange for excessive and undisclosed commissions and agreements by those investors to make additional purchases of stock in the aftermarket at pre-determined prices. Plaintiffs also allege that the prospectus for Autoweb's initial public offering was false and misleading in violation of the securities laws because it did not disclose these arrangements. The action seeks damages in an unspecified amount. The action is being coordinated with approximately 300 other nearly identical actions filed against other companies. On October 9, 2002, the District Court dismissed the Autoweb

AUTOBYTEL INC.
NOTES TO UNAUDITED CONSOLIDATED CONDENSED FINANCIAL STATEMENTS - (continued)

Individual Defendants from the case without prejudice. On December 5, 2006, the Second Circuit vacated a decision by the District Court granting class certification in six of the coordinated cases, which are intended to serve as test, or "focus" cases. The plaintiffs selected these six cases, which do not include Autoweb. On April 6, 2007, the Second Circuit denied a petition for rehearing filed by the plaintiffs, but noted that the plaintiffs could ask the District Court to certify more narrow classes than those that were rejected. On August 14, 2007, the plaintiffs filed amended complaints in the six focus cases. The amended complaints include a number of changes, such as changes to the definition of the purported class of investors and the elimination of the individual defendants as defendants. The six focus case issuers and the underwriters named as defendants in the focus cases filed motions to dismiss the amended complaints against them on November 14, 2007. On September 27, 2007, the plaintiffs moved to certify a class in the six focus cases. On March 26, 2008, the District Court dismissed the Securities Act claims of those members of the putative classes in the focus cases who sold their securities for a price in excess of the initial offering price and those who purchased outside the previously certified class period. With respect to all other claims, the motions to dismiss were denied. On October 10, 2008, at the request of the plaintiffs, the plaintiff's motion for class certification was withdrawn, without prejudice. Due to the inherent uncertainties of litigation, Autoweb cannot accurately predict the ultimate outcome of the matter. If Autoweb is found liable, it is unable to estimate or predict the potential damages that might be awarded, whether such damages would be greater than its insurance coverage, or whether such damages would have a material impact on its results of operations, financial condition or cash flows in any future period.

The Company reviewed the above class action matters and does not believe that it is probable that a loss contingency has occurred; therefore, the Company has not recorded a liability against these claims in the accompanying financial statements.

On November 30, 2007, the Company filed a lawsuit in the United States District Court for the Eastern District of Texas against Insweb Corporation, Leadpoint, Inc., Internet Brands, Inc. and Auto Internet Marketing, Inc. ("Autobytel Patent Litigation"). In the lawsuit, the Company asserts infringement of the Company's U.S. Patent No. 6,282,517, entitled "Real Time Communication of Purchase Requests," ("Autobytel '517 Patent") against such parties, and seeks damages and a permanent injunction. The Company cannot currently predict the outcome of this matter, which, depending on the outcome, may have a material impact on its results of operations, financial condition or cash flows.

On March 11, 2008, Insweb Corporation filed a lawsuit in the United States District Court for the Southern District of California against the Company, one of the Company's subsidiaries and Dominion Enterprises, the purchaser of the AVV business ("Insweb Patent Litigation"). In the lawsuit, Insweb asserts infringement of Insweb's U.S. Patent No. 6,898,597, entitled "Event Log" ("Insweb '597 Patent") by marketing and selling the WebControl product of the AVV business and is seeking damages and a permanent injunction. On July 3, 2008, the complaint in the Insweb Patent Litigation was amended to add Leadpoint, Inc., Internet Brands, Inc. and Auto Internet Marketing, Inc. as additional plaintiffs and co-owners of the Insweb '597 Patent and to add RPM and OneCommand, the purchaser of the RPM business, as additional defendants. In addition to the asserted infringement with respect to the WebControl Product, the amended complaint asserts infringement of the Insweb '597 Patent by marketing and selling the RPM technology. The Company intends to vigorously defend the lawsuit. Dominion Enterprises has asserted an indemnity claim under the AVV business purchase agreement and in connection therewith has notified the escrow holder of a claim against the $1.9 million amount escrowed under the AVV business purchase agreement with respect to such indemnification claim. The Company is obligated to indemnify Dominion for this claim subject to and in accordance with the terms of the purchase agreement. RPM and OneCommand have asserted an indemnity claim under the purchase agreement relating to the sale of the RPM business. The Company is obligated to indemnify RPM and OneCommand for this claim subject to and in accordance with the terms of the purchase agreement . The Company cannot currently predict the outcome of this matter, which, depending on the outcome, may have a material impact on its results of operations, financial condition or cash flows.

On March 13, 2008, Edmunds Holding Company et. al filed a lawsuit in the United States District Court for the District of Delaware against the Company. In the lawsuit, Edmunds is seeking a declaration that its business activities, some of which include generating automotive leads, do not infringe the Autobytel '517 Patent and that such patent is invalid. The Company intends to vigorously defend the lawsuit. The Company cannot currently predict the outcome of this matter, which, depending on the outcome, may have a material impact on its results of operations, financial condition or cash flows.

On May 14, 2008, Internet Brands, Inc. filed a Complaint in Interpleader and a Demand for Arbitration/Mediation asserting claims for breach of contract, misrepresentation, fraud, breach of implied covenants of good faith and fair dealing, breach of fiduciary duties and declaratory relief, and other causes of action relating to a strategic co-marketing agreement

AUTOBYTEL INC.
NOTES TO UNAUDITED CONSOLIDATED CONDENSED FINANCIAL STATEMENTS - (continued)

("Co-Marketing Agreement") between Internet Brands and the Company's subsidiary, Autoweb.com, Inc. ("Autoweb"), entered into prior to the Company's acquisition of Autoweb in August 2001. The Company has been informed that prior to the filing of its claims, Internet Brands instructed its share transfer agent to deliver to Internet Brands a certificate representing the shares of Internet Brands' common stock issued to Autoweb pursuant to the Co-Marketing Agreement ("Internet Brands Stock") that were held by the share transfer agent in connection with Internet Brands' initial public offering and which remain in the name of Autoweb as stockholder of record, as confirmed by the share transfer agent. Internet Brands alleges that pursuant to the Co-Marketing Agreement, the Company granted to Internet Brands an implied license to employ the technology which is the subject of the Autobytel '517 Patent and that the Company's filing of the complaint against Internet Brands in the Autobytel Patent Litigation repudiated the Co-Marketing Agreement. Internet Brands seeks unspecified compensatory and punitive damages, a declaration that Internet Brands was granted an implied license to employ the technology which is the subject of the Autobytel '517 Patent, and an order that Internet Brands is not obligated to return the Internet Brands stock to Autoweb. The Company intends to vigorously defend the lawsuit and has filed a cross-complaint against Internet Brands asserting causes of action for, among other things, conversion of the Internet Brands Stock and seeking damages and return of the Internet Brands Stock. The Company cannot currently predict the outcome of this matter, which, depending on the outcome, may have a material impact on its results of operations, financial condition or cash flows.

