AUTOBYTEL INC

FORM 10-Q
(Quarterly Report)

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

Form 10-Q

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

For the quarterly period ended June 30, 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 July 31, 2008, there were 44,151,903 shares of the Registrant's Common Stock outstanding.

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PART I. FINANCIAL INFORMATION

Item 1. Unaudited *Consolidated Condensed Financial Statements*

AUTOBYTEL INC.
UNAUDITED CONSOLIDATED CONDENSED BALANCE SHEETS
(Amounts in thousands, except per-share amounts)

	June 30, 2008	December 31, 2007
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 35,720	$ 27,601
Short-term investments	647	686
Accounts receivable, net of allowances for bad debts and customer credits of $473 and $534, respectively	14,118	11,692
Prepaid expenses and other current assets	2,239	1,739
Assets held for sale	—	17,160
Total current assets	52,724	58,878
Property and equipment, net	9,984	10,757
Goodwill	—	52,074
Other assets	279	447
TOTAL ASSETS	$ 62,987	$ 122,156
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	$ 5,710	$ 5,852
Accrued expenses	3,647	6,470
Deferred revenues	2,382	1,749
Other current liabilities	1,779	1,199
Liabilities held for sale	—	198
Total current liabilities	13,518	15,468
Other non current liabilities	324	436
TOTAL LIABILITIES	13,842	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; 44,151,903 and 43,788,663 shares issued and outstanding at June 30, 2008 and December 31, 2007, respectively	44	44
Additional paid-in capital	299,133	296,964
Unrealized gain from available-for-sale securities	647	686
Accumulated deficit	(250,679)	(191,442)
TOTAL STOCKHOLDERS' EQUITY	49,145	106,252
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 62,987	$ 122,156

See accompanying notes.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
REVENUES:				
Lead fees	$ 17,178	$16,678	$ 35,339	$ 33,909
Advertising	1,767	4,947	4,266	9,654
Other revenues	41	17	78	25
Total revenues	18,986	21,642	39,683	43,588
COSTS AND EXPENSES:				
Cost of revenues	12,214	12,762	26,039	24,437
Sales and marketing	4,320	5,222	9,515	10,921
Technology support	3,680	4,608	8,273	8,812
General and administrative	4,344	6,306	10,653	14,908
Amortization of acquired intangible assets	42	79	84	380
Patent litigation settlement	—	—	(2,667)	(12,000)
Goodwill impairment	52,074	—	52,074	—
Total costs and expenses	76,674	28,977	103,971	47,458
Operating loss	(57,688)	(7,335)	(64,288)	(3,870)
Interest and other income	334	462	846	939
Foreign currency exchange loss	—	—	—	(7)
Provision for income taxes	—	—	—	—
Loss from continuing operations	(57,354)	(6,873)	(63,442)	(2,938)
Discontinued operations, net	69	4,838	4,205	8,553
NET (LOSS) INCOME	$(57,285)	$ (2,035)	$ (59,237)	$ 5,615
BASIC (LOSS) EARNINGS PER COMMON SHARE:				
Loss from continuing operations	$ (1.30)	$ (0.16)	$ (1.44)	$ (0.07)
Discontinued operations, net	—	0.11	0.09	0.20
Basic (loss) earnings per common share	$ (1.30)	$ (0.05)	$ (1.35)	$ 0.13
DILUTED (LOSS) EARNINGS PER COMMON SHARE:				
Loss from continuing operations	$ (1.30)	$ (0.16)	$ (1.44)	$ (0.07)
Discontinued operations, net	—	0.11	0.09	0.20
Diluted (loss) earnings per common share	$ (1.30)	$ (0.05)	$ (1.35)	$ 0.13
Comprehensive (loss) income				
Net (loss) income	$(57,285)	$ (2,035)	$ (59,237)	$ 5,615
Unrealized loss from available-for-sale securities	(72)	—	(39)	—
Comprehensive (loss) income	$(57,357)	$ (2,035)	$ (59,276)	$ 5,615

See accompanying notes.

