

# 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, 2014

or  
 TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the transition period from \_\_\_\_\_ to \_\_\_\_\_.

Commission file number 1-34761



**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, Suite 200, 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) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

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

As of July 28, 2014, there were 9,028,733 shares of the Registrant's Common Stock, \$0.001 par value, outstanding.

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**PART I. FINANCIAL INFORMATION****Item 1. Financial Statements**

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

<b>Assets</b>	<b>June 30, 2014</b>	<b>December 31, 2013*</b>
Current assets:		
Cash and cash equivalents	\$ 20,480	\$ 18,930
Accounts receivable, net of allowances for bad debts and customer credits of \$555 and \$405 at June 30, 2014 and December 31, 2013, respectively	17,039	14,178
Deferred tax asset	2,951	3,517
Prepaid expenses and other current assets	368	506
<b>Total current assets</b>	<b>40,838</b>	<b>37,131</b>
Property and equipment, net	1,707	1,548
Equity investment	2,500	2,500
Intangible assets, net	4,945	1,821
Goodwill	20,948	13,602
Deferred tax asset	31,135	31,135
Other assets	1,014	456
<b>Total assets</b>	<b>\$ 103,087</b>	<b>\$ 88,193</b>
<b>Liabilities and Stockholders' Equity</b>		
Current liabilities:		
Accounts payable	\$ 8,611	\$ 5,267
Accrued expenses and other current liabilities	6,449	7,648
<b>Total current liabilities</b>	<b>15,060</b>	<b>12,915</b>
Convertible note payable	6,000	5,000
Term loan payable	7,875	—
Borrowings under credit facility	5,250	4,250
Other non-current liabilities	937	1,200
<b>Total liabilities</b>	<b>35,122</b>	<b>23,365</b>
Commitments and contingencies	—	—
Stockholders' equity:		
Preferred stock, \$0.001 par value; 11,445,187 shares authorized; none outstanding	—	—
Common stock, \$0.001 par value; 55,000,000 shares authorized and 9,028,733 and 8,909,737 shares issued and outstanding at June 30, 2014 and December 31, 2013, respectively	9	9
Additional paid-in capital	309,137	307,171
Accumulated deficit	(241,181)	(242,352)
<b>Total stockholders' equity</b>	<b>67,965</b>	<b>64,828</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$ 103,087</b>	<b>\$ 88,193</b>

\* Amounts were derived from audited financial statements

*See accompanying notes to unaudited consolidated condensed financial statements.*

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Revenues:				
Lead fees	\$ 24,835	\$ 16,843	\$ 50,848	\$ 34,360
Advertising	764	895	1,437	1,611
Other revenues	314	33	588	61
Total revenues	<u>25,913</u>	<u>17,771</u>	<u>52,873</u>	<u>36,032</u>
Cost of revenues	<u>15,597</u>	<u>10,815</u>	<u>32,472</u>	<u>22,485</u>
Gross profit	10,316	6,956	20,401	13,547
Operating expenses:				
Sales and marketing	3,725	2,136	7,742	4,376
Technology support	1,993	1,767	3,917	3,473
General and administrative	2,716	2,146	5,738	4,435
Depreciation and amortization	455	409	889	833
Litigation settlements	(25)	(67)	(93)	(138)
Total operating expenses	<u>8,864</u>	<u>6,391</u>	<u>18,193</u>	<u>12,979</u>
Operating income	1,452	565	2,208	568
Interest and other income (expense), net	<u>(175)</u>	<u>(96)</u>	<u>(341)</u>	<u>307</u>
Income before income tax provision	1,277	469	1,867	875
Income tax provision	476	83	696	154
Net income and comprehensive income	<u>\$ 801</u>	<u>\$ 386</u>	<u>\$ 1,171</u>	<u>\$ 721</u>
Basic earnings per common share	<u>\$ 0.09</u>	<u>\$ 0.04</u>	<u>\$ 0.13</u>	<u>\$ 0.08</u>
Diluted earnings per common share	<u>\$ 0.08</u>	<u>\$ 0.04</u>	<u>\$ 0.11</u>	<u>\$ 0.08</u>

*See accompanying notes to unaudited consolidated condensed financial statements.*

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

	<b>Six Months Ended June 30,</b>	
	<b>2014</b>	<b>2013</b>
Cash flows from operating activities:		
Net income	\$ 1,171	\$ 721
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	1,075	1,061
Provision for bad debts	116	15
Provision for customer credits	448	310
Share-based compensation	655	374
Change in deferred tax asset	566	—
Changes in assets and liabilities:		
Accounts receivable	(491)	(1,867)
Prepaid expenses and other current assets	182	(283)
Other assets	(558)	(43)
Accounts payable	1,063	2,904
Accrued expenses and other current liabilities	(1,199)	(2,385)
Non-current liabilities	(225)	111
Net cash provided by operating activities	<u>2,803</u>	<u>918</u>
Cash flows from investing activities:		
Purchases of property and equipment	(547)	(404)
Purchase of AutoUSA	(10,044)	—
Net cash used in investing activities	<u>(10,591)</u>	<u>(404)</u>
Cash flows from financing activities:		
Borrowings under credit facility	1,000	—
Borrowings under term loan	9,000	—
Payments on term loan borrowings	(1,125)	—
Proceeds from exercise of stock options	501	61
Payment of contingent fee arrangement	(38)	(56)
Net cash provided by financing activities	<u>9,338</u>	<u>5</u>
Net increase in cash and cash equivalents	1,550	519
Cash and cash equivalents, beginning of period	18,930	15,296
Cash and cash equivalents, end of period	<u>\$ 20,480</u>	<u>\$ 15,815</u>
Supplemental disclosure of cash flow information:		
Cash paid for income taxes	<u>\$ 168</u>	<u>\$ 55</u>
Cash paid for interest	<u>\$ 242</u>	<u>\$ 150</u>

*See accompanying notes to unaudited consolidated condensed financial statements.*

**AUTOBYTEL INC.**  
**NOTES TO UNAUDITED CONSOLIDATED CONDENSED FINANCIAL STATEMENTS**

**1. Organization and Operations**

Autobytel Inc. (“**Autobytel**” or the “**Company**”) is an automotive marketing services company that assists automotive retail dealers (“**Dealers**”) and automotive manufacturers (“**Manufacturers**”) market and sell new and used vehicles through the Company's programs for online lead referrals (“**Leads**”), Dealer marketing products and services, online advertising programs and mobile products.

The Company's consumer-facing automotive websites (“**Company Websites**”), including its flagship website Autobytel.com<sup>®</sup>, provide consumers with information and tools to aid them with their automotive purchase decisions and the ability to submit inquiries requesting Dealers to contact the consumers regarding purchasing or leasing vehicles (“**Vehicle Leads**”). For consumers who may not be able to secure loans through conventional lending sources, the Company Websites provide these consumers the ability to submit inquiries requesting Dealers or other lenders that may offer vehicle financing to these consumers to contact the consumers regarding vehicle financing (“**Finance Leads**”). The Company's mission for consumers is to be “Your Lifetime Automotive Advisor<sup>®</sup>” by engaging consumers throughout the entire lifecycle of their automotive needs.

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

On January 13, 2014 (“**AutoUSA Acquisition Date**”), Autobytel and AutoNation, Inc., a Delaware corporation (“**Seller Parent**”), and AutoNationDirect.com, Inc., a Delaware corporation and subsidiary of Seller Parent (“**Seller**”), entered into and consummated a Membership Interest Purchase Agreement in which Autobytel acquired all of the issued and outstanding membership interests in AutoUSA, LLC, a Delaware limited liability company and a subsidiary of Seller (“**AutoUSA**”). AutoUSA was a (i) lead aggregator purchasing internet-generated automotive consumer leads from third parties and reselling those consumer leads to automotive vehicle Dealers; and (ii) reseller of third party products and services to automotive Dealers. See Note 4.