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

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

The Securities and Exchange Commission ("SEC") encourages companies to disclose forward-looking information so that investors can better understand a company's future prospects and make informed investment decisions. This Quarterly Report on Form 10-Q contains such forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Words such as "anticipate," "estimate," "expects," "projects," "intends," "plans," "believes" and words of similar substance used in connection with any discussion of future operations or financial performance identify forward-looking statements. In particular, statements regarding expectations and opportunities, new product expectations and capabilities, and our outlook regarding our performance and growth are forward-looking statements. This Quarterly Report on Form 10-Q also contains statements regarding plans, goals and objectives. There is no assurance that we will be able to carry out such plans or achieve such goals and objectives or that we will be able successfully to do so on a profitable basis. These forward-looking statements are just predictions and involve risks and uncertainties such that actual results may differ materially from these statements. Important factors that could cause actual results to differ materially from those reflected in forward-looking statements made in this Quarterly Report on Form 10-Q are set forth under Part II "Item 1A. Risk Factors," and Part I. Item 1A of our Annual Report on Form-10K for the year ended December 31, 2007. Investors 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 Inc. and its subsidiaries.

You should read the following discussion of our results of operations and financial condition in conjunction with our condensed consolidated financial statements and related notes included elsewhere in this Quarterly Report on Form 10-Q and our consolidated financial statements and the notes thereto in Autobytel's Annual Report on Form 10-K for the year ended December 31, 2007.

We are a Delaware corporation. Our principal corporate offices are located in Irvine, California. Our common stock is listed on The NASDAQ Global Market under the symbol ABTL. Our corporate Web site is located at *www.autobytel.com* . Information on our Web site is not incorporated by reference in this Quarterly Report. At or through the Investor Relations section of our Web site we make available free of charge our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and all amendments to these reports as soon as practicable after such material is electronically filed with or furnished to the SEC. Our Code of Conduct and Ethics for Employees, Officers and Directors is available at the Corporate Governance link of the Investor Relations section of our Web site.

Basis of Presentation

We sold certain assets and liabilities of its Automotive Information Center ("AIC") data operations on January 31, 2007; sold its wholly-owned subsidiary, Retention Performance Marketing, Inc., ("RPM") on June 30, 2007; and sold certain assets and liabilities of its AVV Inc. ("AVV") business on January 23, 2008, collectively the "Divestitures." Accordingly, the Divestures are presented in the consolidated condensed financial statements as discontinued operations. As discontinued operations, revenues and expenses of the Divestitures are presented on a net basis and stated separately from the respective captions in continuing operations in the Unaudited Consolidated Condensed Statements of Operations. Expenses included in discontinued operations are direct costs of the Divestures that will be eliminated from future operations.

Overview

Autobytel Inc. (the "Company" or "Autobytel") is an Internet automotive marketing services company that assists automotive dealers and manufacturers sell cars and related products and services. The Company owns and operates consumer-facing automotive web sites, including its newest site, MyRide.com ®, which is designed to help consumers find, see, buy and learn almost anything related to automobiles. The Company's other web sites are Autobytel.com ®, Autoweb.com ®, Car.com sm, CarSmart.com ®, AutoSite.com ®, and CarTV.com ®. By providing a convenient and comprehensive automotive consumer experience across the purchase and ownership lifecycle, Autobytel seeks to provide automotive dealers and manufacturers with opportunities to connect with a steady, diverse stream of motivated, serious shoppers, while providing dealers and manufacturers with targeted brand and product advertising opportunities. In addition to its web sites, the Company generates leads and advertising opportunities for dealers and manufacturers through its marketing network, which includes the AutoReach advertising network, co-branded websites, such as ESPN.com, and lead referral affiliates such as AOL, Edmunds and Kelly Blue Book.

For the three and nine months ended September 30, 2008 our results of operations have been affected and may continue to be affected in the future, by various factors, including, but not limited to, the following:

- general economic conditions and specifically market conditions in the automotive industry;
- the effects of competition (e.g., the availability and pricing of competing services and products and the resulting effects on sales and pricing of our services and products);
- a decline in purchase requests delivered to our retail and enterprise dealers;
- variations in spending by automotive manufacturers and others for our advertising services;
- the amount of visits (traffic) to our network of web sites;
- the cost of acquiring traffic to our network of web sites;
- the rates attainable from our advertisers; and
- the implementation of certain cost reduction initiatives.

As of September 30, 2008, we had approximately $32.2 million in cash and cash equivalents. For fourth quarter 2008, we will use cash in excess of cash generated from operations.

During the first nine months of 2008 consumer demand for new and used cars has substantially declined compared to the same period in the prior year. The declining consumer demand has resulted in fewer purchase requests delivered to our retail dealers. Additionally, many auto dealers are being adversely impacted by the automotive industry's downturn in sales. In the third quarter of 2008 we experienced increased cancellations of contracts for leads purchases from our participating retail dealers. Recent tightening in credit markets has increased the difficulty for consumers to obtain financing for their vehicle purchases and leases. This has created additional challenges for dealers in converting purchase requests into sales, which in turn has further impacted the number of leads being purchased by our retail dealers. The reduced availability of financing has also negatively impacted our finance leads business, which supplies dealers with customers who have below prime credit ratings. We do not believe there will be improvement of these conditions in our leads businesses in the near term.

Although we believe automotive manufacturers continue to transition advertising and marketing budgets from traditional media to on-line and other directly measurable media, overall advertising and marketing budgets are down, and if the unfavorable automotive industry and general economic conditions persist, we believe that there may be a negative impact on the on-line advertising and marketing expenditures by the automotive manufacturers, dealer groups, and related businesses. To date we have not been informed by advertisers in the 2009 media buying cycle that they plan significant advertising expenditure reductions for advertising that may be placed with us in 2009 compared to expenditures for advertising actually placed with us in 2008, but there can be no assurance that expenditure reductions will not occur. We are experiencing decreases in our advertising revenues primarily resulting from a decrease in page views as a result of low quality traffic; a reduction in search engine marketing; and a reduction in advertising rates from some advertisers due to weak advertisement click-through rates and other advertisement performance measures. We believe that there may be some improvement in the number of page views resulting from improved efficiency in our search engine marketing, expanded search engine optimization and syndication in 2009.

As previously announced, we engaged an investment banking firm, RBC Capital Markets Corporation (RBC), to act as a financial advisor and to assist the Company in exploring and evaluating strategic alternatives to maximize shareholder value. Any such alternatives could include the possible sale of the Company or certain of its assets or strategic partnerships. There can be no assurances that the process will result in any specific transaction or transactions. We do not intend to disclose developments regarding the process unless and until the Company's board of directors approves a definitive course of action.