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

	Six Months Ended June 30,	
	2008	2007
Cash flows from operating activities:		
Net (loss) income	$(59,237)	$ 5,615
Adjustments to reconcile net (loss) income to net cash used in operating activities:		
Depreciation and amortization	2,254	1,094
Amortization of intangible assets	84	423
Provision for bad debts	305	183
Provision for customer credits	559	822
Gain on disposal of property and equipment	—	(1)
Gain on sale of AIC business	—	(2,762)
Gain on sale of RPM business	—	(3,048)
Gain on sale of AVV business	(4,204)	—
Share-based compensation	1,568	2,518
Foreign currency exchange gain	—	6
Loss on goodwill impairment	52,074	—
Changes in assets and liabilities, net of discontinued operations:		
Accounts receivable	(3,183)	(2,538)
Prepaid expenses and other current assets	(489)	(1,222)
Other non-current assets	85	(254)
Accounts payable	(449)	(2,300)
Accrued expenses	(2,818)	(561)
Deferred revenues	638	(162)
Other liabilities	472	275
Net cash used in operating activities	(12,341)	(1,912)
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	(1,537)	(6,917)
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	19,859	6,103
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	601	1,529
Net cash provided by financing activities	601	1,345
Net increase in cash and cash equivalents	8,119	5,536
Cash and cash equivalents, beginning of period	27,601	22,743
Cash and cash equivalents, end of period	$ 35,720	$28,279

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 helps 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 manufacturers and dealers with opportunities to connect with a steady, diverse stream of motivated, serious shoppers, while providing manufacturers and dealers with targeted brand and product advertising opportunities. In addition to its web sites, the Company generates leads and advertising opportunities for dealers and automakers through its marketing network, which includes the AutoReach advertising network, co-brands, such as ESPN.com, and marketing 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 $250.7 million as of June 30, 2008. The Company believes current cash, cash equivalents and short-term investments 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 2007 Annual Report on Form 10-K.

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 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 June 30, 2008 and the consolidated condensed statements of operations and cash flows for the three and six months then ended, as applicable. The statement of operations and cash flows for the periods ended June 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 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 CONSOLIDATED CONDENSED FINANCIAL STATEMENTS - (continued)

Certain reclassifications between sales and marketing, technology support, and general and administrative expenses 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") No. 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 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 No. 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. 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 CONSOLIDATED CONDENSED FINANCIAL STATEMENTS - (continued)

4. Computation of Basic and Diluted Net (Loss) Income Per Share

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
	(in thousands, except share and per share data)			
BASIC (LOSS) EARNINGS PER SHARE				
Loss applicable to continuing operations	$ (57,354)	$ (6,873)	$ (63,442)	$ (2,938)
Income applicable to discontinued operations	69	4,838	4,205	8,553
(Loss) Income applicable to common stock	$ (57,285)	$ (2,035)	$ (59,237)	$ 5,615
Weighted average common shares outstanding	44,079,601	43,323,935	43,948,382	43,103,115
Basic (loss) earnings per share				
Loss from continuing operations	$ (1.30)	$ (0.16)	$ (1.44)	$ (0.07)
Discontinued operations, net	—	0.11	0.09	0.20
Basic (loss) earnings per share	$ (1.30)	$ (0.05)	$ (1.35)	$ 0.13
DILUTED (LOSS) EARNINGS PER SHARE				
Loss applicable to continuing operations	$ (57,354)	$ (6,873)	$ (63,442)	$ (2,938)
Income applicable to discontinued operations	69	4,838	4,205	8,553
(Loss) Income applicable to common stock	$ (57,285)	$ (2,035)	$ (59,237)	$ 5,615
Weighted average common shares outstanding	44,079,601	43,323,935	43,948,382	43,103,115
Dilutive effect of employee stock options	—	—	—	—
Diluted shares	44,079,601	43,323,935	43,948,382	43,103,115
Diluted (loss) earnings per share				
Income from continuing operations	$ (1.30)	$ (0.16)	$ (1.44)	$ (0.07)
Discontinued operations, net	—	0.11	0.09	0.20
Diluted (loss) earnings per share	$ (1.30)	$ (0.05)	$ (1.35)	$ 0.13

For the three months ended June 30, 2008 and 2007, 7,718,278 and 8,021,940, respectively, anti-dilutive potential shares of common stock have been excluded from the calculation of diluted earnings per share, and for the six months ended June 30, 2008 and 2007, 8,157,067 and 8,230,457, respectively, anti-dilutive potential shares of common stock have been excluded from the calculation of diluted earnings per share.