Effective October 1, 2013 (“**Advanced Mobile Acquisition Date**”), the Company acquired substantially all of the assets of privately-held Advanced Mobile, LLC, a Delaware limited liability company, and Advanced Mobile Solutions Worldwide, Inc., a Delaware corporation (collectively referred to in this Quarterly Report on Form 10-Q as “**Advanced Mobile**”). Advanced Mobile (now Autobytel Mobile) provides mobile marketing solutions (e.g., mobile applications, mobile portals, mobile websites, TextShield<sup>®</sup>, mobile text marketing, quick response codes, text messaging, short message service and multimedia service) for the automotive industry. TextShield<sup>®</sup> provides a web-based portal that allows Dealers to centrally manage text communications. The acquired assets consisted primarily of customer contracts, technology license rights and rights in domain names and short codes used for SMS texting. As a result of the acquisition, the Company offers Manufacturers and Dealers the ability to connect with consumers using text communication via a secure platform. In addition, Autobytel offers Dealers a comprehensive suite of mobile products, including mobile apps, mobile websites, Send2Phone capabilities and text message marketing. See Note 4.

**2. Basis of Presentation**

The accompanying unaudited consolidated condensed financial statements are presented on the same basis as the Company's Annual Report on Form 10-K, as amended by Amendment No. 1 on Form 10-K/A, filed with the Securities and Exchange Commission (“**SEC**”) for the year ended December 31, 2013 (“**2013 Form 10-K**”). Autobytel has made its disclosures in accordance with U.S. generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Rule 8-03 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U.S. generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments, consisting of normal recurring adjustments, necessary for a fair presentation with respect to interim financial statements, have been included. The statements of income and comprehensive income and cash flows for the periods ended June 30, 2014 and 2013 are not necessarily indicative of the results of operations or cash flows expected for the year or any other period. The unaudited consolidated condensed financial statements should be read in conjunction with the audited consolidated financial statements and the notes thereto in the 2013 Form 10-K.

### 3. Recent Accounting Pronouncements

*Accounting Standards Codification 606 “Revenue from Contracts with Customers.”* In May 2014, Accounting Standards Update (“ASU”) No. 2014-09, “Revenue from Contracts with Customers (Topic 606)” was issued. The Financial Accounting Standards Board and the International Accounting Standards Board initiated a joint project to clarify the principles for recognizing revenue and to develop a common revenue standard for U.S. GAAP and IFRS that would 1) remove inconsistencies and weaknesses in revenue requirements, 2) provide a more robust framework for addressing revenue issues, 3) improve comparability of revenue recognition practices across entities, industries, jurisdictions and capital markets, 4) provide more useful information to users of financial statements through improved disclosure requirements and 5) simplify the preparation of financial statements by reducing the number of requirements to which an entity must refer. This ASU is effective for annual reporting periods after December 15, 2016, including interim periods within that reporting period. Early application is not permitted. The Company does not expect this ASU to have a material impact on the Company’s consolidated financial results.

*Accounting Standards Codification 718 “Compensation – Stock Compensation.”* In June 2014, ASU No. 2014-12, “Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period” was issued. This ASU requires that a performance target that affects vesting and could be achieved after the requisite service period be treated as a performance condition. A reporting entity should apply existing guidance in Topic 718 as it relates to awards with performance conditions that affect vesting to account for such awards. The performance target should not be reflected in estimating the grant-date fair value of the award. Compensation cost should be recognized in the period in which it becomes probable that the performance target will be achieved and should represent the compensation cost attributable to the period(s) for which the requisite service has already been rendered. This ASU is effective for annual periods beginning after December 15, 2015. The Company does not expect this ASU to have a material impact on the Company’s consolidated financial results.

### 4. Acquisitions

#### *Acquisition of AutoUSA*

On the AutoUSA Acquisition Date, Autobytel acquired all of the issued and outstanding membership interests in AutoUSA. The Company acquired AutoUSA to expand its reach and influence in the industry by increasing its Dealer network.

The AutoUSA Acquisition Date fair value of the consideration transferred totaled \$11.9 million, which consisted of the following:

	<i>(in thousands)</i>
Cash (including a working capital adjustment of \$44)	\$ 10,044
Convertible subordinated promissory note	1,300
Warrant to purchase \$1.0 million of Company common stock	510
	<u>\$ 11,854</u>

As part of the consideration paid for the acquisition, the Company issued a convertible subordinated promissory note for \$1.0 million (“**AutoUSA Note**”) to the Seller. The fair value of the AutoUSA Note as of the AutoUSA Acquisition Date was \$1.3 million. This valuation was estimated using a binomial option pricing method. Key assumptions used by the Company’s outside valuation consultants in valuing the AutoUSA Note include a market yield of 1.6% and stock price volatility of 65.0%. As the AutoUSA Note was issued with a substantial premium, the Company recorded the premium as additional paid-in capital. Interest is payable at an annual interest rate of 6% in quarterly installments. The entire outstanding balance of the AutoUSA Note is to be paid in full on January 31, 2019. At any time after January 31, 2017, the holder of the AutoUSA Note may convert all or any part, but at least 30,600 shares, of the then outstanding and unpaid principal of the AutoUSA Note into fully paid shares of the Company’s common stock at a conversion price of \$16.34 per share (as adjusted for stock splits, stock dividends, combinations and other similar events). The right to convert the AutoUSA Note into common stock of the Company is accelerated in the event of a change in control of the Company. In the event of default, the entire unpaid balance of the AutoUSA Note will become immediately due and payable and will bear interest at the lower of 8% per year and the highest legal rate permissible under applicable law.

The warrant to purchase 69,930 shares of Company common stock issued in connection with the acquisition (" **AutoUSA Warrant** ") was valued as of the AutoUSA Acquisition Date at \$7.35 per share for a total value of \$0.5 million. The Company used an option pricing model to determine the value of the AutoUSA Warrant. Key assumptions used by the Company's outside valuation consultants in valuing the AutoUSA Warrant are as follows: risk-free rate of 1.6%, stock price volatility of 65.0% and a term of 5.0 years. The AutoUSA Warrant was valued based on long-term stock price volatilities of the Company. The exercise price of the AutoUSA Warrant is \$14.30 per share (as adjusted for stock splits, stock dividends, combinations and other similar events). The AutoUSA Warrant becomes exercisable on the third anniversary of the issuance date and expires on the fifth anniversary of the issuance date. The right to exercise the AutoUSA Warrant is accelerated in the event of a change in control of the Company.

The following table summarizes the preliminary estimated fair values of the assets acquired and liabilities assumed as of June 30, 2014. Because the transaction was completed in the three months ended March 31, 2014, the Company has not yet finalized the fair values of the assets and liabilities assumed in connection with the acquisition. During the three months ended March 31, 2014, the Company made adjustments to the purchase price allocation due to changes in working capital and fixed assets acquired.

	<i>(in thousands)</i>
Net identifiable assets acquired	\$ 758
Long-lived intangible assets acquired	3,750
Goodwill	7,346
	<u>\$ 11,854</u>

The preliminary fair value of the acquired intangible assets was determined using the below valuation approaches. In estimating the preliminary fair value of the acquired intangible assets, the Company utilized the valuation methodology determined to be most appropriate for the individual intangible asset being valued as described below. The acquired intangible assets include the following:

	<u>Valuation Method</u>	<u>Estimated Fair Value</u> <i>(in thousands)</i>	<u>Estimated Useful Life <sup>(1)</sup></u> <i>(years)</i>
Non-compete agreements	Discounted cash flow <sup>(2)</sup>	\$ 90	2
Customer relationships	Excess of earnings <sup>(3)</sup>	2,660	5
Trademark/trade names	Relief from Royalty <sup>(4)</sup>	1,000	5
Total purchased intangible assets		<u>\$ 3,750</u>	

- (1) Determination of the estimated useful lives of the individual categories of purchased intangible assets was based on the nature of the applicable intangible asset and the expected future cash flows to be derived from such intangible asset. Amortization of intangible assets with definite lives are recognized over the shorter of the respective lives of the agreement or the period of time the assets are expected to contribute to future cash flows.
- (2) The non-compete agreement fair value was derived by calculating the difference between the present value of the Company's forecasted cash flows with the agreements in place and without the agreements in place.
- (3) The excess of earnings method estimates a purchased intangible asset's value based on the present value of the prospective net cash flows (or excess earnings) attributable to it. The value attributed to these intangibles was based on projected net cash inflows from existing contracts or relationships.
- (4) The relief from royalty method is an earnings approach which assesses the royalty savings an entity realizes since it owns the asset and isn't required to pay a third party a license fee for its use.