Results of Operations

Revenues by groups of similar services were as follows:

	Three Months Ended September 30		Change		Nine Months Ended September 30		Change	
	2008	2007	$	%	2008	2007	$	%
	(amounts in thousands)				(amounts in thousands)			
REVENUES:								
Lead Fees	$ 15,571	$ 17,576	$(2,005)	(11)%	$ 50,910	$ 51,485	(575)	(1)%
Advertising	1,640	4,318	(2,678)	(62)%	5,906	13,971	(8,065)	(58)%
Other	59	17	42	247%	137	43	94	219%
TOTAL REVENUES	$ 17,270	$ 21,911	$(4,641)	(21)%	$ 56,953	$ 65,499	$(8,546)	(13)%

Percent of Revenue by groups of similar services were as follows:

	Three Months Ended September 30		Nine Months Ended September 30	
	2008	2007	2008	2007
Percent of Revenue:				
Lead Fees	90%	80%	90%	79%
Advertising	10%	20%	10%	21%
Other	—	—	—	—
TOTAL REVENUES	100%	100%	100%	100%

Three Months Ended September 30, 2008 Compared to the Three Months Ended September 30, 2007

Lead Fees. The $2.0 million or 11% decrease in lead fees for third quarter 2008, compared to third quarter 2007 was primarily due to a $1.7 million decrease in retail new-car lead revenue, a $0.4 decrease in used-car lead revenue and a $0.4 million decline in finance lead revenue, partially offset by a $0.5 million increase in wholesale auto lead revenue. The decline in retail new, used and finance lead revenue was the result of a decline in overall auto related consumer requests and a net loss of participating dealers. The increase in wholesale auto lead revenue resulted from the higher multiple of lead deliveries enabled by our multiple lead delivery technology, implemented in the third quarter 2007, and the addition of certain wholesale relationships.

Advertising. The $2.7 million or 62% decrease in advertising revenues for third quarter of 2008, compared to third quarter 2007 was primarily due to three factors: (1) a decrease in page views as a result of initiatives to eliminate low quality traffic; (2) a decrease in page views due to the reduction in search engine marketing; and (3) a reduction in advertising rates from some advertisers due to poor advertisement click-through rates and other advertisement performance measures in prior periods.

Cost and expenses were as follows:

	Three Months Ended September 30,		Change	
	2008	2007	$	%
	(in thousands)			
Costs and expenses:				
Cost of revenues	$11,107	$14,934	$(3,827)	(26)%
Sales and marketing	4,001	5,260	(1,259)	(24)%
Technology support	3,651	4,577	(926)	(20)%
General and administrative	4,551	5,599	(1,048)	(19)%
Amortization of acquired intangible assets	42	42	—	—
Total costs and expenses	$23,352	$30,412	$(7,060)	(23)%

Accrued Liability Related to Workforce Reductions. See Results of Operations for the three months ended September 30, 2008 compared to the three months ended September 30, 2007, and Part I, Item 1, Note 6 to the unaudited consolidated condensed financial statements, "Selected Balance Sheet Accounts - *Accrued Liability Related to Workforce Reductions* " of this Report on Form 10-Q.

Cost of Revenues. Cost of revenues consists of lead acquisition costs, traffic acquisition costs and other cost of revenues. Lead acquisition costs consist of payments made to our Internet consumer request providers, including Internet portals and online automotive information providers. Traffic acquisition costs consist of search engine marketing, revenue share payments to traffic providing partners, and other costs incurred to generate page views on the Autobytel network of web sites. Other cost of revenues consists of salaries and compensation related expenses, fees paid to third parties for data and content included on our Web site properties, connectivity costs, technology license fees, and server equipment depreciation.

The $3.8 million or 26% decrease in the cost of revenues in third quarter 2008 compared to third quarter 2007 was primarily due to a decrease of $1.5 million in search engine marketing costs, a $1.1 million decrease in lead acquisition costs, a decrease of $0.5 million in other traffic acquisition costs, a $0.3 million decrease in computer software maintenance, a $0.2 million decrease in data licensing costs, and a $0.2 million net decrease in other costs. Search engine and other traffic acquisition costs have decreased due to initiatives to more efficiently deploy marketing dollars. Lead acquisition costs have decreased due to the decreased volume of acquired leads.

Sales and Marketing. Sales and marketing expense includes costs for developing our brand equity, internal personnel costs and other costs associated with dealer sales, Web site advertising, and dealer support. Sales and marketing expense in third quarter 2008 decreased by $1.3 million or 24% compared to third quarter 2007, due principally to internal cost containment initiatives.

Technology Support. Technology support expense includes personnel costs related to developing new products, enhancing features, content and functionality of our Web sites and our Internet-based communications platform, costs associated with our telecommunications and computer infrastructure, and costs related to data and technology development. Technology support expense in third quarter 2008 decreased by $0.9 million or 20% compared to third quarter 2007, due to compensation expense savings resulting from internal cost reduction initiatives.

General and Administrative. General and administrative expense consists of executive, financial and legal personnel expenses and costs related to being a public company. General and administrative expense in third quarter 2008 decreased $1.0 million or 19% compared to third quarter 2007 due to a decrease in personnel, temporary labor, and professional fees of $0.8 million and a decrease in stock compensation of $0.3 million.

Nine Months Ended September 30, 2008 Compared to Nine Months Ended September 30, 2007

Lead Fees. The $0.6 million or 1% decrease in lead fees for the nine months ended September 30, 2008, compared to the same period in the prior year was primarily due to a decrease in the number of leads delivered. This was the result of a decline in overall auto related consumer requests, and a decline in finance leads, partially offset by a higher multiple of lead deliveries enabled by our multiple lead delivery technology, implemented in the third quarter 2007, and the addition of several wholesale relationships.

Advertising. The $8.1 million or 58% decrease in advertising revenues for the nine months ended September 30, 2008 compared to the same period in the prior year was primarily due to two factors: (1) a decrease in page views across our websites; and (2) a reduction in advertising rates. The decrease in page views across our websites was primarily the result of our initiatives to eliminate low quality traffic and a reduction in search engine marketing for the nine months ended September 30, 2008.

Cost and expenses were as follows:

	Nine Months Ended September 30,		Change	
	2008	2007	$	%
	(in thousands)			
Costs and expenses:				
Cost of revenue	$ 37,146	$ 39,371	$ (2,225)	(6)%
Sales and marketing	13,516	16,181	(2,665)	(16)%
Technology support	11,924	13,389	(1,465)	(11)%
General and administrative	15,203	20,507	(5,304)	(26)%
Amortization of intangibles	125	422	(297)	(70)%
Patent litigation settlement	(2,667)	(12,000)	9,333	(78)%
Goodwill impairment	52,074	—	52,074	—
Total costs and expenses	$127,321	$ 77,870	$49,451	64%

Accrued Liability Related to Workforce Reductions. See Results of Operations for the three months ended September 30, 2008 compared to the three months ended September 30, 2007, and in Part I, Item 1, Note 6 to the unaudited consolidated condensed financial statements, "Selected Balance Sheet Accounts— *Accrued Liability Related to Workforce Reductions* " of this Report on Form 10-Q.