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

5. Share-Based Compensation

For the three months ended June 30, 2008 and 2007, the Company recorded $0.7 million and $1.0 million, respectively, of share-based compensation expense, or $0.01 and $0.02 earnings per share, respectively. For the six months ended June 30, 2008 and 2007, the Company recorded $1.6 million and $2.5 million of share-based compensation expense, or $0.04 and $0.06 earnings per share for each period respectively. Share-based compensation expense is included in costs and expenses in the accompanying condensed consolidated statement of operations as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
	(in thousands)			
Cost of revenues	$ 27	$ 33	$ 56	$ 87
Sales and marketing	195	230	389	516
Technology support	108	181	250	376
General and administrative	328	562	865	1,442
Share-based compensation expense included in continuing operations	658	1,006	1,560	2,421
Share-based compensation expense included in discontinued operations	—	13	8	97
Total share-based compensation expense	658	1,019	1568	2,518
Amount capitalized to internal use software	—	4	—	10
Total share-based compensation costs	$ 658	$ 1,023	$ 1,568	$ 2,528

The Company issued 320,000 and 421,613 shares of common stock upon exercise of stock options for the three months ended June 30, 2008 and 2007, respectively. The Company issued 320,000 and 758,613 shares of common stock upon exercise of stock options for the six months ended June 30, 2008 and 2007, respectively.

The Company granted 292,500 and 137,500 stock options for the three months ended June 30, 2008 and 2007, respectively, with a weighted-average fair market value per option granted of $0.82 and $2.15, respectively. The Company granted 365,000 and 495,500 stock options for the six months ended June 30, 2008 and 2007, respectively, with a weighted-average fair market value per option granted of $0.89 and $2.07, 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 assumptions:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
Dividend yield	0.00%	0.00%	0.00%	0.00%
Volatility	60.99% – 62.11%	62.19% – 62.79%	60.99% – 62.11%	62.19% – 64.89%
Risk-free interest rate	2.18% – 2.95%	4.49% – 4.68%	2.18% – 3.33%	4.49% – 4.76%
Expected life	4.13 years	4.36 years	4.13 years	4.36 years

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 No. 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 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.

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

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 June 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

Investments

The Company classifies its equity securities 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.

Goodwill Impairment

The Company evaluates the carrying value of enterprise goodwill for impairment in accordance with SFAS No. 142, “Goodwill and Other Intangible Assets.” Under SFAS No. 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 comparing the carrying value of Autobytel to its estimated fair value using discounted cash flow 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. The impairment is a result of our stock price decline in second quarter 2008, which caused the Company’s market capitalization to fall below its book value of equity.

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

Property and Equipment

Property and equipment consisted of the following at:

	June 30, 2008	December 31, 2007
	(in thousands)	
Computer software and hardware	$ 9,970	$ 11,327
Furniture and equipment	1,559	1,615
Leasehold improvements	1,573	1,574
Capitalized internal use software	8,130	9,049
Development in process	1,367	93
	22,599	23,658
Less – Accumulated depreciation and amortization	(12,615)	(12,901)
	$ 9,984	$ 10,757

At June 30, 2008 and December 31, 2007, capitalized internal use software, net of amortization, and development in process were $6.8 million and $6.0 million, respectively.

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 Consolidated Condensed Financial Statements-Commitments and Contingencies- *Litigation* . Federal and state income tax expense of approximately $0.3 million was recorded as a reduction to the income from discontinued operations.