Some of the more significant estimates and assumptions inherent in the estimate of the fair value of the identifiable purchased intangible assets include all assumptions associated with forecasting cash flows and profitability. The primary assumptions used for the determination of the preliminary fair value of the purchased intangible assets were generally based upon the discounted present value of anticipated cash flows. Estimated years of projected earnings generally follow the range of estimated remaining useful lives for each intangible asset class.

The goodwill recognized of \$7.3 million is attributable primarily to expected synergies and the assembled workforce of AutoUSA. The full amount is expected to be amortizable for income tax purposes.

The Company incurred approximately \$1.1 million of acquisition-related costs related to AutoUSA in the six months ended June 30, 2014, all of which were expensed.

The following unaudited pro forma information presents the consolidated results of the Company and AutoUSA for the three and six months ended June 30, 2013, with adjustments to give effect to pro forma events that are directly attributable to the acquisition and have a continuing impact, but excludes the impact of pro forma events that are directly attributable to the acquisition and are one-time occurrences. The unaudited pro forma information is presented for illustrative purposes only and is not necessarily indicative of the results of operations of future periods, the results of operations that actually would have been realized had the entities been a single company during the periods presented or the results of operations that the combined company will experience after the acquisition. The unaudited pro forma information does not give effect to the potential impact of current financial conditions, regulatory matters or any anticipated synergies, operating efficiencies or cost savings that may be associated with the acquisition. The unaudited pro forma information also does not include any integration costs or remaining future transaction costs that the companies may incur as a result of the acquisition and combining the operations of the companies.

The unaudited pro forma consolidated results of operations, assuming the acquisition had occurred on January 1, 2013, are as follows (in thousands):

	<b>Three Months Ended June 30, 2013</b>	<b>Six Months Ended June 30, 2013</b>
Unaudited pro forma consolidated results:		
Revenues	\$ 24,708	\$ 50,241
Net income	742	1,358

*Acquisition of Advanced Mobile*

As of the Advanced Mobile Acquisition Date, the Company acquired substantially all of the assets of Advanced Mobile. Advanced Mobile provides mobile marketing solutions (e.g., mobile applications, mobile portals, mobile websites, TextShield<sup>®</sup>, mobile text marketing, quick response codes, text messaging, short message service and multimedia service) for the automotive industry. The acquired assets consisted primarily of customer contracts, technology license rights and rights in domain names and short codes used for SMS texting. Advanced Mobile was acquired to enable the Company to offer the automotive industry the mobile technology and resources required to exploit the expanding growth in smart phone and tablet use.

The Advanced Mobile Acquisition Date fair value of the consideration transferred totaled \$3.4 million, which consisted of the following:

	<i>(in thousands)</i>	
Cash (including working capital adjustment of \$70)	\$	2,570
Contingent consideration		825
	<u>\$</u>	<u>3,395</u>

The contingent consideration arrangement (“ **Contingent Consideration** ”) requires the Company to pay up to \$1.5 million of additional consideration to Advanced Mobile if certain revenue and gross profit targets are met. The fair value of the contingent consideration as of the Advanced Mobile Acquisition Date was \$825,000. The fair value of the contingent consideration was estimated using a Monte Carlo Simulation. The fair value measurement is based on significant inputs not observable in the market and thus represents a Level 3 measurement as defined in ASC 820, Fair Value Measurements and Disclosures. The key assumptions used by the Company's outside valuation consultants in applying the Monte Carlo Simulation consisted of volatility inputs for both revenue and gross profit, forecasted gross margin and a weighted-average cost of capital assumption used to adjust forecasted revenue and gross margin for risk.

The following table summarizes the preliminary estimated fair values of the assets acquired and liabilities assumed at the Advanced Mobile Acquisition Date. Because the transaction was completed subsequent to the end of the third quarter of 2013, the Company has not yet finalized the fair values of the assets and liabilities assumed in connection with the acquisition.

	<i>(in thousands)</i>
Net identifiable assets acquired	\$ 90
Definite-lived intangible assets acquired	1,380
Goodwill	1,925
Net assets acquired	<u>\$ 3,395</u>

The preliminary fair value of the acquired intangible assets was determined using the below valuation approaches. In estimating the preliminary fair value of the acquired intangible assets, the Company utilized the valuation methodology determined to be most appropriate for the individual intangible asset being valued as described below. The acquired intangible assets include the following:

	<u>Valuation Method</u>	<u>Estimated Fair Value</u> <i>(in thousands)</i>	<u>Estimated Useful Life <sup>(1)</sup></u> <i>(years)</i>
Non-compete agreements	Discounted cash flow <sup>(2)</sup>	\$ 110	5
Customer relationships	Excess of earnings <sup>(3)</sup>	450	2
Developed technology	Excess of earnings <sup>(3)</sup>	820	5
Total purchased intangible assets		<u>\$ 1,380</u>	

- (1) Determination of the estimated useful lives of the individual categories of purchased intangible assets was based on the nature of the applicable intangible asset and the expected future cash flows to be derived from such intangible asset. Amortization of intangible assets with definite lives are recognized over the shorter of the respective lives of the agreement or the period of time the assets are expected to contribute to future cash flows.
- (2) The non-compete agreement fair value was derived by calculating the difference between the present value of the Company's forecasted cash flows with the agreements in place and without the agreements in place.
- (3) The excess of earnings method estimates a purchased intangible asset's value based on the present value of the prospective net cash flows (or excess earnings) attributable to it. The value attributed to these intangibles was based on projected net cash inflows from existing contracts or relationships.

Some of the more significant estimates and assumptions inherent in the estimate of the fair value of the identifiable purchased intangible assets include all assumptions associated with forecasting cash flows and profitability. The primary assumptions used for the determination of the preliminary fair value of the purchased intangible assets were generally based upon the discounted present value of anticipated cash flows. Estimated years of projected earnings generally follow the range of estimated remaining useful lives for each intangible asset class.

The goodwill recognized of \$1.9 million is attributable primarily to expected synergies and the assembled workforce of Advanced Mobile. The full amount is amortizable for income tax purposes.

The Company incurred \$0.3 million of acquisition-related costs related to Advanced Mobile, all of which were expensed in 2013.

The following unaudited pro forma information presents the consolidated results of the Company and Advanced Mobile for the three and six months ended June 30, 2013, with adjustments to give effect to pro forma events that are directly attributable to the acquisition and have a continuing impact, but excludes the impact of pro forma events that are directly attributable to the acquisition and are one-time occurrences. The unaudited pro forma information is presented for illustrative purposes only and is not necessarily indicative of the results of operations of future periods, the results of operations that actually would have been realized had the entities been a single company during the periods presented or the results of operations that the combined company will experience after the acquisition. The unaudited pro forma information does not give effect to the potential impact of current financial conditions, regulatory matters or any anticipated synergies, operating efficiencies or cost savings that may be associated with the acquisition. The unaudited pro forma information also does not include any integration costs or remaining future transaction costs that the companies may incur as a result of the acquisition and combining the operations of the companies.

