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, 2007

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, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ☐ Accelerated filer ☒ Non-accelerated filer ☐

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, 2007, there were 43,682,567 shares of the Registrant's Common Stock outstanding.

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PART I. FINANCIAL INFORMATION

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

AUTOBYTEL INC.

CONDENSED CONSOLIDATED BALANCE SHEETS
(Amounts in thousands, except share and per share data)
(unaudited)

	June 30, 2007	December 31, 2006
ASSETS		
Current assets:		
Domestic cash and cash equivalents	$ 28,279	$ 22,743
Restricted international cash and cash equivalents	—	360
Short-term investments	—	3,000
Accounts receivable, net of allowances for bad debts and customer credits of $664 and $798, respectively	17,478	17,250
Prepaid expenses and other current assets	5,640	1,819
Current assets held for sale	—	2
Total current assets	51,397	45,174
Property and equipment, net	12,940	7,954
Goodwill	67,738	70,697
Intangible assets, net	387	674
Other assets	4,895	197
Total assets	$ 137,357	$ 124,696
LIABILITIES, MINORITY INTEREST AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 6,130	$ 9,271
Accrued expenses	6,793	7,607
Deferred revenues	2,056	2,138
Current liabilities held for sale	—	393
Other current liabilities	1,965	1,090
Total current liabilities	16,944	20,499
Deferred rent—non-current	251	195
Deferred revenues—non-current	237	—
Other liabilities—non-current	8,205	—
Total liabilities	25,637	20,694
Minority interest	—	184
Commitments and contingencies (Note 8)		
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; 43,489,567 and 42,665,840 shares issued and outstanding, respectively	43	43
Additional paid-in capital	293,919	289,862
Accumulated deficit	(182,242)	(186,087)
Total stockholders' equity	111,720	103,818
Total liabilities, minority interest and stockholders' equity	$ 137,357	$ 124,696

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

AUTOBYTEL INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Amounts in thousands, except share and per share data)
(unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2007	2006	2007	2006
Revenues	$24,331	$25,082	$49,075	$ 49,814
Costs and expenses:				
Cost of revenues	12,718	12,330	24,352	25,052
Sales and marketing	5,684	6,194	11,859	12,646
Product and technology development	5,189	4,653	10,046	9,141
General and administrative	6,464	9,451	15,264	19,162
Amortization of intangible assets	79	308	380	620
Patent litigation settlement	—	—	(9,899)	—
Total costs and expenses	30,134	32,936	52,002	66,621
Operating loss	(5,803)	(7,854)	(2,927)	(16,807)
Interest income	417	472	746	943
Other income	209	—	209	—
Foreign currency exchange gain (loss)	—	2	(6)	5
Loss from continuing operations before provision for income taxes and minority interest	(5,177)	(7,380)	(1,978)	(15,859)
Provision for income taxes	—	—	(7)	—
Minority interest	—	8	—	5
Loss from continuing operations	(5,177)	(7,372)	(1,985)	(15,854)
Income (loss) from discontinued operations	3,450	(496)	5,830	(477)
Net (loss) income	$ (1,727)	$ (7,868)	$ 3,845	$(16,331)
Loss per share from continuing operations:				
Basic and diluted	$ (0.12)	$ (0.17)	$ (0.05)	$ (0.38)
Net (loss) income per share:				
Basic and diluted	$ (0.04)	$ (0.19)	$ 0.09	$ (0.39)

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

AUTOBYTEL INC.

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

	Six Months Ended June 30,	
	2007	2006
Cash flows from operating activities:		
Net income (loss)	$ 3,845	$(16,331)
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Depreciation and amortization	1,094	1,065
Amortization of intangible assets	423	780
Provision for bad debt	183	63
Provision for customer credits	822	974
Write-off of capitalized internal use software	—	264
(Gain) loss on disposal of property and equipment	(1)	3
Gain on sale of AIC	(2,762)	—
Gain on sale of RPM business	(3,048)	—
Share-based compensation	2,518	2,484
Minority interest	—	(5)
Foreign currency exchange loss (gain)	6	(3)
Changes in assets and liabilities, net of the effects of dispositions of discontinued operations:		
Accounts receivable	(2,538)	69
Prepaid expenses and other current assets	(1,222)	(294)
Other assets	(254)	38
Accounts payable	(2,300)	1,863
Accrued expenses	(561)	(918)
Deferred revenues	(162)	292
Other liabilities	2,045	118
Net cash used in operating activities	(1,912)	(9,538)
Cash flows from investing activities:		
Maturities of short-term and long-term investments	3,000	9,000
Purchases of short-term and long-term investments	—	(2,959)
Distribution of foreign investment	354	—
Purchases of property and equipment	(6,918)	(1,373)
Proceeds from sale of property and equipment	1	13
Proceeds from sale of AIC	2,573	—
Net proceeds from sale of RPM business	7,093	—
Net cash provided by investing activities	6,103	4,681
Cash flows from financing activities:		
Distribution to minority interest shareholder	(184)	—
Proceeds from exercise of stock options and awards issued under the employee stock purchase plan	1,529	681
Net cash provided by financing activities	1,345	681
Net increase (decrease) in cash and cash equivalents	5,536	(4,176)
Cash and cash equivalents, beginning of period	22,743	33,353
Cash and cash equivalents, end of period	$28,279	$ 29,177
Supplemental disclosure of cash flow information:		
Cash paid during the period for income taxes	$ 66	$ 316

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

Supplemental disclosure of non-cash activities:

- The aggregate purchase price of certain property and equipment purchases totaling $0.2 million was not paid as of June 30, 2007.
- In January 2007, certain prepaid expenses and deferred revenue were sold in conjunction with the sale of certain assets and liabilities of the Company's Automotive Information Center business (See Note 6).
- Pursuant to a Stock Purchase Agreement, the Company sold substantially all of the assets and certain liabilities associated with its Retention Performance Marketing business in June 2007 (See Note 6).
- In conjunction with the patent litigation settlement, other receivables of $7.1 million were recorded with an offset to other liabilities (See Note 7).

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

AUTOBYTEL INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

1. Organization and Operations of Autobytel

Autobytel Inc. (the "Company" or "Autobytel") is an automotive media and marketing services company that helps dealers sell cars and services, and manufacturers build brands through efficient marketing and advertising, primarily through the Internet. The Company owns and operates automotive Web sites, including MyRide.com ™, Autobytel.com ®, Autoweb.com ®, Car.com ®, CarSmart.com ®, AutoSite.com ®, and CarTV.com ®. The Company is among the largest automotive shopping content networks and reaches millions of Internet visitors as they shop for vehicles and make their vehicle buying decisions. The Company is also a leading provider of customer relationship management ("CRM") products, consisting of lead management products.

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

From its inception in January 1995 through December 31, 2002 and for the years ended December 31, 2005 and 2006, the Company has experienced annual operating losses and has an accumulated deficit of $182.2 million as of June 30, 2007. The Company believes current cash and cash equivalents are sufficient to meet anticipated cash needs for working capital and capital expenditures for at least the next 12 months. 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. Summary of Significant Accounting Policies

Unaudited Interim Financial Statements

In the opinion of management, the accompanying unaudited interim condensed consolidated financial statements contain all adjustments necessary (which are of a normal recurring nature) to present fairly the financial information contained therein. These statements do not include all disclosures required by accounting principles generally accepted in the United States of America ("GAAP") for annual periods and should be read in conjunction with the Company's audited consolidated financial statements and related notes for the year ended December 31, 2006 included in the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission ("SEC") on March 15, 2007. The Company prepared the unaudited interim condensed consolidated financial statements following the requirements of the SEC for interim reporting as contained in the instructions to Form 10-Q in Article 10 of Regulation S-X. As permitted under those rules, certain footnotes or other financial information that are normally required by GAAP can be condensed or omitted. As discussed in more detail in Note 6, Discontinued Operations, and elsewhere in this Quarterly Report on Form 10-Q, the Company sold certain assets and liabilities of its Automotive Information Center ("AIC") data operations and substantially all of the assets and certain liabilities of its Retention Performance Marketing ("RPM") business on January 31, 2007 and June 30, 2007, respectively. Accordingly, both the AIC operations and RPM business are presented in the condensed consolidated financial statements as discontinued operations. As discontinued operations, revenues and expenses of the AIC operations and RPM business have been aggregated and stated separately from the respective captions in continuing operations in the Condensed Consolidated Statements of Operations. Expenses include direct costs of the AIC operations and RPM business that the Company believes will be eliminated from future operations as a result of the sale of the AIC operations and RPM business. Assets and liabilities that are included in the sale of the AIC operations have been aggregated and classified as held for sale under current assets and current liabilities, respectively, at December 31, 2006. All other references to operating results reflect the ongoing operations of the Company, excluding the AIC operations and RPM business. The results of operations for the three months and six months ended June 30, 2007 are not necessarily indicative of the results to be expected for the year ending December 31, 2007 or any other period(s).

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with GAAP requires the Company to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant estimates include, but are not limited to, allowances for bad debts and customer credits, useful lives of depreciable assets, valuation of the non-exclusive patent license, accrued liabilities and valuation allowance for deferred tax assets. Actual results could differ from those estimates.

Reclassifications

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

Revenue Recognition

The Company classifies revenues as lead fees, advertising, CRM services, and other. Revenues by groups of similar services for the three months and six months ended June 30, 2007 and 2006 were as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2007	2006	2007	2006
Revenues:				
Lead fees	$16,678	$17,759	$33,909	$35,748
Advertising	4,947	4,311	9,654	8,090
CRM services	2,527	2,823	5,107	5,594
Other	179	189	405	382
Total revenues	$24,331	$25,082	$49,075	$49,814

The Company recognizes revenues when earned as defined by Staff Accounting Bulletin ("SAB") No. 104, "Revenue Recognition," and Emerging Issues Task Force ("EITF") Issue No. 00-21, "Revenue Arrangements with Multiple Deliverables." SAB No. 104 considers revenue realized after all four of the following criteria are met: (i) persuasive evidence of an arrangement exists, (ii) delivery has occurred or services have been rendered, (iii) the seller's price to the buyer is fixed or determinable and (iv) collectibility is reasonably assured.

In accounting for multiple-element arrangements, one of the key judgments to be made is the accounting value that is attributable to the different contractual elements. The appropriate allocation of value not only impacts which revenue stream is credited with the revenue, it also impacts the amount and timing of revenue recorded in the condensed consolidated statement of operations during a given period due to the differing methods of recognizing revenue. Revenue is allocated to each element based on the accounting determination of the relative fair value of that element to the aggregate fair value of all elements. The fair values must be reliable, verifiable and objectively determinable. When available, such determination is based principally on the pricing of similar cash arrangements with unrelated parties that are not part of a multiple-element arrangement. When sufficient evidence of the fair values of the individual elements does not exist, revenue is not allocated among them until that evidence exists. Instead, the revenue is recognized as earned using revenue recognition principles applicable to the entire arrangement as if it were a single element arrangement.

The Company had deferred revenue in accordance with EITF Issue No. 00-21 under a multiple-element arrangement of $1.1 million at December 31, 2006. Revenue recognized under these types of arrangements totaled $1.3 million for the six months ended June 30, 2007 and $0.5 million and $0.8 million for the three months and six months ended June 30, 2006, respectively.

Sales Tax Collected from Customers

The Company primarily collects sales taxes from its CRM service customers. Sales taxes collected are remitted, in a timely manner, to the appropriate governmental tax authority on behalf of the customer. Such sales taxes are excluded from the Company's revenue and costs.

Risks Due to Concentration of Significant Customers and Export Sales

For the three months and six months ended June 30, 2007 and 2006, no dealer, major dealer group, manufacturer, international licensee or other customer accounted for more than 10% of total revenues. The Company had balances owed from one automotive manufacturer that accounted for more than 10% of total accounts receivable as of June 30, 2007. The Company had no balances owed from any single automotive manufacturer that accounted for more than 10% of total accounts receivable as of December 31, 2006.

Business Segment

The Company conducts its business within one business segment which is defined as providing automotive marketing services.

Recent Accounting Pronouncements

In June 2006, the Financial Accounting Standards Board's ("FASB") EITF reached a consensus on Issue No. 06-1, "Accounting for Consideration Given by a Service Provider to Manufacturers or Resellers of Equipment Necessary for an End-Customer to Receive Service from the Service Provider". EITF Issue No. 06-1 provides guidance on the accounting for consideration given to third party manufacturers or resellers of equipment which is required by the end-customer in order to utilize the service from the service provider. EITF Issue No. 06-1 is effective for fiscal years beginning after June 15, 2007 and its adoption is not expected to have a material effect on the Company's consolidated financial position or results of operations.