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

For the three months ended June 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 June 30, 2008				Three Months Ended June 30, 2007			
	AVV	AIC	RPM	Total	AVV	AIC	RPM	Total
REVENUES	$ —	$ —	$ —	$ —	$2,607	$ —	$3,523	$ 6,130
COSTS AND EXPENSES:								
Cost of revenues	—	—	—	—	18	—	1,642	1,660
Sales and marketing	—	—	—	—	503	—	1,770	2,273
Technology support	—	—	—	—	540	—	166	706
General and administrative	—	—	—	—	158	—	43	201
Amortization of intangibles	—	—	—	—	—	—	—	—
TOTAL COSTS AND EXPENSES	—	—	—	—	1,219	—	3,621	4,840
Gain on sale	—	—	—	—	—	500	3,048	3,548
(Benefit) provision for income taxes	(69)	—	—	(69)	—	—	—	—
DISCONTINUED OPERATIONS, NET	$ 69	$ —	$ —	$ 69	$1,388	$ 500	$2,950	$ 4,838

For the six months ended June 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)							
	Six Months Ended June 30, 2008				Six Months Ended June 30, 2007			
	AVV	AIC	RPM	Total	AVV	AIC	RPM	Total
REVENUES	$ 568	$ —	$ —	$ 568	$5,302	$ 210	$7,145	$12,657
COSTS AND EXPENSES:								
Cost of revenues	—	—	—	—	45	10	3,346	3,401
Sales and marketing	150	—	—	150	1,016	68	3,303	4,387
Technology support	114	—	—	114	1,155	193	287	1,635
General and administrative	53	—	—	53	356	32	53	441
Amortization of Intangibles	—	—	—	—	—	—	43	43
TOTAL COSTS AND EXPENSES	317	—	—	317	2,572	303	7,032	9,907
Gain on sale	4,204	—	—	4,204	—	2,762	3,048	5,810
Provision for income taxes	250	—	—	250	7	—	—	7
DISCONTINUED OPERATIONS, NET	$4,205	$ —	$ —	$4,205	$2,723	$2,669	$3,161	$ 8,553

AUTOBYTEL INC.
NOTES TO 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 and the Securities Exchange Act of 1934. 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. The Company is awaiting a decision from the Court on the class certification motion. Due to the inherent uncertainties of litigation, the Company cannot accurately predict the ultimate outcome of the matter. The Company cannot predict whether it will be able to renegotiate a settlement that complies with the Second Circuit's mandate. 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 of 1933 and the Securities Exchange Act of 1934. 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 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

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

filed against other companies. On October 9, 2002, the District Court dismissed the Autoweb 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. The Company is awaiting a decision from the Court on the class certification motion. Due to the inherent uncertainties of litigation, Autoweb cannot accurately predict the ultimate outcome of the matter. Autoweb cannot predict whether it will be able to renegotiate a settlement that complies with the Second Circuit's mandate. 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.

In August 2007, AVV, Inc. (now named Autobytel I Corp.) received a letter from a customer claiming indemnification regarding an action brought against such customer for alleged patent infringement. The customer later made a similar claim against the Company. The Company is in discussions with such customer regarding such claim. 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 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.

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

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 ("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. Internet Brands alleges that pursuant to such 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 shares of Internet Brands' common stock in Internet Brands' possession that were issued to Autoweb in connection with the Co-Marketing Agreement ("Internet Brands Stock"). 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 Condensed Consolidated Statements of Operations. Expenses included in discontinued operations are direct costs of the Divestures that will be eliminated from future operations.

Overview

We are an Internet automotive marketing services company that helps dealers and manufacturers sell cars and related products and services. We own and operate consumer-facing automotive web sites, including our newest site, MyRide.com ®, which is designed to help consumers find, see, buy and learn almost anything related to automobiles. Our 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, we seek to provide manufacturers and dealers with opportunities to connect with a steady, diverse stream of motivated, serious shoppers, while providing manufacturers and dealers with targeted brand and product advertising opportunities. In addition to its web sites, we generate leads and advertising opportunities for dealers and automakers through our marketing network, which includes the AutoReach advertising network, co-brands, such as ESPN.com, and marketing affiliates such as AOL, Edmunds and Kelly Blue Book.

In 2006, we began to implement a series of strategic initiatives, including programs to transition our business toward a more media-centric advertising-driven business model, increasing the focus on providing best-of-class marketing and media services for our dealer and manufacturer customers, and better capturing integration opportunities between our businesses. Toward that end, in October 2007, we launched our next generation consumer Web site, MyRide.com. We believe MyRide.com is the first fully-integrated automotive vertical search Web experience that is designed to provide consumers

with a single comprehensive gateway to broad and relevant automotive information available on the Internet oriented toward the entire consumer automotive lifecycle—from finding and purchasing a new or used vehicle, enhancing a vehicle with parts and accessories, finding local vehicle services, and accessing extensive multimedia and user-generated automotive content. MyRide.com has one of the Internet's most comprehensive used vehicle products, utilizing search-based technology to incorporate listings of millions of vehicles from sites across the Web.