Cost of Revenues. The $2.2 million or 6% decrease in the cost of revenues for the nine months ended September 30, 2008 compared to the same period in the prior year was primarily due to a decrease of $2.4 million in search engine marketing costs and a $1.7 million decrease in other traffic acquisition costs, partially offset by a $1.3 million increase in depreciation, a $0.3 million increase in Web site hosting costs, an increase in lead acquisition costs of $0.2 million, and other net cost increases of $0.1 million. Search engine marketing and other traffic acquisition costs have decreased due to cost containment initiatives and efforts to more efficiently deploy marketing dollars. Depreciation and Web site hosting costs have increased due to the launch of the MyRide.com Web site in third quarter 2007. Lead acquisition costs increased due to the increased volume of acquired leads.

Sales and Marketing. Sales and marketing expense for the nine months ended September 30, 2008 decreased by $2.7 million or 16% compared to the same period in the prior year, due principally to personnel reductions and other internal cost containment initiatives.

Technology Support. Technology support expense for the nine months ended September 30, 2008 decreased by $1.5 million or 11% compared to the same period in the prior year, due to compensation expense related savings resulting from internal cost reduction initiatives.

General and Administrative. General and administrative expense for the nine months ended September 30, 2008 decreased $5.3 million or 26% compared to the same period in the prior year due to a decrease in personnel, temporary labor and other compensation expense of $2.9 million, a decrease in professional fees of $1.4 million, a decrease in stock compensation of $0.9 million, and a decrease of $0.1 million of other net expenses.

Patent Litigation Settlement . In 2004, we brought a lawsuit for patent infringement against Dealix Corporation ("Dealix"). In December 2006, we entered into a settlement agreement with Dealix. The agreement provides that Dealix will pay us a total of $20.0 million in settlement payments for a mutual release of claims and a license from us to Dealix and the Cobalt Group of certain of our patent and patent applications. On March 13, 2007, we received the initial $12.0 million settlement payment with the remainder to be paid out in installments of $2.7 million on the next three annual anniversary dates of the initial payment. On March 14, 2008, we received the first of three $2.7 million settlement payments pursuant to the agreement. We recorded the payments as patent litigation settlement, in the period payment was received, as reduction to costs and operating expenses. The remaining payments are guaranteed by WP Equity Partners, Inc., a Warburg Pincus affiliate. We have been unable to assess with reasonable assurance the collectability of the remaining payments under the Settlement Agreement as we do not have financial information to support the credit worthiness of the debtor or guarantor. Therefore, we do not have reasonable assurance that we will receive any remaining payments on their respective due dates or at all.

Goodwill Impairment. See Results of Operations for the nine months ended September 30, 2008 compared to the nine months ended September 30, 2007, and Part I, Item 1, Note 6 to the unaudited consolidated condensed financial statements, "Selected Balance Sheet Accounts - *Goodwill Impairment* " of this Report on Form 10-Q.

Employees

As of October 31, 2008, we had a total of 151 employees. We also utilize independent contractors as required. None of our employees are represented by labor unions. We have not experienced any work stoppages and generally consider our employee relations to be good.

Liquidity and Capital Resources

Our cash and cash equivalents totaled $32.2 million as of September 30, 2008 compared to cash, cash equivalents and short-term investments of $27.6 million as of December 31, 2007.

Our working capital, excluding assets and liabilities held for sale, increased by $8.5 million, to $34.3 million at September 30, 2008 compared to $25.8 million at December 31, 2007. The increase was primarily due to the $21.4 million of proceeds from the sale of AVV and to the $2.7 cash related to the Dealix patent litigation settlement agreement received in the first quarter 2008, as well as increases in accounts receivable due to an increase in days sales outstanding and a decrease in accounts payable and accrued expenses due to accrued payments related to the MyRide web site in 2007 that did not recur in 2008.

Net Cash Used In Operating Activities

For the nine months ended September 30, 2008, net cash flows used in operating activities were $15.2 million, compared to $2.3 million used in the same period in the prior year. The increase in net cash flows used for operating activities was primarily due to the increase in losses combined with changes in working capital.

Net Cash Provided By Investing Activities

For the nine months ended September 30, 2008, net cash flows provided by investing activities were $19.1 million, compared to $5.7 million provided in the same period in the prior year. The increase was due to an increase in cash proceeds from the Divestures in 2008 of $21.4 million, compared to $9.7 million in 2007, lower capital spending in the nine months ended September 30, 2008 compared to the same period in the prior year of $5 million, which was due to the substantial completion of the MyRide.com Web site in 2007 and no new significant capital projects in the nine months ended September 30, 2008, partially offset by a $3 million decrease in cash received from investment maturities.

Net Cash Provided By Financing Activities

For the nine months ended September 30, 2008, cash flows provided by financing activities were $0.6 million, compared to $2.1 million for the same period in the prior year. The decrease was due to fewer stock option exercises in 2008 compared to 2007.

Off-Balance Sheet Arrangements

We have no off-balance sheet arrangements as defined in Regulation S-K 303(a)(4)(ii).

Recent Accounting Pronouncements

In September 2006, Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standard ("SFAS") 157, "Fair Value Measurements" ("SFAS 157"). SFAS 157 defines fair value, establishes a frame work for measuring fair value and expands disclosure about fair value measurements. SFAS 157 does not require new fair value measurements but provides guidance on how to measure fair value by providing a fair value hierarchy used to classify the source of information. SFAS 157 is effective for fiscal years beginning after November 15, 2007. However, on February 12, 2008, the FASB issued FASB Staff Position ("FSP") FAS 157-2 which delays the effective date for all non-financial assets

and liabilities except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). FSP FAS 157-2 defers the effective date of SFAS 157 to fiscal years beginning after November 15, 2008, and interim periods within the fiscal years for items within the scope of FSP FAS 157-2. Therefore, effective for 2008, we adopted SFAS 157, except as it applies to those non-financial assets and non-financial liabilities as noted in FSP FAS 157-2. The adoption of SFAS 157 for financial assets and liabilities as of January 1, 2008 did not have an impact on Autobytel's consolidated financial position, results of operations or cash flows. The Company does not expect the adoption of FSP FAS 157-2 in 2009 to have a material effect on its consolidated financial position, results of operations or cash flows.

In February 2007, the FASB issued SFAS 159, "The Fair Value Option for Financial Assets and Financial Liabilities—including an amendment of FASB Statement No. 115 ("SFAS 159")", which is effective for fiscal years beginning after November 15, 2007. This statement permits entities to choose to measure many financial instruments and certain other items at fair value. This statement also establishes presentation and disclosure requirements designed to facilitate comparisons between entities that choose different measurement attributes for similar types of assets and liabilities. Unrealized gains and losses on items for which the fair value option is elected would be reported in earnings. We adopted the provisions of SFAS 159 as of January 1, 2008 and did not elect the fair value option to measure certain financial instruments.