In June 2006, the FASB's EITF reached a consensus on Issue No. 06-3, "How Taxes Collected from Customers and Remitted to Governmental Authorities Should be Presented in the Income Statement". EITF Issue No. 06-3 provides accounting guidance regarding the presentation of taxes assessed by a governmental authority on a revenue producing transaction between a seller and a customer such as sales and use taxes. The Company adopted EITF Issue No. 06-3 on January 1, 2007, and its adoptions did not have a material effect on the Company's consolidated financial position or results of operations.

In July 2006, the FASB issued FASB Interpretation ("FIN") No. 48, "Accounting for Uncertainty in Income Taxes—an Interpretation of FASB Statement No. 109" which prescribes a recognition threshold and measurement process for recording in the financial statements uncertain tax positions taken or expected to be taken in a tax return. FIN No. 48 requires that a company recognize the financial statement effects of a tax position when there is a likelihood of more than 50 percent, based on the technical merits, that the position will be sustained upon examination. It also provides guidance on the derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition requirements for uncertain tax positions. The Company adopted the provisions of FIN No. 48 on January 1, 2007.

Upon adoption of FIN No. 48, the Company analyzed its filing positions for all open tax years in all U.S. federal and state jurisdictions where it is required to file. At the adoption date of January 1, 2007, the Company had $0.5 million of unrecognized tax benefits. Of the total unrecognized tax benefits at the adoption date, the entire amount of $0.5 million was recorded as a reduction to deferred tax assets, which caused a corresponding reduction in the Company's valuation allowance of $0.5 million. To the extent such portion of unrecognized tax benefits is recognized at a time such valuation allowance no longer exists, the recognition would impact the Company's effective tax rate.

The Company files income tax returns in the U.S. federal jurisdiction and various state jurisdictions. In general, the Company is no longer subject to U.S. federal and state tax examinations for years prior to 2003. The Company does not believe there will be any material changes in its unrecognized tax positions over the next 12 months. Therefore, no reserves for uncertain income tax positions have been recorded pursuant to FIN No. 48. In addition, the Company did not record a cumulative effect adjustment related to the adoption of FIN No. 48 and the adoption of FIN No. 48 did not have a material effect on the Company's consolidated financial position or results of operations.

The Company's policy is to recognize interest and penalties accrued on any unrecognized tax benefits as a component of income tax expense. As of the date of adoption and June 30, 2007, the Company did not have any accrued interest or penalties associated with any unrecognized tax benefits, nor was any interest expense recognized in the three months and six months ended June 30, 2007.

In September 2006, the FASB issued Statement of Financial Accounting Standards ("SFAS") No. 157, "Fair Value Measurements." SFAS No. 157 defines fair value, establishes a frame work for measuring fair value and expands disclosure about fair value. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007. The Company is currently evaluating the impact of adopting SFAS No. 157 on its consolidated financial statements.

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 No. 159 permits entities to choose to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007, with early adoption permitted provided the entity also elects to apply the provisions of SFAS No. 157. The Company is currently evaluating the impact of adopting SFAS No. 159 on its consolidated financial statements.

In May 2007, the FASB issued FASB Staff Position ("FSP") FIN 48-1, "Definition of "Settlement" in FASB Interpretation No. 48. FSP FIN 48-1 provides guidance on how to determine whether a tax position is effectively settled for the purpose of recognizing previously unrecognized tax benefits. FSP FIN 48-1 is effective retroactively to January 1, 2007.

The implementation of FSP FIN 48-1 did not have a material impact on the Company's consolidated financial position or results of operations.

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2007	2006	2007	2006
	(in thousands, except share and per share data)			
Continuing operations:				
Numerator:				
Loss from continuing operations	$ (5,177)	$ (7,372)	$ (1,985)	$ (15,854)
Denominator:				
Weighted average common shares and denominator for basic and diluted calculation	43,323,935	42,337,302	43,103,115	42,265,226
Loss per share from continuing operations—basic and diluted	$ (0.12)	$ (0.17)	$ (0.05)	$ (0.38)
Discontinued operations:				
Numerator:				
Income (loss) from discontinued operations	$ 3,450	$ (496)	$ 5,830	$ (477)
Denominator:				
Weighted average common shares and denominator for basic and diluted calculation	43,323,935	42,337,302	43,103,115	42,265,226
Income (loss) per share from discontinued operations—basic and diluted	$ 0.08	$ (0.01)	$ 0.14	$ (0.01)
Net (loss) income:				
Numerator:				
Net (loss) income	$ (1,727)	$ (7,868)	$ 3,845	$ (16,331)
Denominator:				
Weighted average common shares and denominator for basic and diluted calculation	43,323,935	42,337,302	43,103,115	42,265,226
Net (loss) income per share—basic and diluted	$ (0.04)	$ (0.19)	$ 0.09	$ (0.39)

For the three months and six months ended June 30, 2007, 8,021,940 and 8,230,457, respectively, antidilutive potential shares of common stock, consisting of employee and director stock options and employee stock purchase plan awards, have been excluded from the calculation of diluted (loss) income per share, as they represent stock options and awards for which the total employee proceeds per share exceed the average market price of a share of common stock for the period. In addition, for the three months and six months ended June 30, 2007, 729,724 and 804,956, respectively, antidilutive potential shares of common stock, consisting of employee and director stock options and employee stock purchase plan awards, have been excluded from the calculation of diluted (loss) income per share, as the Company incurred a loss from continuing operations for both periods.

For the three months and six months ended June 30, 2006, 6,120,360 and 5,919,685, respectively, antidilutive potential shares of common stock, consisting of employee and director stock options and employee stock purchase plan awards, have been excluded from the calculation of diluted loss per share, as they represent stock options and awards for which the total employee proceeds per share exceed the average market price of a share of common stock for the period. In addition, for the three months and six months ended June 30, 2006, 1,131,554 and 1,345,148, respectively, antidilutive potential shares of common stock, consisting of employee and director stock options, have been excluded from the calculation of diluted loss per share, as the Company incurred a loss from continuing operations for both periods.

4. Share-Based Compensation

For the three months ended June 30, 2007 and 2006, the Company recorded $1.0 million and $1.2 million, respectively, of share-based compensation expense, or $0.02 and $0.03 earnings per share, respectively. For the six months ended June 30, 2007 and 2006, the Company recorded $2.5 million of share-based compensation expense, or $0.06 earnings per share for each period. 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,	
	2007	2006	2007	2006
	(in thousands)			
Cost of revenues	$ 33	$ 42	87	$ 82
Sales and marketing	238	233	532	537
Product and technology development	188	177	395	356
General and administrative	577	700	1,476	1,428
Share-based compensation expense included in continuing operations	1,036	1,152	2,490	2,403
Share-based compensation expense included in discontinued operations	(17)	42	28	81
Total share-based compensation expense	1,019	1,194	2,518	2,484
Amount capitalized to internal use software	4	—	10	—
Total share-based compensation costs	$ 1,023	$ 1,194	$ 2,528	$ 2,484

The Company issued 421,613 and 30,149 shares of common stock upon exercise of stock options for the three months ended June 30, 2007 and 2006, respectively. The Company issued 758,613 and 167,090 shares of common stock upon exercise of stock options for the six months ended June 30, 2007 and 2006, respectively. The Company granted 137,500 and 464,000 stock options for the three months ended June 30, 2007 and 2006, respectively, with a weighted-average fair market value per option granted of $2.15 and $2.12, respectively. The Company granted 495,500 and 1,190,500 stock options for the six months ended June 30, 2007 and 2006, respectively, with a weighted-average fair market value per option granted of $2.07 and $2.76, 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,	
	2007	2006	2007	2006
Dividend yield	0.00%	0.00%	0.00%	0.00%
Volatility	62.19%–62.79%	79.16%–79.19%	62.19%–64.89%	79.16%–81.04%
Risk-free interest rate	4.49%–4.68%	4.90%–5.07%	4.49%–4.76%	4.35%–5.07%
Expected life	4.36 years	4.99 years	4.36 years	4.99 years

The Company did not issue any shares of common stock under the employee stock purchase plan for the three months ended June 30, 2007 and 2006, respectively. The Company issued 65,114 and 53,704 shares of common stock under the employee stock purchase plan for the six months ended June 30, 2007 and 2006, respectively. The Company made no grants under the employee stock purchase plan for the three months ended June 30, 2007 and 2006. The Company granted 59,739 and 65,985 awards for the six months ended June 30, 2007 and 2006, respectively, under the employee stock purchase plan. The awards granted were estimated to have a weighted-average fair value per share awarded of $0.87 and $1.15 for the six months ended June 30, 2007 and 2006, respectively. The fair value of the awards is based on the Black-Scholes option-pricing model and the following assumptions:

	Six Months Ended June 30,	
	2007	2006
Dividend yield	0.00%	0.00%
Volatility	48.93%	53.42%
Risk-free interest rate	5.15%	4.60%
Expected life	6 months	6 months

To induce James E. Riesenbach to join the Company as Chief Executive Officer and President, 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”, 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. As such, in accordance with SFAS No. 123(R), the awards are not considered granted until such time that the performance criteria have been defined and were not included in outstanding options at June 30, 2007 and 2006. The Company will begin recognizing stock-based compensation expense based on the fair value of the performance-based options on the date the performance criteria have been defined.

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 No. 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. As such, in accordance with SFAS No. 123(R), the awards are not considered granted until such time that the performance criteria have been defined and were not included in outstanding options at June 30, 2007. The Company will begin recognizing stock-based compensation expense based on the fair value of the performance-based options on the date the performance criteria have been defined.

5. Selected Balance Sheet Accounts

Property and Equipment

Property and equipment consisted of the following at:

	June 30, 2007	December 31, 2006
	(in thousands)	
Computer software and hardware	$ 12,032	$ 10,392
Furniture and equipment	1,701	1,682
Leasehold improvements	1,539	1,342
Capitalized internal use software	2,406	2,055
Development in process	6,434	2,680
	24,112	18,151
Less—Accumulated depreciation and amortization	(11,172)	(10,197)
	$ 12,940	$ 7,954

At June 30, 2007 and December 31, 2006, capitalized internal use software, net of amortization, and development in process were $6.9 million and $2.9 million, respectively. Depreciation and amortization expense related to property and equipment was $0.6 million and $1.1 million for the three months and six months ended June 30, 2007, respectively. Depreciation and amortization expense related to property and equipment was $0.6 million and $1.1 million for the three months and six months ended June 30, 2006, respectively.

Goodwill

In June 2007, the Company performed an annual impairment test of enterprise goodwill and concluded that enterprise goodwill was not impaired. The decrease in the carrying amount of goodwill of $3.0 million represents the allocation of goodwill associated with the sale of the Company's RPM business (see Note 6).

Intangible Assets

Intangible assets at June 30, 2007 and December 31, 2006 are amortized over their estimated useful lives (weighted-average life is approximately 3 years) and consisted of the following:

	As of June 30, 2007			
	Average Estimated Useful Lives	Gross Carrying Amount	Accumulated Amortization	Net Amount
		(in thousands)		
Amortizable Intangible Assets:				
Developed technology	3 years	$ 420	$ (420)	$ —
Customer relationships	3 years	3,775	(3,775)	—
Domain names	5 years	836	(449)	387
Total		$ 5,031	$ (4,644)	$ 387

	As of December 31, 2006			
	Average Estimated Useful Lives	Gross Carrying Amount	Accumulated Amortization	Net Amount
		(in thousands)		
Amortizable Intangible Assets:				
Developed technology	2 years	$ 820	$ (820)	$ —
Customer relationships	3 years	4,375	(4,022)	353
Domain name	5 years	700	(379)	321
Total		$ 5,895	$ (5,221)	$ 674

The decreases in the gross carrying amount of developed technology and customer relationships were primarily associated with the sale of the Company's RPM business. Amortization expense for the three months and six months ended June 30, 2007 was $0.1 million and $0.4 million, respectively. Amortization expense for the three months and six months ended June 30, 2006 was $0.3 million and $0.7 million, respectively. Amortization expense related to developed technology is classified as cost of revenues. Amortization expense for the remaining lives of the intangible assets is estimated to be as follows:

	Amortization Expense (in thousands)
Six months ending December 31, 2007	$ 84
2008	167
2009	68
2010	27
2011	27
2012	14
	$ 387

6. 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 and 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 $0.5 million and $2.8 million during the three months and six months ended June 30, 2007, respectively.

On June 30, 2007, the Company sold its RPM business to Call Command, Inc. ("Call Command") pursuant to a Stock Purchase Agreement (the "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 was deposited by Call Command in an escrow account to be distributed to the Company upon determination of the working capital adjustment and any indemnification claims made against the Company in accordance with the terms of the RPM Agreement. The $0.5 million deposited in escrow is a contingent gain as defined by SFAS No. 5, "Accounting for Contingencies", and will be recognized as a gain on the sale if, and when, the Company receives these funds.