We provide tools and programs to automotive dealers and manufacturers to help them generate sales, enhance customer loyalty and reduce customer acquisition costs. We connect automotive marketers with the vehicle shoppers visiting our branded Web sites (MyRide.com, Autobytel.com, Autoweb.com, Car.com, CarSmart.com, AutoSite.com and CarTV.com) and third party Web sites (primarily search engines, automotive information providers and other auto related venues) each month. We provide dynamic marketing and advertising programs that allow manufacturers and other automotive vendors to interact with Internet vehicle shoppers as they shop for vehicles and make their vehicle buying decisions. Our intent is to garner an increasing share of the approximately $31 billion spent annually by dealers, dealer associations, aftermarket automotive suppliers and manufacturers on marketing and advertising services.

Dealers participate in our automotive lead generation programs by entering into contracts with us directly or through a major dealer group or an automotive manufacturer or its automotive buying service affiliate. In turn, we direct consumers to dealers in their local area based on the consumers' vehicle preference. We expect our dealers to promptly provide consumers a competitive offer within 24 hours of being contacted by the consumer. We recommend that each dealer have at least one employee whose principal responsibility is supervising the dealer's Internet business, similar to the way in which most dealers have a new vehicle sales manager, a used vehicle sales manager and a service and parts department manager who are each responsible for those respective dealership functions. We believe that dealers who immediately respond to consumer inquiries, have readily available inventory and provide up-front competitive pricing benefit the most from our marketing services. We form our dealer relationships after analysis of automotive sales, historic lead activity and demographic data in each region. We seek to maintain in our dealer networks the highest quality dealers within defined territories.

Consumers come to our Web sites to research, compare and configure vehicles and to request a price quote on a vehicle from one of our network dealers. Once they are ready to buy a vehicle, consumers can submit a purchase request through any of our automotive Web sites and thereby connect to one or more of our participating dealers. Consumers can also shop for used vehicles at our branded Web sites by searching for a used vehicle according to the price, make, model, color, year and location of the vehicle. Consumers can submit credit questionnaires to be connected to a participating dealer or an automotive finance institution. The finance leads provide dealers with another direct channel of consumers, many of whom may not be able to secure loans from conventional lending sources.

For the three and six months ended June 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 June 30, 2008, we had $36.4 million in cash and cash equivalents and short-term securities.

For the third quarter of 2008, we may use cash in excess of cash generated from operations.

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Results of Operations

Revenues by groups of similar services were as follows:

	Three Months Ended June 30		Change		Six Months Ended June 30		Change	
	2008	2007	$	%	2008	2007	$	%
REVENUES:								
Lead Fees	$17,178	$16,678	$ 500	3%	$35,339	$33,909	$ 1,430	4%
Advertising	1,767	4,947	(3,180)	(64)%	4,266	9,654	(5,388)	(56)%
Other	41	17	24	141%	78	25	53	212%
TOTAL REVENUES	$18,986	$21,642	$(2,656)	(12)%	$39,683	$43,588	$(3,905)	(9)%

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

	Three Months Ended June 30		Six Months Ended June 30	
Percent of Revenue:	2008	2007	2008	2007
Lead Fees	91%	77%	89%	78%
Advertising	9%	23%	11%	22%
Other	—	—	—	—
TOTAL REVENUES	100%	100%	100%	100%

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

Lead Fees. The $0.5 million or 3% increase in lead fees for second quarter 2008, compared to second quarter 2007 was primarily due to an increase in the number of wholesale leads delivered. This was the result of a decline in overall auto related consumer requests and a decline in finance leads, more than 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. The multiple lead delivery technology has increased the number of leads placed through wholesale channels.

Advertising. The $3.2 million or 64% decrease in advertising revenues for second quarter of 2008, compared to second quarter of 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.