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

For the three and nine months ended September 30, 2008 there were no material changes in the information required to be provided under Item 305 of Regulation S-K from the information disclosed in Item 7A of the Company's Annual Report on Form 10-K for the year ended December 31, 2007.

Item 4. *Controls and Procedures*

As of the end of the period covered by this Quarterly Report on Form 10-Q, we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and our Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures pursuant to Rule 13a-15 under the Securities Exchange Act of 1934, as amended. Based on the evaluation, our Chief Executive Officer and our Chief Financial Officer believe that, as of the end of the period covered by this Quarterly Report on Form 10-Q, our disclosure controls and procedures were effective at ensuring that the information required to be disclosed by us in the reports that we file or submit under the Securities Exchange Act of 1934 is (i) recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms or (ii) accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required financial disclosure. Our management concluded that the financial statements included in this Quarterly Report on Form 10-Q fairly present, in all material respects, our financial position, results of operations and cash flows for the periods presented in conformity with generally accepted accounting principles.

As of the end of the period covered by this Quarterly Report on Form 10-Q, there were no changes in our internal control over financial reporting that have materially affected or were reasonably likely to materially affect, our internal control over financial reporting.

Our management, including our Chief Executive Officer and our Chief Financial Officer, does not expect that our disclosure controls and internal control over financial reporting will prevent all error and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls may be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the control.

The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions; over time, a control may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

Notwithstanding the foregoing limitations on the effectiveness of controls, we have nonetheless reached the conclusions set forth above on our disclosure controls and procedures and our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

See discussion at Part I, Item 1, Note 9, "Commitments and Contingencies – *Litigation* ," to the unaudited consolidated condensed financial statements, which is incorporated by reference herein.

Item 1A. Risk Factors

Except for fiscal years 2003 and 2004, we have had a history of net annual losses. We cannot assure that we will be profitable in the future. If we are unable to achieve profitability in the future and we continue to lose money, our operations will not be financially viable.

Except for fiscal years 2003 and 2004, we have had a history of net annual losses. We cannot assure that we will be profitable in the future. We had an accumulated deficit of $256 million and $191 million as of September 30, 2008, and December 31, 2007, respectively.

Our potential for future profitability must be considered in light of the risks, uncertainties, expenses and difficulties frequently encountered by companies in rapidly evolving markets, such as the market for Internet commerce. We believe that to achieve and sustain profitability, we must, among other things:

- generate increased vehicle shopper and buyer traffic to our Web sites;
- successfully introduce new products and services;
- continue to send new and used vehicle purchase requests to dealers that result in sufficient dealer transactions to justify our fees;
- expand the number of dealers in our networks;
- sustain and expand our relationships with automotive manufacturers;
- assure continued access to a high volume of leads at acceptable prices from third party sources;
- respond to competitive developments;
- maintain a high degree of customer satisfaction;
- provide secure and easy to use Web sites for customers;
- increase visibility of our brand names;
- defend and enforce our intellectual property rights;
- design and implement effective internal control systems;
- continue to attract, train, retain and motivate qualified personnel; and
- continue to upgrade and enhance our technologies to accommodate expanded service offerings and increased consumer traffic.

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

If our internal controls and procedures fail, our financial condition, results of operations and cash flow could be materially and adversely affected .

Management is responsible for establishing and maintaining adequate internal control over financial reporting. Our internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. In making its assessment of the effectiveness of our internal control over financial reporting as of September 30, 2008, management used the criteria described in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). A material weakness is a control deficiency, or combination of control deficiencies, that results in a more than remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected.

Management determined that we had no material weakness in our internal control over financial reporting as of September 30, 2008. Our internal controls may not prevent all potential errors and fraud, because any control system, no matter how well designed, can only provide reasonable and not absolute assurance that the objectives of the control system will be achieved. We have had material weaknesses in our internal control over financial reporting in the past and there is no assurance that we will not have a material weakness in the future resulting from failure of our internal controls and procedures.

Our ability to report our financial results on a timely and accurate basis could be adversely affected by a failure in our internal control over financial reporting. If our financial statements are not fairly presented, investors may not have a complete understanding of our operating results and financial condition. If our financial statements are not timely filed with the SEC, we could be delisted from The NASDAQ Global Market. If either or both of these events occur, it could have a material adverse affect on our ability to operate our business. In addition, a failure in our internal control over financial reporting could materially and adversely affect our financial condition, results of operations and cash flow.

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

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

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

Our decision to evaluate strategic alternatives may have a negative impact on employee retention, as well as customer and supplier relationships.

As previously announced, we engaged an investment banking firm, RBC Capital Markets Corporation (RBC), to act as a financial advisor and to assist the Company in exploring and evaluating strategic alternatives to maximize shareholder value. The public disclosure of this action may create concern among our employees, increasing turnover and disrupting key business activities. We have implemented a key employee retention program to address retention risks, but there can be no assurance that this retention program will be successful in retaining employees. Additionally, our decision to evaluate strategic alternatives may create concerns among our customers and suppliers regarding our stability, impacting our ability to acquire and retain customers and maintain supplier relationships.

If a more media-centric advertising-driven business model, including the MyRide.com Web site, is not successful, we may not be able to be profitable in the future.

In 2006, we began implementing a series of strategic initiatives, including programs to transition our business toward a more media-centric advertising-driven business model. Towards that end, we launched the MyRide.com Web site in October 2007. Demand and market acceptance for newly introduced services and products over the Internet are subject to uncertainty and we have no assurance that consumers and other automotive participants will accept and use our new products and services. If consumers and other automotive participants fail to accept and use our new products and services or acceptance continues to be at a lower level than anticipated, our strategy of focusing on a more media-centric advertising-driven business model will not be successful. Accordingly, we cannot assure that we will be profitable in the future.

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

The majority of our revenue is derived from fees paid by retail dealers participating in our dealer networks. A few agreements with large dealer groups account for a material amount of our revenue. From time to time, a major dealer group or automotive manufacturer may significantly decrease the number of dealers participating in our dealer networks or the number of purchase requests accepted from us. If dealer attrition increases or continues at the current rate and we are unable to add new dealers to mitigate the attrition, our revenues will decrease. If the number of purchase requests accepted from us decreases, our revenues will decrease. A material factor affecting dealer attrition is our ability to provide dealers with high quality purchase requests at prices acceptable to dealers. High quality purchase requests are those that result in high closing ratios. Closing ratio is the ratio of the number of vehicles purchased at a dealer generated from purchase requests to the total

number of purchase requests sent to that dealer. If the number of dealers in our networks declines or dealers reduce the services they receive from us, our revenues will decrease and our business, results of operations and financial condition will be materially and adversely affected. In addition, if automotive manufacturers or major dealer groups require 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.