In conjunction with the sale of the Company's RPM business, the Company entered into a Transition Services and Arrangements Agreement ("TSAA") whereby the Company agreed to provide certain transition services to RPM for a period not to exceed six months. The expected cash flows under the TSAA do not represent a significant continuation of the direct cash flows of the disposed RPM business. The Company also agreed to indemnify Call Command for pre-closing tax obligations and other unknown pre-closing obligations. The term of the indemnification for the pre-closing tax obligations is based on the statute of limitation as set forth by the taxing authority. The term of the indemnification for other obligations ranges from 1 year to 2 years. The maximum obligation is the purchase price of the transaction. Since it is not possible to determine whether there will be any obligations in the future or the amounts thereof, the Company cannot estimate the potential amount of future payments, if any, under these indemnification obligations. Therefore, no liability has been recorded.

The assets and liabilities that were included in the sale of the AIC operations met the criteria defined in SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," as of December 31, 2006 and were classified as held for sale at December 31, 2006. Pursuant to SFAS No. 144 and EITF Issue No. 03-13, "Applying the Conditions in Paragraph 42 of FASB Statement No. 144 in Determining Whether to Report Discontinued Operations," the results of operations presented in the Condensed Consolidated Financial Statements reflect the AIC operations and RPM business as discontinued operations for all periods presented. As discontinued operations, revenues and expenses of the AIC operations and RPM business have been aggregated and stated separately from the respective captions of continuing operations in the Condensed Consolidated Statements of Operations. Expenses include direct costs of the operations that the Company believes will be eliminated from

future operations as a result of the sale of the AIC operations and RPM business. Assets and liabilities that are included in the sale of the AIC operations have been aggregated and classified as held for sale under current assets and current liabilities, respectively, at December 31, 2006. Current assets are comprised of prepaid expenses and current liabilities are comprised of deferred revenues. All other references to operating results reflect the ongoing operations of the Company, excluding the AIC operations and RPM business. The results of operations of the AIC operations and RPM business reported as discontinued operations are summarized as follows:

AIC STATEMENTS OF OPERATIONS
(In thousands)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2007	2006	2007	2006
Revenues	$—	$771	$ 210	$1,543
Costs and expenses:				
Cost of revenues	—	39	10	85
Sales and marketing	—	124	68	237
Product and technology development	—	496	193	937
General and administrative	—	—	32	2
Total costs and expenses	—	659	303	1,261
Gain on sale	500	—	2,762	—
Income from discontinued operations	$500	$112	$2,669	$ 282

The results of operations of the AIC operations for the three and six months ended June 30, 2007 reflect results through January 31, 2007, the date of sale.

RPM STATEMENTS OF OPERATIONS
(In thousands)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2007	2006	2007	2006
Revenues	$3,523	$3,519	$7,145	$7,087
Costs and expenses:				
Cost of revenues	1,642	2,054	3,346	4,075
Sales and marketing	1,770	1,340	3,303	2,626
Product and technology development	166	683	287	1,060
General and administrative	43	5	53	(5)
Amortization of intangibles	—	45	43	90
Total costs and expenses	3,621	4,127	7,032	7,846
Gain on sale	3,048	—	3,048	—
Income (loss) from discontinued operations	$2,950	$ (608)	$3,161	$ (759)

The results of operations of the RPM business for the three months and six months ended June 30, 2007 reflect results through June 30, 2007, the date of sale.

7. Patent Litigation Settlement

In 2004, the Company filed a lawsuit in the United States District Court for the Eastern District of Texas against Dealix Corporation, a wholly-owned subsidiary of The Cobalt Group. In that lawsuit, the Company asserted infringement of U.S. Patent No. 6,282,517, entitled “Real Time Communication of Purchase Requests,” against Dealix Corporation. In December 2006, the Company entered into a settlement agreement (the “Settlement Agreement”) with Dealix relating to the lawsuit. The Settlement 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 non-exclusive 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. These remaining payments are guaranteed by WP Equity Partners, Inc., a Warburg Pincus affiliate. With court approval on March 25, 2007, the lawsuit against Dealix was dismissed and the Company recorded the $20.0 million settlement as follows (in thousands):

Mutual release of claims	$ 9,899
Non-exclusive license	9,192
Discount on remaining outstanding payments	909
Total settlement amount	$20,000

The mutual release of claims of $9.9 million was determined by deducting the fair value of the non-exclusive license from the total settlement amount, net of the interest discount associated with the receivable, and recorded in patent litigation settlement in the Condensed Consolidated Statement of Operations for the six months ended June 30, 2007.

To estimate the fair value of the non-exclusive license, an income approach was used, which included estimates of projected licensee revenue and related expenses, discounted utilizing a rate of 17%. The fair value of the non-exclusive license was estimated at $9.2 million and reported in other liabilities, which is being recognized to other income on a straight-line basis through January 2019, the patent's remaining life. The Company recognized $0.2 million in other income in the Condensed Consolidated Statement of Operations for the three months and six months ended June 30, 2007. As of June 30, 2007, the remaining balance in current and non-current other liabilities was $0.8 million and $8.2 million, respectively.

The remaining payments of $8.0 million have been discounted to their net present value of $7.1 million using a discount rate of 6.38%. As of June 30, 2007, $2.5 million and $4.6 million was included in prepaid expenses and other current assets, and other assets, respectively, in the Condensed Consolidated Balance Sheet. The discount of $0.9 million is being amortized to interest income over a three-year period using the effective interest method.

On April 27, 2007, the Company received a comment letter from the staff of the Division of Corporation Finance of the SEC (the "Staff"). Additional questions were received in comment letters dated June 4, 2007, June 22, 2007 and July 25, 2007. The Staff's letters included comments relating to the accounting treatment of the patent litigation settlement with Dealix, specifically, the classification of amounts to be recorded, the timing of recognition and the allocation of the proceeds between the mutual release of claims and the non-exclusive patent license. The Company is responding to the Staff's requests for information. Should the Staff disagree with the Company's accounting for this legal settlement, it will not affect the amounts referenced above that have been received or are to be received by the Company under the settlement but might result in a change in the accounting treatment of the settlement, specifically, acceleration of all or a portion of deferred other income associated with the settlement or further deferral of all or a portion of amounts already recorded. This may have a material impact on the Company's consolidated financial statements as of March 31, 2007 and June 30, 2007 and for the three months ended March 31, 2007 and June 30, 2007 and the six months ended June 30, 2007.

8. 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. The complaints against the Company have been consolidated with two other complaints that relate to its initial public offering but do not name it as a defendant, and 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. A motion to dismiss addressing issues common to the companies and individuals who have been sued in these actions was filed on July 15, 2002. On October 9, 2002, the District Court dismissed the Autobytel Individual Defendants from the case without prejudice based upon Stipulations of Dismissal filed by the plaintiffs and the Autobytel Individual Defendants. On February 19, 2003, the District Court denied the motion to dismiss the complaint against the Company. On October 13, 2004, the District Court certified a class in six of the approximately 300 other nearly identical actions (the "focus cases") and noted that the decision is intended to provide strong guidance to all

parties regarding class certification in the remaining cases. The Underwriter defendants appealed the decision and the Second Circuit vacated the District Court's decision granting class certification in those focus cases on December 5, 2006. Plaintiffs filed a petition for rehearing. On April 6, 2007, the Second Circuit denied the petition, but noted that plaintiffs could ask the District Court to certify a more narrow class than the one that was rejected.

Prior to the Second Circuit's December 5, 2006 ruling, the Company approved a settlement agreement and related agreements which set forth the terms of a settlement between the Company, the plaintiff class and the vast majority of the other approximately 300 issuer defendants. These agreements were submitted to the District Court for approval. In light of the Second Circuit opinion, liaison counsel for the issuers informed the District Court that the settlement cannot be approved because the defined settlement class, like the litigation class, cannot be certified. On June 25, 2007, the District Court approved a stipulation filed by the plaintiffs and the issuers which terminated the proposed settlement. The Company cannot predict whether it will be able to renegotiate a settlement that complies with the Second Circuit's mandate. Due to the inherent uncertainties of litigation, the Company cannot accurately predict the ultimate outcome of the matter. The plaintiffs now plan to replead their complaints and move for class certification again. 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 June 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. The complaints against Autoweb have been consolidated into a single action, and a Consolidated Amended Complaint, which is now the operative complaint, was filed on April 19, 2002. The foregoing 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 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 filed against other companies. A motion to dismiss addressing issues common to the companies and individuals who have been sued in these actions was filed on July 15, 2002. On October 9, 2002, the District Court dismissed the Autoweb Individual Defendants from the case without prejudice based upon Stipulations of Dismissal filed by the plaintiffs and the Autoweb Individual Defendants. On February 19, 2003, the District Court dismissed the Section 10(b) claim without prejudice and with leave to replead but denied the motion to dismiss the claim under Section 11 of the Securities Act of 1933 against Autoweb. On October 13, 2004, the District Court certified a class in the focus cases and noted that the decision is intended to provide strong guidance to all parties regarding class certification in the remaining cases. The Underwriter defendants appealed the decision and the Second Circuit vacated the District Court's decision granting class certification in those focus cases on December 5, 2006. Plaintiffs filed a petition for rehearing. On April 6, 2007, the Second Circuit denied the petition, but noted that plaintiffs could ask the District Court to certify a more narrow class than the one that was rejected.

Prior to the Second Circuit's December 5, 2006 ruling, Autoweb approved a settlement agreement and related agreements which set forth the terms of a settlement between Autoweb, the plaintiff class and the vast majority of the other approximately 300 issuer defendants. These agreements were submitted to the District Court for approval. In light of the Second Circuit opinion, liaison counsel for the issuers informed the District Court that the settlement cannot be approved because the defined settlement class, like the litigation class, cannot be certified. On June 25, 2007, the District Court approved a stipulation filed by the plaintiffs and the issuers which terminated the proposed settlement. The Company cannot predict whether Autoweb will be able to renegotiate a settlement that complies with the Second Circuit's mandate. Due to the inherent uncertainties of litigation, the Company cannot accurately predict the ultimate outcome of the matter. The plaintiffs now plan to replead their complaints and move for class certification again. If Autoweb 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 Autoweb's insurance coverage, or whether such damages would have a material impact on the Company's results of operations, financial condition or cash flows in any future period.

The Company has 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 as of June 30, 2007.

Certain current and former directors and certain former officers of the Company are defendants in a derivative suit pending in the Superior Court of Orange County, California, and Autobytel is named as a nominal defendant in this suit. This suit purports to allege that the defendants breached numerous duties to the Company, including breach of fiduciary duty and misappropriation of information, abuse of control, gross mismanagement, waste of corporate assets, and unjust enrichment, as well as violations of California Corporations Code 25402 (trading with material non-public information), and that these breaches and violations caused losses to the Company, including damages to its reputation and goodwill. Plaintiffs' claims are based on allegations that the defendants disseminated false and misleading statements concerning the Company's results of operations and that these results were inflated at all relevant times due to violations of generally accepted accounting principles and Securities and Exchange Commission rules. The parties negotiated a settlement of the action and submitted it for court approval in November 2006. The court has held a series of status conferences since the settlement was submitted, and a further status conference to discuss the settlement was held on April 25, 2007. At that status conference, the court preliminarily approved the settlement, and requested that an order be prepared and submitted for such preliminary approval. A final settlement hearing was held on June 26, 2007, and the court approved the settlement and signed the Final Order and Judgment Approving Settlement. If the settlement is not finalized for any reason, once the stay is lifted, the Company intends to defend this suit vigorously. However, the Company cannot currently predict the impact or outcome of such litigation, which could be material, and the continuation and outcome of this lawsuit, as well as the initiation of similar suits may have a material impact on the Company's results of operations, financial condition and cash flows. The Company has not recorded a liability against this claim as of June 30, 2007 because the settlement was covered by insurance.