The unaudited pro forma consolidated results of operations, assuming the acquisition had occurred on January 1, 2013, are as follows:

	<b>Three Months Ended June 30, 2013</b>	<b>Six Months Ended June 30, 2013</b>
	<i>(in thousands)</i>	
Unaudited pro forma consolidated results:		
Revenues	\$ 18,017	\$ 36,525
Net income	376	707

## 5. Computation of Basic and Diluted Net Earnings Per Share

Basic net earnings per share is computed using the weighted average number of common shares outstanding during the period. Diluted net earnings per share is computed using the weighted average number of common shares, and if dilutive, potential common shares outstanding, as determined under the treasury stock and if-converted methods, during the period. Potential common shares consist of common shares issuable upon the exercise of stock options, common shares issuable upon the exercise of warrants and common shares issuable upon conversion of convertible notes. The following are the share amounts utilized to compute the basic and diluted net earnings per share for the three and six months ended June 30, 2014 and 2013:

	<b>Three Months Ended June 30,</b>		<b>Six Months Ended June 30,</b>	
	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>
Basic Shares	9,000,202	8,865,407	8,964,500	8,860,873
Weighted average dilutive securities	2,270,593	267,770	2,348,322	243,436
Dilutive Shares	<u>11,270,795</u>	<u>9,133,177</u>	<u>11,312,822</u>	<u>9,104,309</u>

For the three and six months ended June 30, 2014, weighted average dilutive securities included dilutive options and the warrant and convertible note issued in connection with the acquisition of Autotropolis, Inc. and Cyber Ventures, Inc. (collectively referred to in this Quarterly Report on Form 10-Q as “**Cyber**”) described below. For the three and six months ended June 30, 2013, weighted average dilutive securities included dilutive options.

For the three and six months ended June 30, 2014, 1.1 million and 1.0 million of potentially anti-dilutive shares of common stock have been excluded from the calculation of diluted net income per share, respectively. For both the three and six months ended June 30, 2013, 2.5 million of potentially anti-dilutive shares of common stock have been excluded from the calculation of diluted net income per share.

On February 13, 2012, the Company announced that the Board of Directors had approved a stock repurchase program that authorized the repurchase of up to \$1.5 million of Company common stock. The Board of Directors authorized the Company to repurchase an additional \$2.0 million of Company common stock on June 7, 2012. Under these repurchase programs, the Company may repurchase common stock from time to time on the open market or in private transactions. This authorization does not require the Company to purchase a specific number of shares, and the Board of Directors may suspend, modify or terminate the programs at any time. The Company would fund repurchases through the use of available cash. The Company began repurchasing its common stock on March 7, 2012. No shares have been repurchased since 2012. Shares repurchased in 2012 were cancelled by the Company and returned to authorized and unissued shares.

**Warrants.** On September 17, 2010 (“**Cyber Acquisition Date**”), the Company acquired substantially all of the assets of Cyber. In connection with the acquisition of Cyber, the Company issued to the sellers a warrant to purchase 400,000 shares of Company common stock (“**Cyber Warrant**”). The Cyber Warrant was valued at \$3.15 per share on the Cyber Acquisition Date using an option pricing model with the following key assumptions: risk-free rate of 2.3%, stock price volatility of 77.5% and a term of 8.04 years. The Cyber Warrant was valued based on historical stock price volatilities of the Company and comparable public companies as of the Cyber Acquisition Date. The exercise price of the Cyber Warrant is \$4.65 per share (as adjusted for stock splits, stock dividends, combinations and other similar events). The Cyber Warrant became exercisable on September 16, 2013 and expires on the eighth anniversary of the issuance date. The Cyber Warrant had not been exercised as of June 30, 2014.

The AutoUSA Warrant issued in connection with the acquisition described in Note 4 was valued at \$7.35 per share for a total value of \$0.5 million. The Company used an option pricing model to determine the value of the AutoUSA Warrant. Key assumptions used in valuing the AutoUSA Warrant are as follows: risk-free rate of 1.6%, stock price volatility of 65.0% and a term of 5.0 years. The AutoUSA Warrant was valued based on long-term stock price volatilities of the Company. The exercise price of the AutoUSA Warrant is \$14.30 per share (as adjusted for stock splits, stock dividends, combinations and other similar events). The AutoUSA Warrant becomes exercisable on the third anniversary of the issuance date and expires on the fifth anniversary of the issuance date. The right to exercise the AutoUSA Warrant is accelerated in the event of a change in control of the Company.

## 6. Share-Based Compensation

Share-based compensation expense is included in costs and expenses in the accompanying Unaudited Consolidated Condensed Statements of Income and Comprehensive Income as follows:

	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>June 30,</b>		<b>June 30,</b>	
	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>
	<i>(in thousands)</i>			
Share-based compensation expense:				
Cost of revenues	\$ 17	\$ 12	\$ 34	\$ 25
Sales and marketing	142	41	251	76
Technology support	68	57	125	116
General and administrative	142	79	246	158
Share-based compensation costs	<u>369</u>	<u>189</u>	<u>656</u>	<u>375</u>
Amount capitalized to internal use software	<u>1</u>	<u>1</u>	<u>1</u>	<u>1</u>
Total share-based compensation costs	<u>\$ 368</u>	<u>\$ 188</u>	<u>\$ 655</u>	<u>\$ 374</u>

*Service-Based Options.* The Company granted the following service-based options for the three and six months ended June 30, 2014 and 2013. No service-based options were granted during the three months ended June 30, 2014.

	Three months ended June 30,		Six months ended June 30,	
	2014	2013	2014	2013
Number of service-based options granted	—	39,000	401,750	96,000
Weighted average grant date fair value	—	\$ 2.27	\$ 7.46	\$ 2.22
Weighted average exercise price	—	\$ 4.56	\$ 16.47	\$ 4.23

These options are valued using a Black-Scholes option pricing model and generally vest one-third on the first anniversary of the grant date and ratably over twenty-four months thereafter. The vesting of these awards is contingent upon the employee's continued employment with the Company during the vesting period.

*Performance-based Options.* During the six months ended June 30, 2014, the Company granted 40,000 performance-based inducement stock options in connection with the acquisition of AutoUSA (“**AutoUSA Inducement Options**”), with a weighted average grant date fair value of \$6.08, using a Black-Scholes option pricing model and weighted average exercise price of \$13.62. The AutoUSA Inducement Options are subject to two vesting requirements and conditions: (i) level of achievement of performance goals based on revenue and gross margin of the Company's retail dealer services group and (ii) time vesting. No performance options were granted during the three months ended June 30, 2014.

During the six months ended June 30, 2013, the Company granted 87,117 performance-based stock options (“**2013 Performance Options**”) to certain employees with a weighted average grant date fair value of \$2.19, using a Black-Scholes option pricing model and a weighted average exercise price of \$4.00. The 2013 Performance Options were subject to two vesting requirements and conditions: (i) percentage achievement of 2013 revenues and earnings before taxes, depreciation and amortization (“**EBITDA**”) goals and (ii) time vesting. Based on the Company's 2013 revenues and EBITDA performance, 83,398 of the 2013 Performance Options vested under the performance vesting condition, and one-third of these options vested on the first anniversary of the grant date, with the remainder vesting ratably over twenty-four months thereafter.

*Market Condition Options.* In 2009, the Company granted 213,650 stock options to substantially all employees with an exercise price of \$1.75 and grant date fair value of \$0.97, using a Black-Scholes option pricing model. One-third of these options cliff vested on the first anniversary following the grant date and the remaining two-thirds vest ratably over twenty-four months thereafter. In addition, the remaining two-thirds of the awards were subject to satisfaction of market price conditions for the Company's common stock, which conditions have been satisfied. During the three months ended June 30, 2014 and 2013, 5,000 and 1,076 of these market condition stock options were exercised, respectively. During the six months ended June 30, 2014 and 2013, 15,793 and 5,076 of these market condition stock options were exercised, respectively.