Cost and expenses were as follows:

	Three Months Ended June 30,		Change	
	2008	2007	$	%
	(in thousands)			
Costs and expenses:				
Cost of revenues	$12,214	$12,762	$ (548)	(4)%
Sales and marketing	4,320	5,222	(902)	(17)%
Technology support	3,680	4,608	(928)	(20)%
General and administrative	4,344	6,306	(1,962)	(31)%
Amortization of acquired intangible assets	42	79	(37)	(47)%
Goodwill Impairment	52,074	—	52,074	
Total costs and expenses	$76,674	$28,977	$47,697	165%

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, server equipment depreciation.

The $0.5 million or 4% decrease in the cost of revenues in second quarter 2008 compared to second quarter 2007 was primarily due to a decrease of $1.2 million in search engine marketing costs, a decrease of $0.8 million in other traffic acquisition costs, partially offset by $0.7 million increase in depreciation, a $0.4 increase in lead acquisition costs, and a $0.3 million increase in Web site hosting costs. Search engine and other traffic acquisition costs have decreased due to initiatives to more efficiently deploy marketing dollars, while depreciation, Web site hosting, and other costs have increased due to the launch of the MyRide.com Web site in third quarter 2007. Lead acquisition costs have increased due the increased 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 training and support. Sales and marketing expense in second quarter 2008 decreased by $0.9 million or 17% compared to the second quarter of 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 second quarter 2008 decreased by $0.9 million or 20% compared to second 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 second quarter 2008 decreased $2.0 million or 31% compared to second quarter 2007 due to a decrease in personnel, temporary labor, and professional fees of $1.3 million, a decrease in stock compensation of $0.2 million and other expense reduction initiatives of $0.5 million.

Goodwill Impairment. We evaluate the carrying value of enterprise goodwill for impairment in accordance with Statements of Financial Accounting Standards (“SFAS”) No. 142, “Goodwill and Other Intangible Assets.” Under SFAS No. 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 us 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 then we complete 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. We evaluate 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 we performed our annual impairment test by comparing the carrying value of Autobytel Inc. to its estimated fair value using discounted cash flow 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. The impairment is a result of our stock price decline in second quarter 2008, which caused our market capitalization to fall below its book value of equity.

Six Months Ended June 30, 2008 Compared to Six Months Ended June 30, 2007

Lead Fees. The $1.4 million or 4% increase in lead fees for first half 2008, compared to first half 2007 was primarily due to an increase in the number of wholesale leads delivered. This was the result of a decline in overall auto related consumer requests, and a decline in finance leads, more than 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. The multiple lead delivery technology has increased the number of leads placed through wholesale channels.

Advertising. The $5.4 million or 56% decrease in advertising revenues for first half 2008, compared to first half 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 in first half of 2008; and (3) a reduction in advertising rates from some advertisers due to poor advertisement click-through rates and other advertisement performance measures.

Cost and expenses were as follows:

	Six Months Ended June 30,		Change	
	2008	2007	$	%
	(in thousands)			
Costs and expenses:				
Cost of revenue	$ 26,039	$ 24,437	$ 1,602	7%
Sales and marketing	9,515	10,921	(1,406)	(13)%
Technology support	8,273	8,812	(539)	(6)%
General and administrative	10,653	14,908	(4,255)	(29)%
Amortization of intangibles	84	380	(296)	(78)%
Patent litigation settlement	(2,667)	(12,000)	9,333	(78)%
Goodwill impairment	52,074	—	52,074	
Total costs and expenses	$103,971	$ 47,458	$56,513	119%

Cost of Revenues. The $1.6 million or 7% increase in the cost of revenues in first half 2008 compared to first half 2007 was primarily due to a $1.4 million increase in lead acquisition costs, a $1.4 million increase in depreciation, and a $0.4 million increase in Web site hosting costs, partially offset by a $1.2 million decrease in other traffic acquisition costs, and a $1.0 million decrease in search engine marketing costs. 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 have increased due the increased volume of acquired leads, while search engine and other traffic acquisition costs have decreased due to initiatives to more efficiently deploy marketing dollars.

Sales and Marketing. Sales and marketing expense in first half 2008 decreased by $1.4 million or 13% compared to first half of 2007, due principally to internal cost containment initiatives.