On October 21, 2005, Autobytel received a complaint as well as a demand for arbitration/statement of claim filed by certain former shareholders of Stoneage Corporation ("Stoneage"). The complaint was filed in the Central District of California and names Autobytel as well as certain current and former officers and directors as defendants. The demand for arbitration was filed with the American Arbitration Association and names the same group of defendants. The allegations and claims in both of these matters are virtually identical and stem from the acquisition of Stoneage by Autobytel on April 15, 2004. Both the complaint and demand for arbitration contain causes of action for: breach of the acquisition agreement, breach of the registration rights agreement, violations of California Corporations Code Sections 25401 and 25501, violations of California Corporations Code Sections 25400 and 25500, fraud, negligent misrepresentation, fraudulent concealment, and violations of Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 and Rule 10b-5 promulgated thereunder. The demand for arbitration also contains a cause of action for violation of Section 17(a) of the Securities Act of 1933. The complaint and demand for arbitration seek unspecified damages and attorneys' fees and costs, as well as rescission and punitive awards. The defendants have not responded to either the complaint or demand for arbitration. On November 29, 2005, the parties requested that the arbitration be stayed, and on February 8, 2006, the plaintiffs dismissed the complaint without prejudice. On May 2, 2007, the parties tentatively agreed to a settlement in principle. The Company recorded a liability of $1.0 million against this claim as of March 31, 2007. If the parties are unable to negotiate a mutually agreeable settlement or if the settlement is not finalized for any reason, the Company will defend these claims vigorously. The Company cannot currently predict the outcome of this litigation, 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 the Company's business, results of operations, financial condition and cash flows.

Contractual Obligations

In 2007, the Company entered into a web search agreement with a vendor that guaranteed monthly minimum payments over a two-year period from June 15, 2007. The table below summarizes this obligation as of June 30, 2007 (in thousands):

Six months ending December 31, 2007	$ 350
2008	828
2009	293
	$1,471

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 to successfully 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." 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.

Basis of Presentation

We sold certain assets and liabilities of our Automotive Information Center ("AIC") data operations, our new vehicle price and specification business, on January 31, 2007. We also sold our wholly-owned subsidiary, Retention Performance Marketing, Inc., our business of providing customer loyalty and retention marketing programs ("RPM"), on June 30, 2007. Accordingly, our AIC operations and RPM business are presented in the consolidated financial statements as discontinued operations. As discontinued operations, revenues and expenses of our AIC operations and RPM business have been aggregated 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 our AIC operations and RPM business that we believe will be eliminated from future operations as a result of the sale of our AIC operations and RPM business. Assets and liabilities that are included in the sale of our AIC operations have been aggregated and classified as held for sale under current assets and current liabilities, respectively, in our Condensed Consolidated Balance Sheet as of December 31, 2006. All other references to operating results reflect our ongoing operations, excluding our AIC operations and RPM business.

Overview

We are an automotive media and marketing services company that helps dealers sell cars and services, and manufacturers build brands through efficient marketing and advertising primarily through the Internet. We own and operate automotive Web sites, including MyRide.com ™, Autobytel.com ®, Autoweb.com ®, Car.com ®, CarSmart.com ®, AutoSite.com ® and CarTV.com ®. We are among the largest automotive shopping content networks and reach millions of Internet visitors as they shop for vehicles and make their vehicle buying decisions. We are also a leading provider of customer relationship management ("CRM") products and programs, consisting of lead management products.

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. On June 26, 2007, we launched MyRide.com Web site in beta edition. We believe MyRide.com, when officially launched, will be the first fully-integrated automotive vertical search web experience, and will 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 in-market vehicle services, and accessing extensive multimedia and user-generated automotive content. We believe MyRide.com will be one of the Internet's most comprehensive used vehicle Web sites, utilizing search-based technology to incorporate listings of millions of vehicles.

In June 2007, we sold the RPM business to Call Command, Inc. pursuant to a Stock Purchase Agreement for an aggregate purchase price of $7.6 million, subject to a working capital adjustment. Based on the retention plan established for RPM employees, we paid $0.5 million to employees of this business. We also recognized a gain on the sale of $3.0 million.

Our results of operations have been affected in the first half of 2007, and may continue to be affected in the future, by various factors, including, but not limited to, the following:

- general economic and 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 on our advertising services;
- the implementation of certain strategic initiatives, including those described above;
- the recognition of deferred revenue related to a multiple-element arrangement upon delivery of all services in the first half of 2007;
- the recognition of a gain and other income related to the settlement of a lawsuit for patent infringement against Dealix Corporation;
- costs associated with the tentative settlement of the Stoneage matter; and
- costs associated with relocating certain employees to our corporate office.

On April 27, 2007, we received a comment letter from the staff of the Division of Corporation Finance of the SEC (the “Staff”). Additional questions were received in comment letters dated June 4, 2007, June 22, 2007 and July 25, 2007. The Staff’s letters included comments relating to the accounting treatment of the patent litigation settlement with Dealix, specifically, the classification of amounts to be recorded, the timing of recognition and the allocation of the proceeds between the mutual release of claims and the non-exclusive patent license. The settlement provides that Dealix will pay us a total of $20.0 million in settlement payments for a mutual release of claims and a non-exclusive 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. These remaining payments are guaranteed by WP Equity Partners, Inc., a Warburg Pincus affiliate. We are responding to the Staff’s requests for information. Should the Staff disagree with our accounting for this legal settlement, it will not affect the amounts received or to be received by us under the settlement but might result in a change in the accounting treatment of the settlement, specifically, acceleration of all or a portion of deferred other income associated with the settlement or further deferral of all or a portion of amounts already recorded. This may have a material impact on our consolidated financial statements as of March 31, 2007 and June 30, 2007 and for the three months ended March 31, 2007 and June 30, 2007 and the six months ended June 30, 2007.

As of June 30, 2007, we had $28.3 million in domestic cash and cash equivalents.

For the remainder of 2007, we may continue to use cash in excess of cash generated from operations.

Our lead referral dealerships sell domestic and imported makes of vehicles and light trucks in the United States. As of June 30, 2007 and 2006, our new car lead referral dealerships, excluding lead referral enterprise dealerships attributable to automotive manufacturers or their automotive buying service affiliates, totaled approximately 2,670 and 2,520, respectively. At June 30, 2007 and 2006, our used car lead referral dealerships, excluding lead referral enterprise dealerships attributable to automotive manufacturers or their automotive buying service affiliates, totaled approximately 1,610 and 1,570, respectively. Additionally, through our enterprise sales initiatives, we have 9 direct relationships with automotive manufacturers or their automotive buying service affiliates encompassing 20 brands.

We calculate a vehicle lead referral customer based on the dealership physical establishment not on the dealer franchise, and we count a customer in a single physical establishment who subscribes to more than one of our new car lead referral programs as one customer. A dealership at a particular physical establishment is considered a single dealership even though it may encompass multiple franchises that use one or more of our new car lead referral programs. Suspended dealers are not included in the count. As an example of how we calculate these customers, a dealer with three different franchises in a single physical establishment that subscribes to the Autoweb.com and the Autobytel.com new car lead referral programs for such franchises is counted as one customer. As a further example, a dealership in a single physical establishment that subscribes to the Autobytel.com new car lead referral program and to our used car lead referral program is counted as two customers.

A majority of our revenue from lead referral dealerships is derived from retail dealerships and enterprise dealerships with major dealer groups. In addition, as of June 30, 2007 and 2006, our finance lead referral network included approximately 410 and 370, respectively, relationships with retail dealerships, finance request intermediaries, and automotive finance companies who participate in our Car.com finance referral network. Participants in the finance referral network receive requests to arrange financing for the purchase of an automobile.

As of June 30, 2007 and 2006, there were approximately 2,580 and 2,940, respectively, CRM customer relationships using our Web Control ® lead management product (“Web Control”). Web Control customer relationships are accounted for based on the number of customers using the Web Control product, rather than the number of franchises owned by a given customer.

We conduct our business within one business segment, which is defined as providing automotive marketing services.

Lead fees consist of purchase request fees for new and used cars, and finance request fees.

Fees for purchase requests are paid by retail dealers, enterprise dealers and automotive manufacturers or their automotive buying service affiliates who participate in our online car buying referral networks. Enterprise dealers consist of (i) dealers that are part of major dealer groups with more than 25 dealerships with whom we have a single agreement and (ii) dealers that are eligible to receive purchase requests from us as part of a single agreement with an automotive manufacturer or its automotive buying service affiliate. Major dealer groups include AutoNation and automotive manufacturers include General Motors and Ford. Fees paid by customers participating in our car buying referral networks are comprised of monthly subscription and/or transaction fees for consumer leads, or purchase requests, which are directed to participating dealers. These monthly subscription and transaction fees are recognized in the period service is provided. Ongoing fixed monthly subscription fees are based, among other things, on the size of the territory, demographics and, indirectly, the transmittal of purchase requests to customers participating in our car buying referral networks. Transaction fees are based on the number of purchase requests provided to retail and enterprise dealers and automotive manufacturers each month.

Generally, our dealer contracts are terminable on 30 days' notice by either party. From time to time, a major dealer group or automotive manufacturer may significantly increase or decrease the number of purchase requests accepted from us.

To enhance the quality of purchase requests, each purchase request is passed through our Quality Verification System SM which uses filters and validation processes to identify consumers with valid purchase intent before delivering the purchase request to our retail and enterprise dealers. We believe the implementation of these quality enhancing processes allows us to deliver high quality purchase requests to our retail and enterprise 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.

We delivered approximately 771,000 and 799,000 purchase requests through our online systems to retail and enterprise dealers in the second quarters of 2007 and 2006, respectively. Of these, approximately 461,000 and 501,000 were delivered to retail dealers in the second quarters of 2007 and 2006, respectively, and approximately 310,000 and 298,000 were delivered to enterprise dealers in the second quarters of 2007 and 2006, respectively.

Additionally, we delivered approximately 195,000 and 207,000 finance requests in the second quarters of 2007 and 2006, respectively, to retail dealers, finance request intermediaries, and automotive finance companies.

Advertising revenues represent fees from automotive manufacturers and other advertisers who target car shoppers during the research, consideration and decision making process on our Web sites, as well as through direct marketing offerings. Using the targeted nature of Internet advertising, manufacturers can advertise their brands effectively on any of our Web sites by targeting advertisements to consumers who are researching vehicles, thereby increasing the likelihood of influencing their purchase decisions.

CRM services consist of fees paid by customers who use Web Control, our lead management products, and Automotive Download Services ("ADS"), our data extraction service. Customers using our CRM services pay transaction fees based on the specified service, or ongoing monthly subscription fees based on the level of functionality selected from our suite of lead management products.

Other revenues include fees from intellectual property licensing agreements, internet sales training and other products and services.

To enhance our retail dealers' ability to sell cars using our programs, we developed and implemented various products and processes that allow us to provide high quality dealer support. We contact all retail dealers new to our programs to confirm their initiation on our programs and train their designated personnel on the use of our programs and products. We also contact our retail dealers on a regular basis to identify retail dealers who are not using our programs effectively, develop relationships with retail dealer principals and their personnel responsible for calling consumers and to inform our retail dealers about their effectiveness using surveys completed by purchase-intending consumers.

Our relationship with retail dealers may terminate for various reasons including:

- Termination by the dealer due to issues with purchase request volume, purchase request quality, fee increases or lack of dedicated personnel to manage the program effectively,
- Termination by us due to the dealer providing poor customer service to consumers or for nonpayment of our fees by the dealer,
- Termination by us of dealers that cannot provide us with a reasonable profit,
- Elimination of the manufacturer brand, or
- Sale or termination of the dealer franchise.

Because our primary revenue source is from lead fees, our business model is different from many other Internet commerce sites. The automobiles requested through our Web sites are sold by dealers; therefore, we derive no direct revenues from the sale of a vehicle and have no procurement, carrying or shipping costs and no inventory risk.

Critical Accounting Policies and Estimates

Revenue Recognition. We recognize revenues when earned as defined by Staff Accounting Bulletin ("SAB") No. 104, "Revenue Recognition," and Emerging Issues Task Force ("EITF") Issue 00-21, "Accounting for Revenue Arrangements with Multiple Deliverables." SAB No. 104 considers revenue realized after all four of the following criteria are met: (i) persuasive evidence of an arrangement exists, (ii) delivery has occurred or services have been rendered, (iii) the seller's price to the buyer is fixed or determinable and (iv) collectibility is reasonably assured.

In accounting for multiple-element arrangements, one of the key judgments to be made is the accounting value that is attributable to the different contractual elements. The appropriate allocation of value not only impacts which revenue stream is credited with the revenue, it also impacts the amount and timing of revenue recorded in the consolidated statement of operations during a given period due to the differing methods of recognizing revenue. Revenue is allocated to each element based on the accounting determination of the relative fair value of that element to the aggregate fair value of all elements. The fair values must be reliable, verifiable and objectively determinable. When available, such determination is based principally on the pricing of similar cash arrangements with unrelated parties that are not part of a multiple-element arrangement. When sufficient evidence of the fair values of the individual elements does not exist, revenue is not allocated among them until that evidence exists. Instead, the revenue is recognized as earned using revenue recognition principles applicable to the entire arrangement as if it were a single element arrangement.

Allowances for Bad Debt and Customer Credits. We estimate and record allowances for potential bad debts and customer credits based on our historical bad debt and customer credit experience, which is consistent with our past practice.