During the three and six months ended June 30, 2014, 45,393 and 118,996 stock options (inclusive of the 5,000 and 15,793 market condition stock options exercised during the period) were exercised, with aggregate weighted average exercise prices of \$4.11 and \$4.20, respectively. There were 13,738 and 21,738 stock options (inclusive of the 1,076 and 5,076 market condition stock options exercised during the period) exercised during the three and six months ended June 30, 2013, with aggregate weighted average exercise prices of \$3.77 and \$3.27, respectively. The grant date fair value of stock options granted during these periods was estimated using the Black-Scholes option pricing model using the following weighted average assumptions:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Dividend yield	—	—	—	—
Volatility	—	64%	56%	70%
Risk-free interest rate	—	0.9%	1.3%	0.7%
Expected life (years)	—	4.3	4.3	4.3

## 7. Selected Balance Sheet Accounts

*Property and Equipment* . Property and equipment consists of the following:

	<b>June 30, 2014</b>	<b>December 31, 2013</b>
	<i>(in thousands)</i>	
Computer software and hardware and capitalized internal use software	\$ 12,420	\$ 11,924
Furniture and equipment	1,265	1,256
Leasehold improvements	946	937
	14,631	14,117
Less – Accumulated depreciation and amortization	(12,924)	(12,569)
Property and equipment, net	<u>\$ 1,707</u>	<u>\$ 1,548</u>

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

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

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

The Company has a concentration of credit risk with its automotive industry related accounts receivable balances, particularly with Urban Science Applications (which represents Acura, Audi, Honda, Nissan, Infiniti, Mercedes Benz, Smart, Subaru, Toyota, Volkswagen and Volvo), General Motors and Trilogy Inc. (which represents Hyundai, Toyota, BMW and MINI). During the first six months of 2014, approximately 28% of the Company's total revenues were derived from these three customers, and approximately 39%, or \$6.9 million of gross accounts receivable, related to these three customers at June 30, 2014.

During the first six months of 2013, approximately 24% of the Company's total revenues were derived from General Motors, Urban Science Applications and Nissan/Infiniti, and approximately 34%, or \$4.1 million of gross accounts receivables, related to these three customers at June 30, 2013.

*Equity Investments.* In September 2013, the Company entered into a Contribution Agreement with privately-held AutoWeb, Inc., a Delaware corporation (" **AutoWeb** "), in which Autobytel contributed to AutoWeb \$2.5 million and assigned to AutoWeb all the ownership interests in the autoweb.com domain name and two registered trademarks related to the AutoWeb name and related goodwill in exchange for 8,000 shares of AutoWeb Series A Preferred Stock, \$0.01 par value per share. The 8,000 shares of AutoWeb Series A Preferred Stock are convertible into AutoWeb Common Stock on a one-for-one basis (subject to adjustments for stock splits, stock dividends, combinations and recapitalizations) and represented 16% of all issued and outstanding common stock of AutoWeb as of September 18, 2013, on a fully diluted basis, as of this date. The Company also obtained an option to acquire an additional 5,000 shares of AutoWeb Series A Preferred Stock at a per share exercise price of \$500, which option expires September 2015. In connection with this investment, the Company also entered into arrangements with AutoWeb to use the AutoWeb pay-per-click, auction-driven automotive marketplace technology platform as both a publisher and as an advertiser. Upon the occurrence of a liquidation event (i.e., a liquidation, dissolution or winding up of AutoWeb; a consolidation or merger where AutoWeb is not the surviving entity; a consolidation or merger where AutoWeb is the surviving entity and either (i) the rights of the Series A Preferred Stock are changed, or (ii) the Series A Preferred Stock is exchanged for cash, securities or property; or a sale or transfer of all or substantially all of AutoWeb's assets), the Series A Preferred Stock is entitled to a liquidation preference of the greater of (i) \$1,000 per share (subject to adjustments for stock splits, stock dividends, combinations and recapitalizations); and (ii) the amount that would be distributed with respect to AutoWeb's Common Stock, assuming full conversion of the Series A Preferred Stock into Common Stock.

In September 2013, the Company invested \$150,000 in SaleMove, Inc., a Delaware corporation (" **SaleMove** "), in the form of a convertible promissory note. The convertible promissory note accrues interest at an annual rate of 6.0% and is due and payable in full on August 14, 2015 unless converted prior to the maturity date. The convertible note will be converted into preferred stock of SaleMove in the event of a preferred stock financing by SaleMove of at least \$1.0 million prior to the maturity date of the convertible note. The Company recorded the \$150,000 note as an other long-term asset on the Consolidated Balance Sheet as of June 30, 2014.

*Intangible Assets.* The Company amortizes specifically identified intangible assets using the straight-line method over the estimated useful lives of the assets. In connection with the acquisitions of Cyber, Advanced Mobile and AutoUSA the Company identified \$9.7 million of intangible assets. The Company's intangible assets will be amortized over the following estimated useful lives (in thousands):

Intangible Asset	Estimated Useful Life	June 30, 2014			December 31, 2013		
		Gross	Accumulated Amortization	Net	Gross	Accumulated Amortization	Net
Trademarks/trade names/licenses/domains	5 years	\$ 6,581	\$ (5,397)	\$ 1,184	\$ 5,582	\$ (5,209)	\$ 373
Software and publications	3 years	1,300	(1,300)	—	1,300	(1,300)	—
Customer relationships	2-5 years	5,074	(2,294)	2,780	2,320	(1,926)	394
Employment/non-compete agreements	5 years	700	(416)	284	610	(335)	275
Developed technology	5 years	820	(123)	697	820	(41)	779
		<u>\$ 14,475</u>	<u>\$ (9,530)</u>	<u>\$ 4,945</u>	<u>\$ 10,632</u>	<u>\$ (8,811)</u>	<u>\$ 1,821</u>

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

<u>Year</u>	<u>Amortization Expense</u> <i>(in thousands)</i>
2014	\$ 764
2015	1,394
2016	942
2017	926
2018	879
2019	32
	<u>\$ 4,937</u>

*Goodwill.* Goodwill represents the excess of the purchase price over the fair value of net assets acquired. Goodwill is not amortized and is assessed annually for impairment or earlier, when events or circumstances indicate that the carrying value of such assets may not be recoverable. The Company did not record impairment related to goodwill as of June 30, 2014 and 2013.

As of June 30, 2014, goodwill consisted of the following (in thousands):

Goodwill as of December 31, 2013	\$ 13,602
Acquisition of AutoUSA	7,346
Goodwill as of June 30, 2014	<u>\$ 20,948</u>

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

	<u>June 30,</u> <u>2014</u>	<u>December 31,</u> <u>2013</u>
	<i>(in thousands)</i>	
Compensation and related costs	\$ 2,469	\$ 3,540
Professional fees and other accrued expenses	3,080	3,209
Amounts due to customers	247	208
Other current liabilities	653	692
Total accrued expenses and other current liabilities	<u>\$ 6,449</u>	<u>\$ 7,649</u>

*Long-term debt.* In connection with the acquisition of Cyber, the Company issued a convertible subordinated promissory note for \$5.0 million (“**Cyber Convertible Note**”) to the sellers. The fair value of the Cyber Convertible Note as of the Cyber Acquisition Date was \$5.9 million. This valuation was estimated using a binomial option pricing method. Key assumptions used by the Company's outside valuation consultants in valuing the Cyber Convertible Note included a market yield of 15.0% and stock price volatility of 77.5%. As the Cyber Convertible Note was issued with a substantial premium, the Company recorded the premium as additional paid-in capital. Interest is payable at an annual interest rate of 6% in quarterly installments. The entire outstanding balance of the Cyber Convertible Note is to be paid in full on September 30, 2015. At any time after September 30, 2013, the holders of the Cyber Convertible Note may convert all or any part, but in 40,000 minimum share increments, of the then outstanding and unpaid principal of the Cyber Convertible Note into fully paid shares of the Company's common stock at a conversion price of \$4.65 per share (as adjusted for stock splits, stock dividends, combinations and other similar events). The right to convert the Cyber Convertible Note into common stock of the Company is accelerated in the event of a change in control of the Company. In the event of default, the entire unpaid balance of the Cyber Convertible Note will become immediately due and payable and will bear interest at the lower of 8% per year and the highest legal rate permissible under applicable law.