Generally, our retail dealer agreements are cancelable by either party upon 30 days notice. Participating retail dealers may terminate their relationship with us for any reason, including an unwillingness to accept our subscription terms or as a result of joining alternative marketing programs. We cannot assure that retail dealers will not terminate their agreements with us. Our business is dependent upon our ability to attract and retain qualified new and used vehicle retail dealers, major dealer groups and automotive manufacturers. In order for us to grow or maintain our dealer networks, we need to reduce our dealer attrition. We cannot assure that we will be able to reduce the level of dealer attrition, and our failure to do so could materially and adversely affect our business, results of operations and financial condition.

We send a substantial amount of individual purchase requests to multiple retail dealers. As a result, we may lose participating retail dealers and may be subject to pressure on the fees we charge such dealers for such purchase requests. We will lose the revenues associated with any reductions in participating retail dealers or fees.

We send a substantial amount of individual purchase requests to multiple retail dealers to enhance consumer satisfaction and experience. If a retail dealer perceives such requests as having less value, it may request that fees be reduced or may terminate its relationship with us. A material decrease in the number of retail dealers participating in our networks or the fees such dealers pay us could have a material adverse effect on our business, results of operations and financial condition.

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

Our vehicle marketing services compete against a variety of Internet and traditional vehicle purchasing services, automotive brokers and classified advertisement providers. Therefore, we are affected by the competitive factors faced by both Internet commerce companies as well as traditional, offline companies within the automotive and automotive-related industries. Competition continues to intensify in 2008 as key competitors pursue the best quality consumer leads through strategic relationships, pricing, search marketing programs, and other tactics. Our business is characterized by minimal barriers to entry, and new competitors can launch a competitive service at relatively low cost. To compete successfully, we must significantly increase awareness of our services and brand names and deliver satisfactory value to our customers. Failure to compete successfully will cause our revenues to decline and would have a material adverse effect on our business, results of operations and financial condition.

We compete with other entities that maintain similar consumer and/or business-to-business Web sites including AutoNation’s AutoUSA, Microsoft Corporation’s MSN Autos, CarsDirect.com, Cars.com, eBayMotors.com, Dealix.com, and AutoTrader.com. We also compete to a degree with automotive dealers. Such competitors, including vehicle dealers, may already maintain or may introduce Web sites that compete with ours. We also compete indirectly against vehicle brokerage firms and affinity programs offered by several companies, including Costco Wholesale Corporation and Wal-Mart Stores, Inc. In addition, all major automotive manufacturers have their own Web sites and many have launched online buying services. In advertising, we compete with offerings from, among others, the major portals (e.g., Yahoo!, MSN, AOL), transaction based sites (e.g., Ebay Motors, Cars.com, Autotrader), automotive verticals (e.g., KBB, Edmunds) and numerous lifestyle sites (e.g., HIN City).

Our success in our leads businesses is dependent on our ability to acquire and distribute high quality leads in sufficient volumes to our customers. These leads may be submitted by consumers through our own web properties or purchased from other web publishers. Our success is dependent on our ability to purchase quality leads and sell those leads at profitable margins. Our competitive success in our advertising business is dependent on our ability to attract and acquire consumers to our web properties and monetize that traffic at profitable margins with advertisers.

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

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

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

- our ability to retain existing dealers, attract new dealers and maintain dealer and customer satisfaction;
- the announcement or introduction of new or enhanced sites such as MyRide.com, services and products by us or our competitors;
- general economic conditions and economic conditions specific to the Internet, online commerce or the automotive 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 marketed or advertised by us;
- our ability to upgrade and develop our systems and infrastructure in a timely and effective manner;
- our ability to attract, train, retain and motivate personnel;
- the level of traffic on our Web sites and other sites that refer traffic to our Web sites;
- technical difficulties, system downtime, Internet brownouts or electricity blackouts;
- the amount and timing of operating costs and capital expenditures relating to expansion of our business, operations and infrastructure;
- costs of ongoing litigation and any adverse judgments resulting from such litigation;
- costs of defending and enforcing our intellectual property rights;
- governmental regulation; and
- unforeseen events affecting the industries in which we operate.

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.

Traditionally, our purchase request volume fluctuates with automotive industry sales volume that has some measure of seasonality. Typically, volume is highest in the spring and summer, with lower volume in the fall and winter months. As seasonality occurs, investors may not be able to predict our annual operating results based on a quarter to quarter comparison of our operating results. Seasonality in the automotive industry, Internet and commercial online service usage and advertising expenditures is likely to cause fluctuations in our operating results and could have a material adverse effect on our business, results of operations and financial condition.

We are particularly affected by general economic conditions and in particular the automotive industry.

The economic strength of the automotive industry significantly impacts the revenues we derive from dealers, automotive manufacturers and other customers and consumer traffic to our Web sites. The automotive industry is cyclical, with vehicle sales fluctuating due to changes in national and global economic forces. Purchases of vehicles are typically discretionary for consumers and may be particularly affected by negative trends in the general economy. The success of our operations depends to a significant extent upon a number of factors relating to discretionary consumer spending, including economic conditions (and perceptions of such conditions by consumers) affecting disposable consumer income (such as employment, wages and salaries, business conditions, energy prices and interest rates in regional and local markets). Because the purchase of a vehicle is a significant investment and is relatively discretionary, any reduction in disposable income in general or a general increase in interest rates, energy prices or a general tightening of lending may affect us more significantly than companies in other industries. Given the economic outlook for 2008, we expect total new vehicle sales to decrease from 2007 levels due to a variety of factors, including (i) a short term mismatch of leads supply and demand, which is the result of a shift in consumer preferences to more fuel efficient vehicles from less fuel efficient vehicles, which is being driven by the rising cost of gasoline in the past year; (ii) general economic conditions resulting in less discretionary consumer spending related to automobile purchases; and (iii) tightening of credit available for automotive purchases. In addition, if any of our larger customers were to become insolvent because of economic conditions in the automotive industry, our business, results of operations, cash flow and financial condition may be materially and adversely affected.

At some point in the future, manufacturers may decrease current levels of incentive spending on new vehicles, which has served to drive sales volume in the past. Such a reduction in incentives could lead to a decline in demand for new vehicles. A decline in vehicle purchases may result in a decline in demand for our services which could adversely affect our business, financial condition, cash flow and results of operations.

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

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

If any of our relationships with Internet search engines or online automotive information providers terminates, our purchase request volume or quality could decline. If our purchase request volume or quality declines, our participating dealers may not be satisfied with our services and may terminate their relationships with us or force us to decrease the fees we charge for our services. 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 us or 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, could cause our purchase request volume or quality to decline. If this occurs, dealers may no longer be satisfied with our services and may terminate their relationships with us or force us to decrease the fees we charge for our services. If dealers terminate their relationships with us or force us to decrease the fees we charge for our services, our revenues will decline, which could have a material adverse effect on our business, results of operations and financial condition. We receive a significant number of purchase requests through a limited number of Internet search engines, online automotive information providers, and other automotive-related Internet sites. We periodically negotiate revisions to existing agreements and these revisions could increase our costs in future periods. A number of our agreements with online service providers may be terminated without cause. We may not be able to maintain our relationship with our online service providers or find alternative, comparable marketing sponsorships and alliances capable of originating significant numbers of purchase requests on terms satisfactory to us. If we cannot maintain or replace our relationships with online service providers, our revenues may decline which could have a material adverse effect on our business, results of operations, cash flow and financial condition.