The allowance for bad debts is our estimate of bad debt expense that could result from the inability or refusal of our customers to pay for our services. Additions to the estimated allowance for bad debts are recorded as an increase in general and administrative expenses and are based on factors such as historical write-off percentages and the current aging of accounts receivables. Reductions in the estimated allowance for bad debts are recorded as a decrease in general and administrative expenses. As specific bad debts are identified, they are written-off against the previously established estimated allowance for bad debts and have no impact on operating expenses.

The allowance for customer credits is our estimate of adjustments for services that do not meet our customers' requirements. Additions to the estimated allowance for customer credits are recorded as a reduction in revenues and are based on historical experience of: (i) the amount of credits issued; (ii) the length of time after services are rendered that the credits are issued; and (iii) other factors known at the time. Reductions in the estimated allowance for customer credits are recorded as an increase in revenues. As specific customer credits are identified, they are written-off against the previously established estimated allowance for customer credits and have no impact on revenues.

If there is a decline in the general economic environment that negatively affects the financial condition of our customers or an increase in the number of customers that are dissatisfied with our services, additional estimated allowances for bad debts and customer credits may be required and the impact on our business, results of operations or financial condition could be material.

Contingencies. We are subject to proceedings, lawsuits and other claims. We are required to assess the likelihood of any adverse judgments or outcomes of these matters as well as potential ranges of probable losses. We are required to record a loss contingency when an unfavorable outcome is probable and the amount of the loss can be reasonably estimated. The amount of allowances required, if any, for these contingencies is determined after analysis of each individual case. The amount of allowances may change in the future if there are new material developments in each matter. Gain contingencies are not recorded until all elements necessary to realize the revenue are present. Any legal fees incurred in connection with a contingency are expensed as incurred.

Fair Value of Financial Instruments. The estimated fair values of our financial instruments, such as cash, cash equivalents, accounts receivable and accounts payable are carried at cost, which approximates their fair value because of the short-term maturity of these instruments. The fair value of the non-exclusive license under the patent litigation settlement was estimated using an income approach, which included an estimate of projected licensee revenue and related expenses, discounted utilizing a rate of 17%. Additionally, the receivable of $8.0 million under the patent litigation settlement was discounted to its net present value of $7.1 million using a discount rate of 6.38%.

Share-Based Compensation Expense. We account for our share-based compensation using the fair value method as required by Statement of Financial Accounting Standards ("SFAS") No. 123(R), "Share-Based Payment." Under the fair value recognition provisions of SFAS No. 123(R), we recognize share-based compensation net of an estimated forfeiture rate and therefore only recognize compensation cost for those shares expected to vest over the service period of the award. The fair value of each stock option award is estimated on the date of grant using the Black-Scholes option pricing model based on the underlying common stock closing price as of the date of grant, the expected term, expected stock price volatility, and expected risk-free interest rates.

Calculating share-based compensation expense requires the input of highly subjective assumptions, including the expected term of the share-based awards, expected stock price volatility, and expected pre-vesting option forfeitures. We estimate the expected life of options granted based on historical exercise patterns, which we believe are representative of future behavior, using a lattice expected term model. We estimate the volatility of the price of our common stock at the date of grant based on historical volatility of the price of our common stock for a period equal to the expected term of the awards. We have used historical volatility because we have a limited number of options traded on our common stock to support the use of an implied volatility or a combination of both historical and implied volatility. The assumptions used in calculating the fair value of share-based awards represent our best estimates, but these estimates involve inherent uncertainties and the application of management judgment. As a result, if factors change and we use different assumptions, our share-based compensation expense could be materially different in the future. In addition, we are required to estimate the expected forfeiture rate and only recognize expense for those options expected to vest. We estimate the forfeiture rate based on historical experience of our share-based awards that are granted, exercised and cancelled. If our actual forfeiture rate is materially different from our estimate, the share-based compensation expense could be significantly different from what we have recorded in the current period.

Results of Operations

Three Months Ended June 30, 2007 Compared to the Three Months Ended June 30, 2006

Revenues by groups of similar services were as follows:

	Three Months Ended June 30,		Change	
	2007	2006	$	%
	(in thousands)			
Revenues:				
Lead fees	$16,678	$17,759	$(1,081)	(6)%
Advertising	4,947	4,311	636	15%
CRM services	2,527	2,823	(296)	(10)%
Other	179	189	(10)	(5)%
Total revenues	$24,331	$25,082	$ (751)	(3)%

Lead Fees. Our lead fees are influenced by numerous factors, including but not limited to, purchase request volume, mix between purchase requests delivered to retail dealers and enterprise dealers, pricing and general market conditions. The decrease in lead fees was primarily due to a decline of approximately 8% in the number of purchase requests delivered to our retail dealers, a change in the mix of purchase requests delivered, with an increase of approximately 3% in the proportion of purchase requests delivered to enterprise dealers that generally have a lower average sales price per purchase request, coupled with a decline of approximately 4% in the overall average sales price per purchase request delivered. This decrease was partially offset by an increase of approximately 8% in the average sales price per finance request delivered.

Advertising. The increase was primarily due to automotive manufacturers increasing their spending with our Web site properties, offset by a decline in their spending with our direct marketing program.

CRM Services. The decrease was primarily due to a $0.2 million decline in fees from Web Control products and a $0.1 million decline in fees from data extraction service through ADS. The decline in fees from Web Control products was primarily due to the expiration of an exclusive agreement in the second half of 2006 with an automotive manufacturer to provide the Web Control product to its franchisees contributing to a decline in the number of customers using Web Control from approximately 2,940 at June 30, 2006 to approximately 2,580 at June 30, 2007, partially offset by an increase in the average fee per customer. The decrease in fees from ADS was primarily due to a decline in the number of customers using ADS.

Other. Other revenue in the second quarter of 2007 remained relatively flat when compared to the second quarter of 2006.

Cost and expenses were as follows:

	Three Months Ended June 30,		Change	
	2007	2006	$	%
	(in thousands)			
Costs and expenses:				
Cost of revenue	$12,718	$12,330	$ 388	3%
Sales and marketing	5,684	6,194	(510)	(8)%
Product and technology development	5,189	4,653	536	12%
General and administrative	6,464	9,451	(2,987)	(32)%
Amortization of intangibles	79	308	(229)	(74)%
Patent litigation settlement	—	—	—	— %
Total costs and expenses	$30,134	$32,936	$(2,802)	(9)%

Cost of Revenues. Cost of revenues consists of traffic acquisition costs ("TAC") and other cost of revenues. TAC consists of payments made to our internet consumer request providers, including Internet portals and online automotive information providers. Other cost of revenues consists of fees paid to third parties for data and content included on our Web site properties, connectivity costs, technology license fees, server equipment depreciation and technology amortization and compensation related expense.

The increase in cost of revenues in the second quarter of 2007 compared to the second quarter of 2006 was due to a $0.3 million increase in TAC and a $0.1 million increase in various other costs. The increase in TAC was primarily due to an increase in the number of purchase requests acquired from our internet consumer request providers and an increase in the average price per purchase requests acquired, partially offset by a decline in spending with third parties who direct search queries to our Web sites.

Sales and Marketing. Sales and marketing expense includes costs for developing our brand equity and personnel and other costs associated with dealer sales, CRM sales, Web site advertising sales, and dealer training and support. The decrease in sales and marketing expense in the second quarter of 2007 compared to the second quarter of 2006 was primarily due to a $0.3 million decline in personnel and related costs and a $0.2 million decrease in various other costs. The decrease in personnel and related costs was primarily due to a decline in headcount.

Product and Technology Development. Product and technology development expense includes personnel costs related to developing new products, enhancing the 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. The increase in product and technology development expense in the second quarter of 2007 compared to the second quarter of 2006 was primarily due to a $0.3 million increase in other professional fees and a $0.2 million increase in various other costs. The increase in other professional fees was primarily related to the launch of the beta edition of MyRide.com.

General and Administrative. General and administrative expense consists of executive, financial and legal expenses and costs related to being a public company. The decrease was primarily due to:

- a decrease in legal fees of $2.9 million primarily associated with enforcing our intellectual property rights, and
- a decrease in other professional fees of $0.2 million.

These decreases were partially offset by an increase in various other costs totaling $0.1 million.

Amortization of Intangible. The decrease was associated with certain intangible assets being fully amortized.

Interest Income. In the second quarter of 2007, interest income decreased by $0.1 million, to $0.4 million compared to $0.5 million in the second quarter of 2006. The decrease in interest income was primarily due to a decline in our average cash and cash equivalent balance throughout the second quarter of 2007.

Other Income. Other income represents the recognition of a portion of the Dealix settlement amount associated with the non-exclusive patent license. (See Note 7)

Minority Interest. Minority interest represents the portion of Autobytel.Europe's net income allocable to Autobytel.Europe's other shareholder. In February 2007, Autobytel.Europe was dissolved.

Income Taxes. We did not record a provision for income taxes as we reported taxable losses in both periods.

Six Months Ended June 30, 2007 Compared to Six Months Ended June 30, 2006

Revenues by groups of similar services were as follows:

	Six Months Ended June 30,		Change	
	2007	2006	$	%
	(in thousands)			
Revenues:				
Lead fees	$33,909	$35,748	$(1,839)	(5)%
Advertising	9,654	8,090	1,564	19%
CRM services	5,107	5,594	(487)	(9)%
Other	405	382	23	6%
Total revenues	$49,075	$49,814	$ (739)	(1)%

Lead Fees. Our lead fees are influenced by numerous factors, including but not limited to, purchase request volume, mix between purchase requests delivered to retail dealers and enterprise dealers, pricing and general market conditions. The decrease was primarily due to a decline in the number of purchase requests delivered to both our retail and enterprise dealers from 1.7 million in the first half of 2006 to 1.5 million in the first half of 2007. This decline was partially offset by deferred revenue of $1.1 million that was recognized under a multiple-element arrangement upon delivery of all services in the first half of 2007 and an increase of approximately 11% in the average sales price per finance request delivered.

Advertising. The increase was primarily due to automotive manufacturers increasing their spending with our Web site properties, offset by a decline in their spending with our direct marketing program.

CRM Services. The decrease was primarily due to a $0.3 million decline in fees from Web Control products and a $0.2 million decline in fees from data extraction service through ADS. The decline in fees from Web Control products was primarily due to the expiration of an exclusive agreement in the second half of 2006 with an automotive manufacturer to provide the Web Control product to its franchisees contributing to a decline in the number of customers using Web Control from approximately 2,940 at June 30, 2006 to approximately 2,580 at June 30, 2007, partially offset by an increase in the average fee per customer. The decrease in fees from ADS was primarily due to a decline in the number of customers using ADS.

Other. Other revenue in the first half of 2007 remained relatively flat when compared to the first half of 2006.

Cost and expenses were as follows:

	Six Months Ended June 30,		Change	
	2007	2006	$	%
	(in thousands)			
Costs and expenses:				
Cost of revenue	$24,352	$25,052	$ (700)	(3)%
Sales and marketing	11,859	12,646	(787)	(6)%
Product and technology development	10,046	9,141	905	10%
General and administrative	15,264	19,162	(3,898)	(20)%
Amortization of intangibles	380	620	(240)	(39)%
Patent litigation settlement	(9,899)	—	(9,899)	— %
Total costs and expenses	$52,002	$66,621	$(14,619)	(22)%

Cost of Revenues. The decrease was primarily due to a $0.8 million decrease in TAC, offset by a $0.1 million decrease in various other costs. The decrease in TAC was primarily due to our decreased spending with third parties who direct search queries to our Web sites and a decline in the number of purchase requests acquired from our internet consumer request providers.

Sales and Marketing. The decrease was primarily due to a $0.4 million decline in personnel and related costs, lower costs associated with our attendance at a trade conference of $0.3 million and a $0.4 million decline in various other costs. The decrease in personnel and related costs was primarily due to a decline in headcount. These decreases were offset by an increase in relocation costs of $0.3 million associated with the relocation of certain employees to our corporate office.

Product and Technology Development. The increase was primarily due to:

- an increase in temporary personnel costs of $0.5 million,
- an increase in other professional fees of $0.3 million primarily associated with the launch of the beta edition of MyRide.com,
- an increase in relocation costs of $0.2 million associated with the relocation of an employee to our corporate office, and
- an increase in various other costs totaling $0.1 million.

These increases were offset by a $0.2 million decrease in personnel and related costs that was primarily due to a decline in headcount.

General and Administrative. The decrease was primarily due to:

- a decrease in legal fees of $4.6 million, of which $4.0 million was associated with enforcing our intellectual property rights and $0.6 million related to other legal matters, and
- a decrease in other professional fees of $0.9 million.

These decreases were partially offset by a $1.0 million increase in costs associated with the tentative settlement of the Stoneage litigation and various other costs totaling $0.6 million.