In connection with the acquisition of AutoUSA, the Company issued the AutoUSA Note to the Seller. The fair value of the AutoUSA Note as of the AutoUSA Acquisition Date was \$1.3 million. This valuation was estimated using a binomial option pricing method. Key assumptions used by the Company's outside valuation consultants in valuing the AutoUSA Note include a market yield of 1.6% and stock price volatility of 65.0%. As the AutoUSA Note was issued with a substantial premium, the Company recorded the premium as additional paid-in capital. Interest is payable at an annual interest rate of 6% in quarterly installments. The entire outstanding balance of the AutoUSA Note is to be paid in full on January 31, 2019. At any time after January 31, 2017, the holder of the AutoUSA Note may convert all or any part, but at least 30,600 shares, of the then outstanding and unpaid principal of the AutoUSA Note into fully paid shares of the Company's common stock at a conversion price of \$16.34 per share (as adjusted for stock splits, stock dividends, combinations and other similar events). The right to convert the AutoUSA Note into common stock of the Company is accelerated in the event of a change in control of the Company. In the event of default, the entire unpaid balance of the AutoUSA Note will become immediately due and payable and will bear interest at the lower of 8% per year and the highest legal rate permissible under applicable law.

*Credit Facility and Term Loan* . On January 13, 2014, the Company entered into a Credit Facility Amendment with Union Bank, amending the Company's existing Loan Agreement with Union Bank initially entered into on February 26, 2013, and amended on September 10, 2013 (the existing Loan Agreement, as amended to date, is referred to herein collectively as the "**Credit Facility Agreement**"). The Credit Facility Amendment provides for (i) a new \$9.0 million term loan ("**Term Loan**"); and (ii) amendments to the Company's existing \$8.0 million revolving line of credit ("**Revolving Loan**").

The Term Loan is amortized over a period of four years, with fixed quarterly principal payments of \$562,500. Borrowings under the Term Loan or under the Revolving Loan bear interest at either (i) the bank's Reference Rate (prime rate) minus 0.50% or (ii) the LIBOR plus 2.50%, at the option of the Company. Interest under both the Term Loan and the Revolving Loan adjust (i) at the end of each LIBOR rate period (1, 2, 3, 6 or 12 months terms) selected by the Company, if the LIBOR rate is selected; or (ii) with changes in Union Bank's Reference Rate, if the Reference Rate is selected. The Company pays a commitment fee of 0.10% per year on the unused portion of the Revolving Loan payable quarterly in arrears. Borrowings under the Term Loan and the Revolving Loan are secured by a first priority security interest on all of the Company's personal property (including, but not limited to, accounts receivable) and proceeds thereof. The Term Loan matures December 31, 2017, and the maturity date of the Revolving Loan is March 31, 2017. Borrowings under the Revolving Loan may be used as a source to finance capital expenditures, acquisitions and stock buybacks and for other general corporate purposes. Borrowing under the Term Loan was limited to use for the acquisition of AutoUSA, and the Company drew down the entire \$9.0 million of the Term Loan, together with \$1.0 million under the Revolving Loan, in financing this acquisition. The outstanding balances of the Term Loan and Revolving Loan as of June 30, 2014 were \$7.9 million and \$5.25 million, respectively.

## 8. Commitments and Contingencies

### *Employment Agreements*

The Company has employment agreements and retention agreements with certain key employees. A number of these agreements require severance payments, continuation of certain insurance benefits and acceleration of vesting of stock options in the event of a termination of employment by the Company without cause or by the employee for good reason.

### *Litigation*

As of June 30, 2014, the Company was not the subject of any litigation as a defendant in any action or proceeding. From time to time, the Company may be involved in litigation matters arising from the normal course of its business activities. The actions filed against the Company and other litigation, even if not meritorious, could result in substantial costs and diversion of resources and management attention, and an adverse outcome in litigation could materially adversely affect its business, results of operations, financial condition and cash flows.

## **9. Income Taxes**

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

The Company's effective tax rate for the three and six months ended June 30, 2014 differed from the U.S. federal statutory rate primarily due to state income taxes and permanent non-deductible tax items.

The total amount of unrecognized tax benefits, excluding associated interest and penalties, was \$0.6 million as of June 30, 2014, of which \$0.1 million would impact the effective tax rate if recognized.

The total balance of accrued interest and penalties related to uncertain tax positions was \$24,000 and \$20,000 as of June 30, 2014 and December 31, 2013, respectively. The Company recognizes interest and penalties related to uncertain tax positions as a component of income tax expense, and the accrued interest and penalties are included in deferred and other long-term liabilities in the Company's condensed consolidated balance sheets. There were no material interest or penalties included in income tax expense for each of the three and six months ended June 30, 2014 and June 30, 2013.

The Company is subject to taxation in the U.S. and in various state jurisdictions. Due to expired statutes of limitation, the Company's federal income tax returns for years prior to calendar year 2010 are not subject to examination by the U.S. Internal Revenue Service. Generally, for the majority of state jurisdictions where the Company does business, periods prior to calendar year 2009 are no longer subject to examination. The Company is currently under examination by the State of Colorado for the years 2009 through 2012, but does not anticipate any material adjustments. The Company has estimated that \$0.1 million of unrecognized tax benefits related to income tax positions may be affected by the resolution of tax examinations or expiring statutes of limitation within the next twelve months. Audit outcomes and the timing of settlements are subject to significant uncertainty.

## 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 forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Words such as “anticipates,” “estimates,” “expects,” “projects,” “intends,” “plans,” “believes,” “will” and words of similar substance used in connection with any discussion of future operations or financial performance identify forward-looking statements. In particular, statements regarding expectations and opportunities, industry trends, new product expectations and capabilities, and our outlook regarding our performance and growth are forward-looking statements. This Quarterly Report on Form 10-Q also contains statements regarding plans, goals and objectives. There is no assurance that we will be able to carry out our plans or achieve our goals and objectives or that we will be able to do so successfully on a profitable basis. These forward-looking statements are just predictions and involve risks and uncertainties, many of which are beyond our control, and actual results may differ materially from these statements. Factors that could cause actual results to differ materially from those reflected in forward-looking statements include, but are not limited to, those discussed in this Item 2 and under the heading “Risk Factors” in our Annual Report on Form 10-K, as amended by Form 10-K/A, for the year ended December 31, 2013 (“**2013 Form 10-K**”). Investors are urged not to place undue reliance on forward-looking statements. Forward-looking statements speak only as of the date on which they were made. Except as may be required by law, we do not undertake any obligation, and expressly disclaim any obligation, to update or alter any forward-looking statements, whether as a result of new information, future events or otherwise. All forward-looking statements contained herein are qualified in their entirety by the foregoing cautionary statements.

You should read the following discussion of our results of operations and financial condition in conjunction with our unaudited consolidated condensed financial statements and related notes included in Part I, Item 1 of this Quarterly Report on Form 10-Q and our audited consolidated financial statements and the notes thereto in the 2013 Form 10-K.

Our corporate website is located at [www.autobytel.com](http://www.autobytel.com). Information on our website is not incorporated by reference in this Quarterly Report. At or through the Investor Relations section of our website we make available free of charge our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and all amendments to these reports as soon as practicable after the reports are electronically filed with or furnished to the SEC.

Unless the context otherwise requires, the terms “we”, “us”, “our”, “Autobytel”, and “Company” refer to Autobytel Inc. and its consolidated subsidiaries.

### Basis of Presentation

The accompanying unaudited consolidated condensed financial statements presented herein are presented on the same basis as the 2013 Form 10-K. We have made disclosures in accordance with U.S. generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Rule 8-03 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U.S. generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments, consisting of normal recurring adjustments, necessary for a fair presentation with respect to interim financial statements, have been included. The statements of income and comprehensive income and cash flows for the periods ended June 30, 2014 and 2013 are not necessarily indicative of the results of operations or cash flows expected for the year or any other period. The unaudited consolidated condensed financial statements should be read in conjunction with the audited consolidated financial statements and the notes thereto in the 2013 Form 10-K.