Technology Support. Technology support expense in first half 2008 decreased by $0.5 million or 6% compared to first quarter 2007, due to compensation expense related savings resulting from internal cost reduction initiatives

General and Administrative. General and administrative expense in first half 2008 decreased $4.3 million or 29% compared to first half 2007 due primarily to a decrease in personnel, temporary labor and other compensation expense of $1.9 million, a decrease in professional fees of $1.2 million and a decrease in stock compensation of $0.6 million

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 three months ended June 30, 2008 compared to the three months ended June 30, 2007, and as set forth in Item I Part I, Note 6 to unaudited consolidated condensed financial statements, “Selected Balance Sheet Accounts, Goodwill Impairment” of this report on Form 10-Q.

Employees

As of July 31, 2008, we had a total of 224 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 and short-term investments totaled $36.4 million as of June 30, 2008 compared to cash, cash equivalents and short-term investments of $28.3 million as of December 31, 2007.

Our working capital, excluding assets and liabilities held for sale, increased by $12.8 million, to $39.2 million at June 30, 2008 compared to $26.4 million at December 31, 2007. The increase was primarily due to the $21.4 million of proceeds from the sale of AVV in the first quarter 2008, and $2.7 million cash received in the first quarter related to the Dealix patent litigation settlement agreement, partially offset by an increase in accounts receivable due to an increase in days sales outstanding and a decrease in accounts payable and accrued expenses, due to the timing of payments.

Net Cash Used In Operating Activities

For the six months ended June 30, 2008, net cash flows used for operating activities were $12.3 million, compared to $1.9 million used in the first half 2007. The increase in net cash flows used for operating activities was primarily due to the decline in earnings combined with changes in working capital requirements.

Net Cash Provided By Investing Activities

For the six months ended June 30, 2008, net cash flows provided by investing activities were $19.9 million, compared to $6.1 million provided in the first half 2007. The increase was due to an increase in cash proceeds from Divestures in 2008 of $21.4 million 2008 compared to $9.7 million in 2007, lower capital spending requirements in the first half 2008 compared to first half 2007 of $5.4 million, which was due to the substantial completion of the MyRide.com Web site in 2007 and no new significant capital projects in first half 2008, partially offset by a $3 million decrease in cash received from investment maturities.

Net Cash Provided By Financing Activities

For the six months ended June 30, 2008, cash flows provided by financing activities were $0.6 million, compared to $1.3 million. 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”) No. 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 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 our consolidated financial position, results of operations or cash flows. We do not expect the adoption of FSP FAS 157-2 in 2009 to have a material effect on our consolidated financial position, results of operations or cash flows.

In February 2007, the FASB issued SFAS No. 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 six months ended June 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.

Most of our senior executives do not have long-term experience in the Internet-based vehicle information and shopping industry. This limited experience contributes to our difficulty in predicting future operating results.

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 $250.7 million, and $191.4 million as of June 30, 2008, and December 31, 2007.

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, 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 June 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 June 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 and retain additional highly qualified sales, marketing, managerial and technical personnel, our business may suffer.

Our future success depends on our ability to identify, hire, train and retain highly qualified sales, marketing, managerial and technical personnel. In addition, as we introduce new services we 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.

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 to implement 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 and expect to launch other products and services this year. 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 is 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 account for substantially all of our enterprise dealers. From time to time, a major dealer group or automotive manufacturer may significantly increase or decrease the number of dealers participating in our dealer networks or the number of purchase requests accepted from us. If dealer attrition increases or the number of purchase requests accepted from us decreases and we are unable to add new dealers to mitigate the attrition or decrease in number of accepted requests, 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 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.

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.

We rely heavily on our participating dealers to promote our brand value by providing high quality services to our consumers. If dealers do not provide our consumers high quality services, our brand value will diminish and the number of consumers who use our services may decline causing a decrease in our revenues.