Amortization of Intangible. The decrease was associated with certain intangible assets being fully amortized.

Patent Litigation Settlement. Patent litigation settlement represents the portion of the Dealix settlement amount associated with the mutual release of claims. (See Note 7)

Interest Income. In the first half of 2007, interest income decreased by $0.2 million, to $0.7 million compared to $0.9 million in the first half of 2006. The decrease in interest income was primarily due to a decline in our average cash and cash equivalent balance throughout the first half of 2007.

Other Income. Other income represents the recognition of a portion of the Dealix settlement amount associated with the non-exclusive patent license. (See Note 7)

Minority Interest. Minority interest represents the portion of Autobytel.Europe's net income allocable to Autobytel.Europe's other shareholder. In February 2007, Autobytel.Europe was dissolved.

Income Taxes. We recorded a nominal provision for income taxes in the first half of 2007 and zero for the first half of 2006 as the Company reported taxable losses in both periods.

Stock Options Granted in 2007

In the first half of 2007, we granted stock options to purchase 495,500 shares of common stock under our 1999 Employee and Acquisition Related Stock Option Plan and 2006 Inducement Stock Option Plan. The stock options were granted at our common stock closing price on the date of grant.

In March 2006, to recruit James E. Riesenbach to become our Chief Executive Officer and President, we granted stock options to purchase 1,000,000 shares of common stock to Mr. Riesenbach. Of the 1,000,000 inducement stock options granted, 400,000 performance-based options were granted with the performance criteria to be defined at a later date. These 400,000 options are not reflected in outstanding stock options at June 30, 2007. Additionally, in January 2007, we granted stock options to purchase 300,000 shares of common stock to Monty A. Houdeshell to recruit him to become our Executive Vice President and Chief Financial Officer. Of the 300,000 inducement stock options granted, 50,000 performance-based options were granted with the performance criteria to be defined at a later date. These 50,000 options are not reflected in outstanding stock options at June 30, 2007. As of June 30, 2007, excluding these 450,000 options, we had outstanding stock options to purchase 9,435,863 shares of common stock and potential employee stock purchase plan awards to purchase 59,739 shares of common stock.

Employees

As of July 31, 2007, we had a total of 329 employees. We also utilize independent contractors as required. None of our employees are represented by a labor union. We have not experienced any work stoppages and consider our employee relations to be good.

Liquidity and Capital Resources

Our working capital increased by $9.8 million, to $34.5 million at June 30, 2007 compared to $24.7 million at December 31, 2006. The increase was primarily related to proceeds from the settlement of patent litigation, proceeds from the sale of certain assets and liabilities of our AIC operations and substantially all the assets and certain liabilities of our RPM business, and issuances of common stock in connection with the exercise of employee stock options and pursuant to our employee stock purchase plan, offset in part by cash paid for purchases of property and equipment, including capitalized costs of $6.1 million associated with the development of MyRide.com.

Our domestic cash and cash equivalents totaled $28.3 million as of June 30, 2007 compared to domestic cash, cash equivalents and short-term investments of $25.7 million as of December 31, 2006.

In December 2006, we entered into a settlement agreement with Dealix. The settlement agreement, which was approved by the court in March 2007, provides that Dealix will pay us a total of $20.0 million in settlement payments, $12.0 million of which was paid to us on March 13, 2007, with the remainder to be paid out in installments of approximately $2.7 million on the next three annual anniversary dates of the initial payment. The remaining payments subsequent to the initial payment are guaranteed by WP Equity Partners, Inc., a Warburg Pincus affiliate.

Net Cash Used In Operating Activities

Net cash used in operating activities was $1.9 million and $9.5 million for the six months ended June 30, 2007 and 2006, respectively. Net cash used in operating activities for the six months ended June 30, 2007 resulted primarily from a $2.5 million increase in accounts receivable, a $1.2 million increase in prepaid expenses and other current assets and a $2.9 million decrease in accounts payable and accrued expenses, partially offset by net income for the period and a $2.0 million increase in other liabilities. The increase in accounts receivable is primarily due to timing of cash collections. The increase in prepaid expenses and other current assets was primarily due to the payment of insurance premiums during the first half of 2007, partially offset by amortization of the insurance premiums. The decrease in accounts payable and accrued expenses was primarily due to timing of when payments are made, payout of accrued compensation costs in the first half of 2007 and payments of professional fees incurred related to enforcing our intellectual property rights. The increase in other liabilities was primarily due to the patent litigation settlement discussed above.

Net cash used in operating activities for the six months ended June 30, 2006 resulted primarily from the net loss of $16.3 million for the period, which was partially offset by a $0.9 million increase in accounts payable and accrued expenses, a $0.3 million increase in deferred revenues, and non-cash charges. The increase in accounts payable and accrued expenses

was primarily due to professional fees incurred related to enforcing our intellectual property rights, offset in part by payments of accrued compensation costs in the first half of 2006. The increase in deferred revenues was primarily due to the deferral of revenue related to two multiple-element arrangements.

Net Cash Provided By Investing Activities

Net cash provided by investing activities was $6.1 million and $4.7 million for the six months ended June 30, 2007 and 2006, respectively. Cash provided by investing activities for the six months ended June 30, 2007 was due to maturity of a short-term investment, proceeds from the sale of certain assets and liabilities of the AIC operations and substantially all of the assets and certain liabilities of our RPM business and a cash distribution from Autobytel.Europe, partially offset by the purchases of property and equipment and capitalized internal use software in connection with the development of MyRide.com. Cash provided by investing activities for the six months ended June 30, 2006 was related to the maturity of investments in government sponsored agency bonds, offset by purchases of short-term investment in commercial paper and purchases of property and equipment.

Net Cash Provided By Financing Activities

Net cash provided by financing activities was $1.3 million and $0.7 million for the six months ended June 30, 2007 and 2006, respectively. Cash provided by financing activities for the six months ended June 30, 2007 was due to proceeds received from the issuance of common stock in connection with the exercise of stock options and pursuant to our employee stock purchase plan partially offset by a cash distribution to a minority interest shareholder. Cash provided by financing activities for the six months ended June 30, 2006 was due to proceeds received from the issuance of common stock in connection with the exercise of stock options and pursuant to our employee stock purchase plan.

Prospective Capital Needs

A decline in the general economic environment that negatively affects the financial condition of our customers or an increase in the number of customers that are dissatisfied with our services could have a material impact on our business, results of operations or financial condition.

Although we forecast and budget cash requirements, assumptions underlying the estimates may change and could have a material impact on our cash requirements. If capital requirements vary materially from those currently planned, we may require additional financing sooner than anticipated. Although we believe the capital markets would be available to us, we have no commitments for any additional financing, and there can be no assurance that any such commitments can be obtained on favorable terms, if at all.

Although we believe that we have sufficient capital to fund our activities for at least the next 12 months, our future capital requirements may vary materially from those now planned. We anticipate that the amount of capital we will need in the future will depend on many factors, including but not limited to:

- The level of expenditures required to implement certain strategic initiatives, including completing the development and launching of MyRide.com;
- Planned future growth, hiring, infrastructure and facility needs;
- Changes in our compensation policies;
- The level of exercises of stock options and stock purchases under our employee stock purchase plan;
- Our competitors’ responses to our products and services;
- Our relationships with suppliers and customers;
- The level of expenditures on marketing and advertising, including the cost of contractual arrangements with Internet portals, online information providers and other referral sources;
- The level of expenditures on product and technology development;
- The level of expenditures for general and administrative matters, including compliance with the Sarbanes-Oxley Act of 2002;
- Costs of enforcing our intellectual property rights;
- Any license fees obtained for our intellectual property, including in connection with enforcing our intellectual property rights;
- The level of advertising spent by our customers on our Web properties and advertising network;

- The ability to increase the volume of purchase requests and finance requests and transactions related to our Web sites;
- The amount and timing of cash collection and disbursements;
- The cash portion of acquisition transactions and joint ventures; and
- Costs of ongoing litigation and any adverse judgments resulting from such litigation.

Off-Balance Sheet Arrangements

In conjunction with the sale of RPM, we provided indemnifications to Call Command relating to pre-closing tax obligations of RPM and other unknown pre-closing obligations. The term of the indemnification for the pre-closing tax obligations is based on the statute of limitation as set forth by the taxing authority. The term of the indemnification for other obligations ranges from 1 year to 2 years. The maximum obligation is the purchase price of the transaction. Since it is not possible to determine whether there will be any obligations in the future or the amounts thereof, the Company cannot estimate the potential amount of future payments, if any, under these indemnification obligations. Therefore, no liability has been recorded.

Contractual Obligations

In 2007, we entered into a web search agreement with a vendor that guarantees the vendor monthly minimum payments over a two-year period from June 15, 2007. The table below summarizes our obligation as of June 30, 2007:

	(in thousands)
Six months ending December 31, 2007	$ 350
2008	828
2009	293
	$ 1,471

Recent Accounting Pronouncements

In June 2006, the Financial Accounting Standards Board's ("FASB") EITF reached a consensus on Issue No. 06-1, "Accounting for Consideration Given by a Service Provider to Manufacturers or Resellers of Equipment Necessary for an End-Customer to Receive Service from the Service Provider". EITF 06-1 provides guidance on the accounting for consideration given to third party manufacturers or resellers of equipment which is required by the end-customer in order to utilize the service from the service provider. EITF Issue No. 06-1 is effective for fiscal years beginning after June 15, 2007 and its adoption is not expected to have a material effect on our consolidated financial position or results of operations.

In June 2006, FASB's EITF reached a consensus on Issue No. 06-3, "How Taxes Collected from Customers and Remitted to Governmental Authorities Should be Presented in the Income Statement". EITF Issue No. 06-3 provides accounting guidance regarding the presentation of taxes assessed by a governmental authority on a revenue producing transaction between a seller and a customer such as sales and use taxes. We adopted EITF Issue No. 06-3 on January 1, 2007, and its adoption did not have a material effect on our consolidated financial position or results of operations.

In July 2006, FASB issued FIN 48 "Accounting for Uncertainty in Income Taxes—an Interpretation of FASB Statement No. 109" which prescribes a recognition threshold and measurement process for recording in the financial statements uncertain tax positions taken or expected to be taken in a tax return. FIN 48 requires that a company recognize the financial statement effects of a tax position when there is a likelihood of more than 50 percent, based on the technical merits, that the position will be sustained upon examination. It also provides guidance on the derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition requirements for uncertain tax positions. We adopted the provisions of FIN 49 on January 1, 2007.

Upon adoption of FIN No. 48, we analyzed our filing positions for all open tax years in all U.S. federal and state jurisdictions where we are required to file. At the adoption date of January 1, 2007, we had $0.5 million of unrecognized tax benefits. Of the total unrecognized tax benefits at the adoption date, the entire amount of $0.5 million was recorded as a reduction to deferred tax assets, which caused a corresponding reduction in our valuation allowance of $0.5 million. To the extent such portion of unrecognized tax benefits is recognized at a time such valuation allowance no longer exists, the recognition would impact our effective tax rate.

We file income tax returns in the U.S. federal jurisdiction and various state jurisdictions. In general, we are no longer subject to U.S. federal and state tax examinations for years prior to 2003. We do not believe there will be any material changes in our unrecognized tax positions over the next 12 months. Therefore, no reserves for uncertain income tax positions have been recorded pursuant to FIN No. 48. In addition, we did not record a cumulative effect adjustment related to the adoption of FIN No. 48 and the adoption of FIN No. 48 did not have a material effect on our consolidated financial position or results of operations.

Our policy is to recognize interest and penalties accrued on any unrecognized tax benefits as a component of income tax expense. As of the date of adoption and June 30, 2007, we did not have any accrued interest or penalties associated with any unrecognized tax benefits, nor was any interest expense recognized in the three months and six months ended June 30, 2007.

In September 2006, FASB issued SFAS No. 157, "Fair Value Measurements." SFAS No. 157 defines fair value, establishes a frame work for measuring fair value and expands disclosure about fair value. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007. We are currently evaluating the impact of adopting SFAS No. 157 on our consolidated financial statements.

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 No. 159 permits entities to choose to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007, with early adoption permitted provided the

entity also elects to apply the provisions of SFAS No. 157. We are currently evaluating the impact of adopting SFAS No. 159 on our consolidated financial statements.

In May 2007, the FASB issued FASB Staff Position ("FSP") FIN 48-1, "Definition of "Settlement" in FASB Interpretation No. 48. FSP FIN 48-1 provides guidance on how to determine whether a tax position is effectively settled for the purpose of recognizing previously unrecognized tax benefits. FSP FIN 48-1 is effective retroactively to January 1, 2007. The implementation of FSP FIN 48-1 did not have a material impact on our consolidated financial position or results of operations.