On January 13, 2014 (“**AutoUSA Acquisition Date**”), Autobytel and AutoNation, Inc., a Delaware corporation (“**Seller Parent**”), and AutoNationDirect.com, Inc., a Delaware corporation and subsidiary of Seller Parent (“**Seller**”), entered into and consummated a Membership Interest Purchase Agreement in which Autobytel acquired all of the issued and outstanding membership interests in AutoUSA, LLC, a Delaware limited liability company and a subsidiary of Seller (“**AutoUSA**”). AutoUSA was a (i) lead aggregator purchasing internet-generated automotive consumer leads from third parties and reselling those consumer leads to automotive vehicle dealers; and (ii) reseller of third party products and services to automotive Dealers. The integration of AutoUSA was completed during the three months ended June 30, 2014, and we believe we will see benefits from the synergies associated with the AutoUSA acquisition throughout the remainder of 2014.

Effective October 1, 2013, the Company acquired substantially all of the assets of privately-held Advanced Mobile, LLC, a Delaware limited liability company, and Advanced Mobile Solutions Worldwide, Inc., a Delaware corporation (collectively referred to in this Quarterly Report on Form 10-Q as “ **Advanced Mobile** ”). Advanced Mobile provides mobile marketing solutions (e.g., mobile applications, mobile portals, mobile websites, TextShield<sup>®</sup>, mobile text marketing, quick response codes, text messaging, short message service and multimedia service) for the automotive industry. TextShield<sup>®</sup> provides a web-based portal that allows Dealers to centrally manage text communications. This web-based tool includes role-based permissions, a global opt out feature and the ability to monitor all text communications between dealership employees and consumers. By assisting a dealership with compliance issues surrounding text, this tool opens up a wide array of text-based marketing for dealers and allows consumers to interact with dealers using one of the most preferred methods of mobile communications. The acquired assets consisted primarily of customer contracts, technology license rights and rights in domain names and short codes used for SMS texting.

## Overview

We are an automotive marketing services company that assists automotive retail dealers (“ **Dealers** ”) and automotive manufacturers (“ **Manufacturers** ”) market and sell new and used vehicles to consumers through our programs for online purchase request referrals (“ **Leads** ”), Dealer marketing products and services, online advertising programs and mobile products. Our consumer-facing automotive websites (“ **Company Websites** ”), including our flagship website Autobytel.com<sup>®</sup>, provide consumers with information and tools to aid them with their automotive purchase decisions and the ability to submit inquiries requesting Dealers to contact the consumers regarding purchasing or leasing vehicles (“ **Vehicle Leads** ”). For consumers who may not be able to secure loans through conventional lending sources, our Company Websites provide these consumers the ability to submit inquiries requesting Dealers or other lenders that may offer vehicle financing to these consumers to contact the consumers regarding vehicle financing (“ **Finance Leads** ”). The Company’s mission for consumers is to be “Your Lifetime Automotive Advisor”<sup>®</sup> by engaging consumers throughout the entire lifecycle of their automotive needs.

Lead quality is measured by the conversion of Leads to actual vehicle sales. Leads are internally-generated from our Company Websites (“ **Internally-Generated Leads** ”) or acquired from third parties (“ **Non-Internally-Generated Leads** ”) that generate Leads from their websites (“ **Non-Company Websites** ”). We rely on detailed feedback from Manufacturer and wholesale customers to confirm the performance of our Leads. Since 2011 we have been using IHS Automotive (which acquired R.L. Polk & Co. in 2013) to evaluate the performance quality of both our Internally-Generated Leads as well as Non-Internally-Generated Leads. Our Manufacturers and wholesale customers and IHS Automotive match the Leads we deliver to our customers against vehicle sales data to provide us with closing rates for the Leads we deliver to our customers and information that allows us to compare these closing rates to the closing rates of the Leads we acquire from third party suppliers. Based on the most current IHS Automotive data, automotive Leads from consumers shopping on Autobytel.com have a conversion rate of approximately 22% within 90 days of Lead submission.

In addition, we report a number of key metrics to our customers, allowing them to gain a better understanding of the revenue opportunities that they may realize from acquiring Leads from us. We can now optimize the mix of Leads we deliver to our Dealers based on multiple sources of quality measurements. Also, by reporting the buying behavior of potential customers, the findings also can help shape improvements to online Lead management; online advertising and dealership sales process training. By providing actionable data, we place considerable intelligence in the hands of our customers.

For the three and six months ended June 30, 2014, our business, results of operations and financial condition were affected, and may continue to be affected in the future, by general economic and market factors, conditions in the automotive industry, the market for Leads and the market for advertising services, including, but not limited to, the following:

- The effect of unemployment on the number of vehicle purchasers;
- Pricing and purchase incentives for vehicles;
- The expectation that consumers will be purchasing fewer vehicles overall during their lifetime as a result of better quality vehicles and longer warranties;
- The impact of gasoline prices on demand for vehicles;
- Increases or decreases in the number of retail Dealers or in the number of Manufacturers and other wholesale customers in our customer base;
- Volatility in spending by Manufacturers, Dealers and others in their marketing budgets and allocations; and
- The effect of changes in search engine algorithms and methodologies on our Lead generation and website advertising activities and margins.

## Results of Operations

### Three Months Ended June 30, 2014 Compared to the Three Months Ended June 30, 2013

The following table sets forth certain income statement data for the three-month periods ended June 30, 2014 and 2013 (certain amounts may not calculate due to rounding):

	<u>2014</u>	<u>% of total revenues</u>	<u>2013</u>	<u>% of total revenues</u>	<u>\$ Change</u>	<u>% Change</u>
	<i>(Dollar amounts in thousands)</i>					
Revenues:						
Lead fees	\$ 24,835	96%	\$ 16,843	95%	\$ 7,992	47%
Advertising	764	3	895	5	(131)	(15)
Other revenues	314	1	33	—	281	852
Total revenues	<u>25,913</u>	<u>100</u>	<u>17,771</u>	<u>100</u>	<u>8,142</u>	<u>46</u>
Cost of revenues (excludes depreciation of \$8 and \$23 for the three months ended June 30, 2014 and 2013, respectively)	<u>15,597</u>	<u>60</u>	<u>10,815</u>	<u>61</u>	<u>4,782</u>	<u>44</u>
Gross profit	<u>10,316</u>	<u>40</u>	<u>6,956</u>	<u>39</u>	<u>3,360</u>	<u>48</u>
Operating expenses:						
Sales and marketing	3,725	14	2,136	12	1,589	74
Technology support	1,993	8	1,767	10	226	13
General and administrative	2,716	10	2,146	12	570	27
Depreciation and amortization	455	2	409	2	46	11
Litigation settlements	(25)	—	(67)	—	42	(63)
Total operating expenses	<u>8,864</u>	<u>34</u>	<u>6,391</u>	<u>36</u>	<u>2,473</u>	<u>39</u>
Operating income	<u>1,452</u>	<u>6</u>	<u>565</u>	<u>3</u>	<u>887</u>	<u>157</u>
Interest and other income (expense), net	<u>(175)</u>	<u>(1)</u>	<u>(96)</u>	<u>—</u>	<u>(79)</u>	<u>82</u>
Income before income tax provision	<u>1,277</u>	<u>5</u>	<u>469</u>	<u>3</u>	<u>808</u>	<u>172</u>
Income tax provision	<u>476</u>	<u>2</u>	<u>83</u>	<u>1</u>	<u>393</u>	<u>473</u>
Net income	<u>\$ 801</u>	<u>3%</u>	<u>\$ 386</u>	<u>2%</u>	<u>\$ 415</u>	<u>108%</u>

*Leads.* Purchase request revenues increased \$8.0 million, or 47%, in the second quarter of 2014 compared to the second quarter of 2013 primarily due to a 43% increase in Lead volume as a result of strong demand across nearly all programs, with a major Manufacturer starting a Lead program with Autobytel as a primary supplier, as well as additional revenues from the acquisition of AutoUSA.

*Advertising.* Advertising revenues decreased \$131,000, or 15%, in the second quarter of 2014 compared to the second quarter of 2013 as a result of fewer direct email campaigns coupled with the timing of website advertising display revenue.

*Other Revenues.* Other revenues increased \$0.3 million in the second quarter of 2014 compared to the second quarter of 2013 due to increased sales of the Company's mobile products as a result of the Advanced Mobile acquisition in the fourth quarter of 2013.