Promotion of our brand value depends on our ability to provide consumers a high quality experience. If our dealers do not provide consumers with high quality service, the value of our brands could be damaged and the number of consumers using our services may decrease. We devote significant efforts to train participating retail dealers in practices that are intended to increase consumer satisfaction. Our inability to train retail dealers effectively, or the failure by participating dealers to adopt recommended practices, respond rapidly and professionally to vehicle inquiries, or sell and lease vehicles in accordance with our marketing strategies, could result in low consumer satisfaction, damage our brand names and materially and adversely affect 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. The market for Internet-based commercial services is relatively new. Competition continued to intensify in 2007 as key competitors pursued 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 vehicle dealers. Such competitors, including vehicle dealers, may already maintain or may introduce Web sites which 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, such as General Motors Corporation and Ford Motor Company in its partnership with its dealers through FordDirect.com. On 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).

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

- brand recognition;
- dealer return on investment;
- lead quality;
- prices of products and services;
- speed and quality of fulfillment;

- strength of intellectual property;
- field sales and customer support;
- dealer territorial coverage;
- relationships with automotive manufacturers;
- variety of integrated products and services;
- consumer experience and ease of use;
- customer satisfaction;
- quality of Web site content;
- quality of service; and
- technical expertise.

We cannot assure that we can compete successfully against current or future competitors, many of which have substantially more 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 and retain 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 industry.

Seasonality is likely to cause fluctuations in our operating results. Investors may not be able to predict our annual operating results based on a quarter-to-quarter comparison of our operating results.

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.

Employee pricing and other actions by manufacturers that promote transparent pricing may decrease the perceived value of our services to consumers and dealers. If the number of consumers and dealers who use our services declines, our revenues will decrease.

In the past, some manufacturers introduced programs allowing all consumers to purchase new vehicles at prices offered to employees. Employee pricing and future actions by manufacturers that promote transparent pricing may negatively affect the perceived value of our services to consumers and dealers. A decline in the perceived value of our services to consumers and dealers may result in a decline in demand for our services, which could adversely affect our business, financial condition and results of operations.

We may be particularly affected by general economic conditions due to the nature of 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 in part to 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 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 auto 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 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. The use of the Internet in the marketing of insurance products, however, is a relatively new practice. It is not clear whether or to what extent state insurance licensing laws apply to activities similar to ours.

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 national 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 and certain systems, including MyRide.com, Autobytel.com, Autoweb.com, CarSmart.com, AutoSite.com, Car.com and Finance.Car.com, 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 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 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 $2.00 per share since May 16, 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.

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 initial listing requirements are in some instances 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 “Item 3. Legal Proceedings” 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.

We are a defendant in certain proceedings or are involved in legal matters which are described in “Item 3. Legal Proceedings” herein.

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 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.

Item 4. ***Submission of Matters to a Vote of Security Holders***

We held our Annual Meeting of Stockholders on June 26, 2008. The following is a brief description of the matters voted upon at the meeting and the number of votes cast for or against or withheld and, if applicable, the number of abstentions and broker non-votes with respect to each matter. Each director proposed by us was elected.

(a) The stockholders re-elected the following three nominees for our board of directors:

Director	For	Withheld Authority
Jeffrey H. Coats	29,635,497	3,086,213
Mark R. Ross	31,368,252	1,353,458
Jeffrey M. Stibel	31,403,852	1,317,858

The term of office as director for Mark N. Kaplan, James E. Riesenbach, Michael J. Fuchs, and Janet Thompson, continued after the meeting.

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Item 6. ***Exhibits***

31.1 Chief Executive Officer Section 302 Certification of Periodic Report, dated August 6, 2008.

31.2 Chief Financial Officer Section 302 Certification of Periodic Report, dated August 6, 2008.

32.1 Chief Executive Officer and Chief Financial Officer Section 906 Certification of Periodic Report, dated August 6, 2008.

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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: August 6, 2008

By: /s/ Curtis E. DeWalt

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

EXHIBIT INDEX

31.1	Chief Executive Officer Section 302 Certification of Periodic Report, dated August 6, 2008.
31.2	Chief Financial Officer Section 302 Certification of Periodic Report, dated August 6, 2008.
32.1	Chief Executive Officer and Chief Financial Officer Section 906 Certification of Periodic Report, dated August 6, 2008.

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: August 6, 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: August 6, 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 June 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
August 6, 2008

/s/ Monty A. Houdeshell
Monty A. Houdeshell
Executive Vice President and
Chief Financial Officer
August 6, 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.