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

We are exposed to the impact of changes in the market values of our investments.

Investment Risk

The primary objective of our investment activities is to preserve principal while at the same time maximizing yields without significantly increasing risk. To achieve this objective, we maintain our portfolio of cash equivalents in a variety of securities, including both government and corporate obligations and money market funds.

Investments in both fixed-rate and floating-rate interest-earning instruments carry varying degrees of interest rate risk. The fair market value of our fixed-rate securities may be adversely impacted due to a rise in interest rates. In general, securities with longer maturities are subject to greater interest-rate risk than those with shorter maturities. While floating rate securities generally are subject to less interest-rate risk than fixed-rate securities, floating-rate securities may produce less income than expected if interest rates decrease. Due in part to these factors, our investment income may fall short of expectations. If interest rates were to increase (decrease) by 100 basis points, the fair market value of our total investment portfolio could decrease (increase) on an annual basis by approximately $0.3 million.

Item 4. ***Controls and Procedures***

As described more fully in our Management's Report On Internal Control Over Financial Reporting set forth in our Annual Report on Form 10-K for the fiscal year ended December 31, 2006, management assessed the effectiveness of our internal control over financial reporting as of December 31, 2006, and this assessment identified internal control deficiencies that individually or collectively constituted a material weakness in our internal control over financial reporting. Management currently is implementing certain remedial measures identified in Part II "Item 9A Controls and Procedures" of our Annual Report on Form 10-K for the year ended December 31, 2006, and intends to implement the remaining remedial measures during the course of 2007. While this implementation is underway, we are relying on additional manual procedures and the utilization of outside accounting professionals to assist us with meeting the objectives otherwise fulfilled by an effective control environment. While we are implementing changes to our control environment, there remains a risk that the transitional procedures on which we are currently relying will fail to be sufficiently effective to address the internal control deficiencies identified in Management's Report On Internal Control Over Financial Reporting. Please see Part II "Item 1A. "Risk Factors—Our internal controls and procedures need to be improved."

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. Because of the internal control deficiencies included in Management's Report On Internal Control Over Financial Reporting, 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 not 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. Notwithstanding the material weakness, 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.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

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. The complaints against the Company have been consolidated with two other complaints that relate to its initial public offering but do not name it as a defendant, and 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. A motion to dismiss addressing issues common to the companies and individuals who have been sued in these actions was filed on July 15, 2002. On October 9, 2002, the District Court dismissed the Autobytel Individual Defendants from the case without prejudice based upon Stipulations of Dismissal filed by the plaintiffs and the Autobytel Individual Defendants. On February 19, 2003, the District Court denied the motion to dismiss the complaint against the Company. On October 13, 2004, the District Court certified a class in six of the approximately 300 other nearly identical actions (the "focus cases") and noted that the decision is intended to provide strong guidance to all parties regarding class certification in the remaining cases. The Underwriter defendants appealed the decision and the Second Circuit vacated the District Court's decision granting class certification in those focus cases on December 5, 2006. Plaintiffs filed a petition for rehearing. On April 6, 2007, the Second Circuit denied the petition, but noted that plaintiffs could ask the District Court to certify a more narrow class than the one that was rejected.

Prior to the Second Circuit's December 5, 2006 ruling, the Company approved a settlement agreement and related agreements which set forth the terms of a settlement between the Company, the plaintiff class and the vast majority of the other approximately 300 issuer defendants. These agreements were submitted to the District Court for approval. In light of the Second Circuit opinion, liaison counsel for the issuers informed the District Court that the settlement cannot be approved because the defined settlement class, like the litigation class, cannot be certified. On June 25, 2007, the District Court approved a stipulation filed by the plaintiffs and the issuers which terminated the proposed settlement. The Company cannot predict whether it will be able to renegotiate a settlement that complies with the Second Circuit's mandate. Due to the inherent uncertainties of litigation, the Company cannot accurately predict the ultimate outcome of the matter. The plaintiffs now plan to replead their complaints and move for class certification again. 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 June 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. The complaints against Autoweb have been consolidated into a single action, and a Consolidated Amended Complaint, which is now the operative complaint, was filed on April 19, 2002. The foregoing 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 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 filed against other companies. A motion to dismiss addressing issues common to the companies and individuals who have been sued in these actions was filed on July 15, 2002. On October 9, 2002, the District Court dismissed the Autoweb Individual Defendants from the case without prejudice based upon Stipulations of Dismissal filed by the plaintiffs and the Autoweb Individual Defendants. On February 19, 2003, the District Court dismissed the Section 10(b) claim without prejudice and with leave to replead but denied the motion to dismiss the claim under Section 11 of the Securities Act of 1933 against Autoweb. On October 13, 2004, the District Court certified a class in the focus cases and noted that the decision is intended to provide strong guidance to all parties regarding class certification in the remaining cases. The Underwriter defendants appealed the decision and the Second Circuit vacated the District Court's decision granting class certification in those focus cases on December 5, 2006. Plaintiffs filed a petition for rehearing. On April 6, 2007, the Second Circuit denied the petition, but noted that plaintiffs could ask the District Court to certify a more narrow class than the one that was rejected.

Prior to the Second Circuit's December 5, 2006 ruling, Autoweb approved a settlement agreement and related agreements which set forth the terms of a settlement between Autoweb, the plaintiff class and the vast majority of the other approximately 300 issuer defendants. These agreements were submitted to the District Court for approval. In light of the Second Circuit opinion, liaison counsel for the issuers informed the District Court that the settlement cannot be approved because the defined settlement class, like the litigation class, cannot be certified. On June 25, 2007, the District Court approved a stipulation filed by the plaintiffs and the issuers which terminated the proposed settlement. The Company cannot predict whether Autoweb will be able to renegotiate a settlement that complies with the Second Circuit's mandate. Due to the inherent uncertainties of litigation, the Company cannot accurately predict the ultimate outcome of the matter. The plaintiffs now plan to replead their complaints and move for class certification again. If Autoweb 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 Autoweb's insurance coverage, or whether such damages would have a material impact on the Company's results of operations, financial condition or cash flows in any future period.

We reviewed the above class action matters and do not believe that it is probable that a loss contingency has occurred; therefore, we have not recorded a liability against these claims as of June 30, 2007.

In addition, certain current and former directors and certain former officers of ours are defendants in a derivative suit pending in the Superior Court of Orange County, California, and we are named as a nominal defendant in this suit. This suit purports to allege that the defendants breached numerous duties to us, including breach of fiduciary duty and misappropriation of information, abuse of control, gross mismanagement, waste of corporate assets, and unjust enrichment, as well as violations of California Corporations Code 25402 (trading with material non-public information), and that these breaches and violations caused losses to us, including damages to our reputation and goodwill. Plaintiffs' claims are based on allegations that the defendants disseminated false and misleading statements concerning our results of operations and that these results were inflated at all relevant times due to violations of generally accepted accounting principles and SEC rules. The parties negotiated a settlement of the action and submitted it for court approval in November 2006. The court has held a series of status conferences since the settlement was submitted, and a further status conference to discuss the settlement was held on April 25, 2007. At that status conference, the court preliminarily approved the settlement, and requested that an order be prepared and submitted for such preliminary approval. A final settlement hearing was held on June 26, 2007, and the court approved the settlement and signed the Final Order and Judgment Approving Settlement. If the settlement is not finalized for any reason, once the stay is lifted, we intend to defend this suit vigorously. However, we cannot currently predict the impact or outcome of such litigation, which could be material, and the continuation and outcome of this lawsuit, as well as the initiation of similar suits may have a material impact on our results of operations, financial condition and cash flows. We have not recorded a liability against this claim as of June 30, 2007 because the settlement was covered by insurance.

On October 21, 2005, Autobytel received a complaint as well as a demand for arbitration/statement of claim filed by certain former shareholders of Stoneage Corporation ("Stoneage"). The complaint was filed in the Central District of California and names us as well as certain current and former officers and directors as defendants. The demand for arbitration was filed with the American Arbitration Association and names the same group of defendants. The allegations and claims in both of these matters are virtually identical and stem from the acquisition of Stoneage by us on April 15, 2004. Both the complaint and demand for arbitration contain causes of action for: breach of the acquisition agreement, breach of the registration rights agreement, violations of California Corporations Code Sections 25401 and 25501, violations of California Corporations Code Sections 25400 and 25500, fraud, negligent misrepresentation, fraudulent concealment, and violations of Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 and Rule 10b-5 promulgated thereunder. The demand for arbitration also contains a cause of action for violation of Section 17(a) of the Securities Act of 1933. The complaint and demand for arbitration seek unspecified damages and attorneys' fees and costs, as well as rescission and punitive awards. The defendants have not responded to either the complaint or demand for arbitration. On November 29, 2005, the parties requested that the arbitration be stayed, and on February 8, 2006, the plaintiffs dismissed the complaint without prejudice. On May 2, 2007, the parties tentatively agreed to a settlement in principle. We recorded a liability of $1.0 million against this claim as of March 31, 2007. If the parties are unable to negotiate a mutually agreeable settlement agreement or if the settlement is not finalized for any reason, we will defend these claims vigorously. We cannot currently predict the outcome of this litigation, which, depending on the outcome, may have a material impact on our results of operations, financial condition or cash flows.

From time to time, we are involved in other litigation matters arising from the normal course of our business activities. The actions filed against us 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 our business, results of operations, financial condition and cash flows.

Item 1A. Risk Factors

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

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.

Because of the relatively recent emergence of the Internet-based vehicle information and shopping industry, none of our senior executives have long-term experience in the industry. This limited operating history 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 $182.2 million and $186.1 million as of June 30, 2007 and December 31, 2006, respectively.

Our potential for future profitability must be considered in light of the risks, uncertainties, expenses and difficulties frequently encountered by companies in emerging and 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 and enhance the quality of dealers,
- sustain and expand our relationships with automotive manufacturers,
- 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,
- identify and successfully consummate and integrate acquisitions,
- 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.

Our internal controls and procedures need to be improved.

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 December 31, 2006, 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 a material weakness in our internal control over financial reporting as of December 31, 2006. The material weakness relates to not having a sufficient complement of personnel with the appropriate level of accounting knowledge, experience and training in the application of generally accepted accounting principles commensurate with our financial reporting which contributed to an individual material weakness in accounting for accrued liabilities and related fixed assets and prepaid expense accounts. Further, the material weakness identified resulted in an adverse opinion by our independent registered public accounting firm on the effectiveness of our internal control over financial reporting as of December 31, 2006.

If we are unable to substantially improve our internal control over financial reporting, our ability to report our financial results on a timely and accurate basis could be adversely affected. 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 Securities and Exchange Commission, 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. Please see Part II "Item 9A. Controls and Procedures" of our Annual Report on Form 10-K for the year ended December 31, 2006 for more information regarding the measures we have commenced to implement, and which we intend to implement during the course of 2007, which are designed to remediate such deficiencies in our internal controls described in our "Management's Report on Internal Control Over Financial Reporting" set forth on page F-2 of our Annual Report on Form 10-K for the year ended December 31, 2006. The costs of remediating such deficiencies in our internal controls could adversely affect our financial condition and the results of operations. In addition, even after remedial measures discussed in Part II "Item 9A. Controls and Procedures" of our Annual Report on Form 10-K for the year ended December 31, 2006 are fully implemented, 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.

The impact of ongoing litigation may be material. We are also subject to the risk of additional litigation in connection with the restatement of our consolidated financial statements and the potential liability from any such litigation could materially and adversely affect our business.

We restated our consolidated financial statements for the full 2002 fiscal year, the full 2003 fiscal year, the first, second and third fiscal quarters of 2003, and the first and second fiscal quarters of 2004.

Certain of our present and former directors and certain former officers are defendants in a derivative suit pending in the Superior Court of Orange County, California, and we are named as a nominal defendant in this suit. This suit purports to allege that the defendants breached numerous duties to us, including breach of fiduciary duty and misappropriation of information, abuse of control, gross mismanagement, waste of corporate assets, and unjust enrichment, as well as violations of California Corporations Code 25402 (trading with material non-public information), and that these breaches and violations caused losses to us, including damages to our reputation and goodwill. Plaintiffs' claims are based on allegations that the defendants disseminated false and misleading statements concerning our results of operations and that these results were inflated at all relevant times due to violations of generally accepted accounting principles and SEC rules. The parties negotiated a settlement of the action and submitted it for court approval in November 2006. The court has held a series of status conferences since the settlement was submitted, and a further status conference to discuss the settlement was held on April 25, 2007. At that status conference, the court preliminarily approved the settlement, and requested that an order be prepared and submitted for such preliminary approval. A final settlement hearing was held on June 26, 2007, and the court approved the settlement and signed the Final Order and Judgment Approving Settlement. If the settlement is not finalized for any reason, once the stay is lifted, we intend to defend this suit vigorously. However, we cannot currently predict the impact or outcome of this litigation, which could be material, and the continuation and outcome of this lawsuit, as well as the initiation of similar suits may have a material impact on our results of operations and financial condition.