If any of our advertising relationships with manufacturers terminates or declines or our advertising rates decline, our revenues would continue to decrease.

We depend on a number of manufacturer relationships for substantially all of our advertising revenues. Automotive manufacturers increasingly make advertising decisions based on certain performance criteria. Due to acquiring advertising impressions from low quality third party sources that we no longer use, our 2007 performance as measured by such advertisers was lower than desired. As a result, we are experiencing a decline in advertising rates charged to such manufacturers for advertising and may experience lower demand for advertising from such manufacturers or termination of our advertising relationships with them. The termination of any of these relationships or decline in the level of advertising with us or reduction in advertising rates or any significant failure to develop additional sources of advertising would cause our revenues to decline which could have a material adverse effect on our business, results of operations and financial condition. We periodically negotiate revisions to existing agreements and these revisions could decrease our advertising revenues in future periods. A number of our agreements with such manufacturers may be terminated without cause. We may not be able to maintain our relationship with such manufacturers on favorable terms or find alternative comparable relationships capable of replacing advertising revenues on terms satisfactory to us. If we cannot do so, our revenues would decline which could have a material adverse effect on our business, results of operations, cash flow and financial condition.

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

We believe that the importance of brand recognition will increase as more companies engage in commerce over the Internet. Development and awareness of the MyRide.com, Autobytel.com, Autoweb.com, Car.com, CarSmart.com and other brands will depend largely on our ability to obtain a leadership position in Internet commerce. If dealers and manufacturers

do not perceive us as an effective channel for increasing vehicle sales, or consumers do not perceive us as offering reliable information concerning new and used vehicles, as well as referrals to high quality dealers, in a user-friendly manner that reduces the time spent for vehicle purchases and services, 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, cash flow and financial condition.

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

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

We also believe that our dealer marketing services generally do not qualify as automobile brokerage activity and, therefore, state motor vehicle dealer or broker licensing requirements generally do not apply to us. However, in certain states we have modified our marketing programs or pricing models to comply with local laws. If any state’s regulatory requirements relating to motor vehicle dealers or brokers are deemed applicable to us and we do not comply with such regulatory requirements, we may become subject to fines, penalties or other requirements and may be required to modify our marketing programs or pricing models in such states in a manner that undermines the attractiveness of the program to consumers or dealers. If we determine that the licensing or other regulatory requirements in a given state are overly burdensome, we may elect to terminate operations in such state. In each case, our revenues may decline and our business, results of operations and financial condition could be materially and adversely affected.

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

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

We provide links on our Web sites so consumers can receive quotes for insurance coverage from third parties and submit quote applications online through such parties’ Web sites. We receive fees from such participants in connection with this advertising activity. We do not believe that such activities require us to be licensed under state insurance laws. It is not clear whether or to what extent state insurance licensing laws apply to activities similar to ours.

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

There are many risks associated with consummated and potential acquisitions.

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

Acquisitions involve numerous risks. For example:

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

Changes in government regulation and taxation of Internet commerce may result in increased costs that may reduce our future earnings.

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

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

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

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

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

Our success is dependent on keeping pace with advances in technology. If we are unable to keep pace with advances in technology, consumers may stop using our services and our revenues will decrease. If we are required to invest substantial amounts in technology, our results of operations will suffer.

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

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

Our production Web sites, including MyRide.com, Autobytel.com, Autoweb.com, CarSmart.com, AutoSite.com, Car.com and Finance.Car.com, and certain other systems are currently hosted at secure third-party hosting facilities.

Although backup servers are available, our primary servers are vulnerable to interruption by damage from fire, earthquake, flood, power loss, telecommunications failure, break-ins and other events beyond our control. In the event that we experience significant system disruptions, our business, results of operations and financial condition would be materially and adversely affected. We have, from time to time, experienced periodic systems interruptions and anticipate that such interruptions will occur in the future.

Our main production systems and our accounting, finance and contract management systems are hosted in secure facilities with generators and other alternate power supplies in case of a power outage. However, our corporate offices, where we have the users and additional applications for our accounting, finance and contract management systems, are vulnerable to wide-scale power outages. To date, we have not been significantly affected by blackouts or other interruptions in service. In the event we are affected by interruptions in service, our business, results of operations and financial condition could be materially and adversely affected.

We maintain business interruption insurance which pays up to $9.0 million for the actual loss of business income sustained due to the suspension of operations as a result of direct physical loss of or damage to property at our offices. However, in the event of a prolonged interruption, this business interruption insurance may not be sufficient to fully compensate us for the resulting losses.

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

Critical issues concerning the commercial use of the Internet, such as ease of access, security, privacy, reliability, cost, and quality of service may impact the growth of Internet use. If periods of decreased performance, outages or delays on the Internet occur frequently or other critical issues concerning the Internet are not resolved, overall Internet usage or usage of our Web sites could increase more slowly or decline, which would cause our business, results of operations and financial condition to be materially and adversely affected.

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

Our common stock is currently listed on the NASDAQ Global Market, but we cannot assure that an active trading market will be sustained or that the market price of the common stock will not decline. The stock market in general has experienced significant price fluctuations. The market price of our common stock is likely to be highly volatile and could be subject to wide fluctuations in response to factors such as:

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

Further, the stock markets, and in particular The NASDAQ Global Market, have experienced 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

affected and may adversely affect the market price of our common stock. In addition, general economic, political and market conditions, such as recessions, interest rates, energy prices, international currency fluctuations, terrorist acts, military actions or wars, may adversely affect the market price of the common stock. In the past, following periods of volatility in the market price of a company's securities, securities class action litigation has often been instituted against companies with publicly traded securities. Such litigation could result in substantial costs and a diversion of management's attention and resources, which would have a material adverse effect on our business, results of operations and financial condition.

Our common stock could be delisted from NASDAQ Global Market if we are not able to satisfy continued listing requirements, and if this were to occur, the price of our common stock and our ability to raise additional capital may be adversely affected and you may have difficulty converting your investment into cash efficiently.

Our common stock is currently listed on the NASDAQ Global Market. Continued listing of a security on the NASDAQ Global Market is conditioned upon compliance with various continued listing standards. There can be no assurance that we will continue to satisfy the requirements for maintaining a NASDAQ Global Market listing.

The standards for continued listing require, among other things, that the closing minimum bid price for the listed securities be at least $1.00 per share over a certain number of consecutive days in any six month period. As of the date of this report, the Company is in compliance with the minimum bid price requirement. However, our common stock has traded below $1.00 per share since October 1, 2008 through and including November 5, 2008, and there can be no assurances made that we will continue to satisfy the $1.00 minimum bid price required for continued listing of our common stock on the NASDAQ Global Market.