On October 21, 2005, we received a complaint as well as a demand for arbitration/statement of claim filed by certain former shareholders of Stoneage Corporation (Stoneage). The complaint was filed in the Central District of California and names us as well as certain current and former officers and directors as defendants. The demand for arbitration was filed with the American Arbitration Association and names the same group of defendants. The allegations and claims in both of these matters are virtually identical, and stem from the acquisition of Stoneage by us on April 15, 2004. Both the complaint and demand for arbitration contain causes of action for: breach of the acquisition agreement, breach of the registration rights agreement, violations of California Corporations Code Sections 25401 and 25501, violations of California Corporations Code Sections 25400 and 25500, fraud, negligent misrepresentation, fraudulent concealment, and violations of Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 and Rule 10b-5 promulgated thereunder. The demand for arbitration also contains a cause of action for violation of Section 17(a) of the Securities Act of 1933. The complaint and demand for arbitration seek unspecified damages and attorneys' fees and costs, as well as rescission and punitive awards. The defendants have not responded to either the complaint or demand for arbitration. On November 29, 2005, the parties requested that the arbitration be stayed, and on February 8, 2006, the plaintiffs dismissed the complaint without prejudice. On May 2, 2007, the parties tentatively agreed to a settlement in principle. We recorded a liability of $1.0 million against this claim as of March 31, 2007. If the parties are unable to negotiate a mutually agreeable settlement agreement or if the settlement is not finalized for any reason, we will defend these claims vigorously. We cannot currently predict the outcome of this litigation, which, depending on the outcome, may have a material impact on our results of operations, financial condition or cash flows.

As a result of the restatement of our consolidated financial statements described above, we could become subject to additional purported class action, derivative, or other securities litigation. As of the date hereof, we are not aware of any additional litigation having been commenced against us related to these matters, but we cannot predict whether any such litigation will be commenced or, if it is, the outcome of any such litigation. The initiation of any additional securities litigation, together with the lawsuits described above, may also harm our business and financial condition.

Until the existing litigation or any additional litigation are resolved, it may be more difficult for us to raise additional capital or incur indebtedness or other obligations. If an unfavorable result occurred in any such action, our business and financial condition could be further harmed.

We are currently involved in ongoing litigation that, until resolved and unless resolved on terms that are favorable to us, could materially and adversely affect our financial condition, results of operations, and cash flow.

We are involved in a number of legal proceedings and until all such actions are resolved, we could incur substantial expenses in connection with ongoing litigation, including substantial fees for attorneys and other professional advisors. In addition, unless the actions are resolved on terms that are favorable to us, we could incur substantial expenses in connection with such litigation, which may include costs associated with any negative judgments or awards. We are also obligated to indemnify our current and former officers and directors named as defendants in such actions. These expenses, to the extent not covered by available insurance, could materially and adversely affect our financial condition, results of operations, and cash flows.

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. We replaced certain of our executive officers during 2006 and 2007. If we are unable to effectively integrate new executive officers our business, results of operations and financial condition may be materially adversely affected.

If a more media-centric advertising-driven business model, including launching 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 beta edition in June 2007 and expect to officially launch the MyRide.com Web site and other products and services later 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 revenues is derived from fees paid by retail and enterprise 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 enterprise 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 may lose participating retail dealers because of the reconfiguration of dealer territories or elimination of exclusive dealer territories. We will lose the revenues associated with any reductions in participating retail dealers resulting from such changes.

We may reduce or reconfigure dealer territories or eliminate exclusive dealer territories currently assigned to some retail dealers. We may take such action or others in connection with consolidating our corporate brands into one brand under Autobytel Inc. If a retail dealer is unwilling to accept a reduction or reconfiguration of its territory or elimination of its exclusive territory or other action by us, it may terminate its relationship with us. A retail dealer also could sue to prevent such reduction, reconfiguration or elimination or other action, or collect damages from us. A material decrease in the number of retail dealers participating in our networks or litigation with retail dealers could have a material adverse effect on 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 for purchasing vehicles throughout the purchasing process. 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 2006 as key competitors continued to pursue the best quality consumer leads through strategic relationships, pricing, search marketing programs, and other tactics. Our business is characterized by minimal barriers to entry, and new competitors can launch a competitive service at relatively low cost. To compete successfully, we must significantly increase awareness of our services and brand names and deliver satisfactory value to our customers. Failure to compete successfully will cause our revenues to decline and would have a material adverse effect on our business, results of operations and financial condition.

We compete with other entities which maintain similar commercial 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 with vehicle dealers. Such companies, 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. The Web Control product competes with products from companies such as Reynolds and Reynolds and The Cobalt Group.

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,
- 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 Web 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 and to attract new personnel in a timely and effective manner,
- the level of traffic on our Web sites and other sites that refer traffic to our Web sites,
- technical difficulties, system downtime, 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 summer of 2005, 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. 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 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 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 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 and financial condition.

If any of our advertising relationships with manufacturers terminates, our revenues would decrease.

We depend on a number of manufacturer relationships for substantially all of our advertising revenues. The termination of any of these relationships 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 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 and financial condition.

We are a relatively new business in an emerging industry and need to manage the introduction of new products and services in order to avoid increased expenses without corresponding revenues.

We have been introducing new services to consumers and dealers in order to establish ourselves as a leader in the evolving market for automotive marketing services. Introducing new or enhanced products and services, such as MyRide.com, requires us to increase expenditures before we generate revenues. For example, we may need to hire personnel to oversee the introduction of new services before we generate revenues from these services. Our inability to generate satisfactory revenues from such expanded services to offset costs could have a material adverse effect on our business, results of operations and financial condition.

We must also:

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

We cannot assure that we can successfully achieve these objectives.

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

We believe that neither our relationship with our dealers nor our dealer subscription agreements constitute “franchises” under federal or state franchise laws. A federal court of appeals in Michigan has ruled that our dealer subscription agreement is 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 states 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 service generally does not qualify as an automobile brokerage activity and, therefore, state motor vehicle dealer or broker licensing requirements generally do not apply to us. In response to Texas Department of Transportation concerns, we modified our marketing program in that state to make our program open to all dealers who wish to apply. In addition, we modified the program to include a pricing model under which all participating dealers, regardless of brand, in a given zip code in Texas are charged uniform fees for referral of purchase requests. If other states' regulatory requirements relating to motor vehicle dealers or brokers are deemed applicable to us, we may become subject to fines, penalties or other requirements and may be required to modify our marketing programs 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 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 carryforwards 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.

Government regulations 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 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 CRM systems and other proprietary technology entails significant technical and business risks. We may not be successful in using new technologies effectively or adapting our Web sites and CRM systems, 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.

With the exception of the ADS production servers and certain related systems, our production Web sites and certain systems, including Autobytel.com, Autoweb.com, CarSmart.com, AutoSite.com, Car.com, Finance.Car.com and AVV.com, are currently hosted at secure third-party hosting facilities. We host the ADS production servers at a company owned facility.

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 limited 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, remain unresolved and may impact the growth of Internet use. If Internet usage continues to increase rapidly, the Internet infrastructure may not be able to support the demands placed on it by this growth, and its performance and reliability may decline. In the past, growth in Internet traffic has caused frequent periods of decreased performance, outages and delays. Our ability to increase the speed with which we provide services to consumers and to increase the scope and quality of such services is limited by and dependent upon the speed and reliability of the Internet, which is beyond our control. 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.

Prior to the initial public offering of our common stock in March 1999, there was no public market for our common stock. We cannot assure that an active trading market will be sustained or that the market price of the common stock will not decline. The stock market in general and the shares of emerging companies in particular have 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.

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 could 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. The Internet may not continue to be a viable commercial medium because of inadequate development of the necessary infrastructure, timely development of complementary products, delays in the development or adoption of new standards and protocols required to handle increased levels of Internet activity or increased government regulation.

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

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 of our intellectual property and proprietary rights could impair our competitive position.

Our ability to compete depends upon our proprietary systems and technology. While we rely on trademark, trade secret, 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 in every country in which 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 or infringement or invalidity. We filed one such lawsuit to protect one of our patents and have since entered into a settlement agreement relating thereto. 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 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 information 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. There can be no assurance that our services do not infringe on the intellectual property rights of third parties.

In the past, 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 which are described in "Item 1. Legal Proceedings" herein.

From time to time, we are involved in other litigation matters arising from the normal course of our business activities. The actions filed against us 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 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 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 22, 2007. 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 reelected the following two nominees for our board of directors:

Director	For	Withheld Authority
Michael J. Fuchs	31,560,973	2,230,889
Robert S. Grimes	33,594,529	197,333

The term of office as director for Jeffrey H. Coats, Mark N. Kaplan, James E. Riesenbach, Mark R. Ross and Jeffrey M. Stibel continued after the meeting.

(b) The stockholders approved the amendment to the Auto-By-Tel Corporation 1996 Employee Stock Purchase Plan:

For	Against	Abstain	Broker Non-Votes
20,163,279	152,773	33,032	13,442,778

Item 6. ***Exhibits***

10.1	Stock Purchase Agreement, dated as of June 29, 2007, between the Company, Retention Performance Marketing, Inc. and Call Command, Inc. is incorporated herein by reference to Exhibit 10.1 of the Current Report on Form 8-K filed with the Securities and Exchange Commission on July 5, 2007.
*10.2	2007 Amendment to Auto-By-Tel Corporation 1996 Employee Stock Purchase Plan.
*31.1	Chief Executive Officer Section 302 Certification of Periodic Report, dated August 9, 2007.
*31.2	Chief Financial Officer Section 302 Certification of Periodic Report, dated August 9, 2007.
*32.1	Chief Executive Officer and Chief Financial Officer Section 906 Certification of Periodic Report, dated August 9, 2007.

* Filed herewith.

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 9, 2007

By: /s/ Jill C. Richling

Jill C. Richling
Vice President and Controller
(Principal Accounting Officer)

EXHIBIT INDEX

10.1	Stock Purchase Agreement, dated as of June 29, 2007, between the Company, Retention Performance Marketing, Inc. and Call Command, Inc. is incorporated herein by reference to Exhibit 10.1 of the Current Report on Form 8-K filed with the Securities and Exchange Commission on July 5, 2007.
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*31.2	Chief Financial Officer Section 302 Certification of Periodic Report, dated August 9, 2007.
*32.1	Chief Executive Officer and Chief Financial Officer Section 906 Certification of Periodic Report, dated August 9, 2007.

* Filed herewith.

Exhibit 10.2

AUTO-BY-TEL CORPORATION
1996 EMPLOYEE STOCK PURCHASE PLAN

2007 Amendment

WHEREAS, Autobytel Inc. (the "Corporation" maintains the Auto-By-Tel Corporation 1996 Employee Stock Purchase Plan (the "Plan"), and the Board of Directors has duly approved a resolution to amend –

(i) Section 13(a) of the Plan to increase by 350,000 the number of shares of the Corporation's common stock ("Common Stock") that participants in the Plan may purchase; and

(ii) Section 23 to provide that the right of Plan participants to purchase these 350,000 shares shall expire ten years after the date hereof (or, if earlier, the date of the Plan's termination or the date required to conform the Plan with the requirements of Section 423 of the Internal Revenue Code).

NOW, THEREFORE, BE IT RESOLVED : that the Plan be and it is hereby amended as follows, effective immediately but subject to approval of this amendment by the Corporation's stockholders within 12 months of the date hereof.

1. Section 13(a) of the Plan is amended by replacing "700,000" with "1,050,000".
2. Section 23 of the Plan is amended by adding the following sentence at the end thereof:

   "With respect to the 350,000 shares of Common Stock that the Plan reserves for purchase pursuant to the 2007 Amendment of the Plan, the term of the Plan shall expire ten years after the earlier of Board or shareholder approval of said 2007 Amendment (unless sooner terminated under Section 20 hereof)."
3. Each and every other provision of the Plan shall remain in full force and effect, subject only to the change set forth above.

WHEREFORE , the undersigned, being a duly authorized officer of the Corporation, hereby adopts and approves this 2007 Amendment to the Plan, effective April 18, 2007.

AUTOBYTEL INC.

By /s/ Ariel Amir
A duly authorized Officer

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 auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 9, 2007

/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 auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 9, 2007

/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, 2007 (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. ss. 1350, as adopted pursuant to ss. 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 9, 2007

/s/ Monty A. Houdeshell
Monty A. Houdeshell
Executive Vice President and
Chief Financial Officer
August 9, 2007

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.