On October 16, 2008, the NASDAQ Global Market implemented a temporary suspension of its enforcement of the minimum $1.00 closing bid price and minimum market value for publicly held shares continued listing rules. This temporary suspension will remain in effect through January 16, 2009 and enforcement of the rules will be reinstated on January 19, 2009.

If our common stock were to be delisted from the NASDAQ Global Market, the price of our common stock, the ability of holders to sell such stock, and our ability to raise additional capital may be adversely affected. If delisted, our stock would still be publicly traded but if we sought to relist our stock on the NASDAQ Global Market we would be required to comply with all of the initial listing requirements to be relisted on the NASDAQ Global Market, which in some instances are more stringent than the continued listing requirements.

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

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

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

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

If the Internet continues to experience significant growth in the number of users and the level of use, then the Internet infrastructure may not be able to continue to support the demands placed on it by such potential growth.

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

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

Misappropriation or infringement of our intellectual property and proprietary rights could impair our competitive position. Enforcement actions to protect our intellectual property could materially and adversely affect our business, results of operations and financial condition.

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

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

As part of our business, we make Internet services and content available to our customers. This creates the potential for claims to be made against us, either directly or through contractual indemnification provisions with third parties. We are involved in several such matters which are described in “Part I, Item 1, Note 9, “Commitments and Contingencies— *Litigation* ” herein. We could face liability for information retrieved from or transmitted over the Internet and liability for products sold over the Internet. We could be exposed to liability with respect to third-party information that may be accessible through our Web sites, links or car review services. Such claims might, for example, be made for defamation, negligence, patent, copyright or trademark infringement, personal injury, breach of contract, unfair competition, false advertising, invasion of privacy or other legal theories based on the nature, content or copying of these materials. Such claims might assert, among other things that, by directly or indirectly providing links to Web sites operated by third parties we should be liable for copyright or trademark infringement or other wrongful actions by such third parties through such Web sites. It is also possible that, if any third-party content provided on our Web sites contains errors, consumers could make claims against us for losses incurred in reliance on such information. Any claims could result in costly litigation, divert management’s attention and resources, cause delays in releasing new or upgrading existing services or require us to enter into royalty or licensing agreements.

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

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

Litigation regarding intellectual property rights is common in the Internet and software industries. We expect that Internet technologies and software products and services may be increasingly subject to third-party infringement claims as the number of competitors in our industry segment grows and the functionality of products in different industry segments overlaps. We are involved in patent litigation, both as plaintiff and defendant, which are described in Part I, Item 1, Note 9, “Commitments and Contingencies – *Litigation* ” herein. There can be no assurance that our services do not infringe on the intellectual property rights of third parties.

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

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

From time to time, we are involved in other litigation or other legal matters arising from the normal course of our business activities. The actions filed against us and other litigation or legal matters, even if not meritorious, could result in substantial costs and diversion of resources and management attention and an adverse outcome in litigation could materially adversely affect our business, results of operations and financial condition. We are currently a defendant in certain proceedings or are involved in legal matters which are described in Part I, Item 1, Note 9, “Commitments and Contingencies - *Litigation* ” herein.

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 and 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 develop new or enhance existing services or products or to respond to competitive pressures. 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 develop or enhance services or products or respond to competitive pressures would be significantly limited. In addition, our ability to continue to operate our business may also be materially adversely affected in the event additional financing is not available when required. Such limitation could have a material adverse effect on our business, results of operations, financial condition and prospects.

Our certificate of incorporation and bylaws, stockholder rights plan 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 and provisions in our stockholder rights plan 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. Under the stockholder rights plan, if a person or group acquires 15% or more of our common stock, all rights holders, except the acquirer, will be entitled to acquire

at the then exercise price of a right that number of shares of our common stock which, at the time, has a market value of two times the exercise price of the right. In addition, under certain circumstances, all right holders, other than the acquirer, will be entitled to receive at the then exercise price of a right that number of shares of common stock of the acquiring company which, at the time, has a market value of two times the exercise price of the right. The initial exercise price of a right is $65. Such charter and rights provisions could limit the price that certain investors might be willing to pay in the future for shares of our common stock and may have the effect of delaying or preventing a change in control. The issuance of preferred stock also could decrease the amount of earnings and assets available for distribution to the holders of common stock or could adversely affect the rights and powers, including voting rights, of the holders of the common stock.

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

Table of Contents

Item 6. ***Exhibits***

10.1	Amended and Restated Severance Agreement between Autobytel and Mr. Mark Garms is incorporated herein by reference to Exhibit 10.3 of the Current Report on Form 8-K filed with the SEC on October 3, 2008.
10.2	Amended and Restated Severance Agreement between Autobytel and Mr. Glenn Fuller is incorporated herein by reference to Exhibit 10.4 of the Current Report on Form 8-K filed with the SEC on October 3, 2008.
*31.1	Chief Executive Officer Section 302 Certification of Periodic Report, dated November 6, 2008.
*31.2	Chief Financial Officer Section 302 Certification of Periodic Report, dated November 6, 2008.
*32.1	Chief Executive Officer and Chief Financial Officer Section 906 Certification of Periodic Report, dated November 6, 2008.

* Filed herewith

Table of Contents

SIGNATURES

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

AUTOBYTEL INC.

By: /s/ Monty A. Houdeshell

Monty A. Houdeshell
Executive Vice President and Chief Financial Officer
(Duly Authorized Officer and Principal Financial Officer)

Date: November 7, 2008

By: /s/ Curtis E. DeWalt

Curtis E. DeWalt
Vice President and Controller
(Principal Accounting Officer)

EXHIBIT INDEX

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*32.1	Chief Executive Officer and Chief Financial Officer Section 906 Certification of Periodic Report, dated November 7, 2008.

* Filed herewith

Exhibit 31.1

CERTIFICATION

I, James E. Riesenbach, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Autobytel Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and we have:
   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   b) Designed such internal control over financial reporting or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's independent registered accountants and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 7, 2008

/s/ James E. Riesenbach
James E. Riesenbach
President and Chief Executive Officer

Exhibit 31.2

CERTIFICATION

I, Monty A. Houdeshell, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Autobytel Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and we have:
   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   b) Designed such internal control over financial reporting or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's independent registered accountants and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 7, 2008

/s/ Monty A. Houdeshell
Monty A. Houdeshell,
Executive Vice President and
Chief Financial Officer

Exhibit 32.1

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

In connection with the Quarterly Report of Autobytel Inc. (the " *Company* ") on Form 10-Q for the period ended September 30, 2008 (the " *Report* "), we, James E. Riesenbach, Chief Executive Officer of the Company, and Monty A. Houdeshell, Executive Vice President and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

/s/ James E. Riesenbach
James E. Riesenbach
Chief Executive Officer
November 7, 2008

/s/ Monty A. Houdeshell
Monty A. Houdeshell
Executive Vice President and
Chief Financial Officer
November 7, 2008

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