*Cost of Revenues.* Cost of revenues consists of purchase request and traffic acquisition costs and other cost of revenues. Purchase request and traffic acquisition costs consist of payments made to our purchase request providers, including internet portals and on-line automotive information providers. Other cost of revenues consists of search engine marketing ("SEM") and fees paid to third parties for data and content, including search engine optimization ("SEO") activity, included on our websites, connectivity costs, development costs related to our websites, compensation related expense and technology license fees, server equipment depreciation and technology amortization directly related to the Company's websites. SEM, sometimes referred to as paid search marketing, is the practice of bidding on keywords on search engines to drive traffic to a website.

Cost of revenues increased \$4.8 million, or 44%, in the second quarter of 2014 compared to the second quarter of 2013 primarily due to a corresponding increase in lead volume.

*Sales and Marketing.* Sales and marketing expense includes costs for developing our brand equity, personnel costs and other costs associated with Dealer sales, website advertising, Dealer support and bad debt expense. Sales and marketing expense in the second quarter of 2014 increased by \$1.6 million, or 74%, compared to the second quarter of 2013 due principally to an increase in headcount-related expenses associated with the acquisitions of AutoUSA and Advanced Mobile.

*Technology Support.* Technology support expense includes compensation, benefits, software licenses and other direct costs incurred by the Company to enhance, manage, maintain, support, monitor and operate the Company's websites and related technologies, and to operate the Company's internal technology infrastructure. Technology support expense in the second quarter of 2014 increased by \$0.2 million, or 13%, compared to the second quarter of 2013 due to increased headcount-related expense associated with the acquisitions of AutoUSA and Advanced Mobile.

*General and Administrative.* General and administrative expense consists of executive, financial and legal personnel expenses and costs related to being a public company. General and administrative expense in the second quarter of 2014 increased by \$0.6 million, or 27%, compared to the second quarter of 2013 due to an increase in headcount-related compensation costs and professional fees associated with increased merger and acquisition activity.

*Depreciation and amortization.* Depreciation and amortization expense in the second quarter of 2014 increased slightly to \$0.5 million compared to the second quarter of 2013 primarily due to the addition of intangible assets related to the acquisitions of Advanced Mobile and AutoUSA offset by a portion of the intangible assets related to the acquisition of Autotropolis, Inc. and Cyber Ventures, Inc. (collectively, "Cyber") being fully amortized in 2013.

*Litigation settlements.* Payments primarily from settlements of patent infringement claims against third parties relating to the third parties' methods of Lead delivery for the second quarter of 2014 were \$25,000.

*Interest and other income (expense), net.* Interest and other expense was \$0.2 million for the second quarter of 2014 compared to interest and other expense of \$96,000 for the second quarter of 2013. The second quarter of 2014 included interest expense of \$0.2 million compared to \$75,000 in the second quarter of 2013.

*Income taxes.* Income tax expense was \$0.5 million in the second quarter of 2014 compared to income tax expense of \$83,000 in the second quarter of 2013. Income tax expense for the second quarter of 2014 differed from the federal statutory rate primarily due to state income taxes and permanent non-deductible tax items, while income tax for the second quarter of 2013 differed from the federal statutory rate primarily due to various state minimum taxes and the deferred tax liability related to tax deductible goodwill amortization.

### Six Months Ended June 30, 2014 Compared to the Six Months Ended June 30, 2013

The following table sets forth certain income statement data for the six-month periods ended June 30, 2014 and 2013 (certain amounts may not calculate due to rounding):

	<u>2014</u>	<u>% of total revenues</u>	<u>2013</u>	<u>% of total revenues</u>	<u>\$ Change</u>	<u>% Change</u>
	<i>(Dollar amounts in thousands)</i>					
Revenues:						
Lead fees	\$ 50,848	96%	\$ 34,360	95%	\$ 16,488	48%
Advertising	1,437	3	1,611	5	(174)	(11)
Other revenues	588	1	61	—	527	864
Total revenues	<u>52,873</u>	<u>100</u>	<u>36,032</u>	<u>100</u>	<u>16,841</u>	<u>47</u>
Cost of revenues (excludes depreciation of \$14 and \$51 for the six months ended June 30, 2014 and 2013, respectively)	<u>32,472</u>	<u>61</u>	<u>22,485</u>	<u>62</u>	<u>9,987</u>	<u>44</u>
Gross profit	20,401	39	13,547	38	6,854	51
Operating expenses:						
Sales and marketing	7,742	15	4,376	12	3,366	77
Technology support	3,917	7	3,473	10	444	13
General and administrative	5,738	11	4,435	12	1,303	29
Depreciation and amortization	889	2	833	2	56	7
Litigation settlements	(93)	—	(138)	—	45	(33)
Total operating expenses	<u>18,193</u>	<u>34</u>	<u>12,979</u>	<u>36</u>	<u>5,214</u>	<u>40</u>
Operating income	2,208	4	568	2	1,640	289
Interest and other income (expense), net	(341)	(1)	307	—	(648)	(211)
Income before income tax provision	1,867	3	875	2	992	113
Income tax provision	696	1	154	—	542	352
Net income	<u>\$ 1,171</u>	<u>2%</u>	<u>\$ 721</u>	<u>2%</u>	<u>\$ 450</u>	<u>62%</u>

*Leads.* Purchase request revenues increased \$16.5 million, or 48%, in the first six months of 2014 compared to the first six months of 2013 primarily due to a 44% increase in Lead volume as a result of strong demand across nearly all programs, with a major Manufacturer starting a Lead program with Autobytel as a primary supplier, as well as additional revenues from the acquisition of AutoUSA.

*Advertising.* Advertising revenues decreased \$0.2 million, or 11%, in the first six months of 2014 compared to the first six months of 2013 as a result of fewer direct email campaigns coupled with the timing of website advertising display revenue.

*Other Revenues.* Other revenues increased \$0.5 million in the first six months of 2014 compared to the first six months of 2013 due to increased sales of the Company's mobile products as a result of the Advanced Mobile acquisition in the fourth quarter of 2013.

*Cost of Revenues.* Cost of revenues increased \$10.0 million, or 44%, in the first six months of 2014 compared to the first six months of 2013 primarily due to a corresponding increase in lead volume.

*Sales and Marketing.* Sales and marketing expense in the first six months of 2014 increased by \$3.4 million, or 77%, compared to the first six months of 2013 due principally to an increase in headcount-related expenses associated with the acquisitions of AutoUSA and Advanced Mobile.

*Technology Support.* Technology support expense in the first six months of 2014 increased by \$0.4 million, or 13%, compared to the first six months of 2013 due to increased headcount-related expense associated with the acquisitions of AutoUSA and Advanced Mobile.

*General and Administrative.* General and administrative expense in the first six months of 2014 increased by \$1.3 million, or 29%, compared to the first six months of 2013 due to an increase in headcount-related compensation costs and professional fees associated with increased merger and acquisition activity.

*Depreciation and amortization.* Depreciation and amortization expense in the first six months of 2014 increased to \$0.9 million compared to \$0.8 million for the first six months of 2013 primarily due to the addition of intangible assets related to the acquisitions of Advanced Mobile and AutoUSA offset by a portion of the intangible assets related to the Cyber acquisition being fully amortized in 2013.

*Litigation settlements.* Payments primarily from settlements of patent infringement claims against third parties relating to the third parties' methods of Lead delivery for the first six months of 2014 were \$93,000.

*Interest and other income (expense), net.* Interest and other expense was \$0.3 million for the first six months of 2014 compared to interest and other income of \$0.3 million for the first six months of 2013. The first six months of 2014 included interest expense of \$0.4 million compared to \$0.2 million in the first six months of 2013. The first six months of 2013 also included receipt of \$0.5 million related to early termination of a license agreement pursuant to which the Company, as licensor, had licensed certain rights in the Company's proprietary software, business procedures, and brand.

*Income taxes.* Income tax expense was \$0.7 million in the first six months of 2014 compared to income tax expense of \$0.2 million in the first six months of 2013. Income tax expense for the first six months of 2014 differed from the federal statutory rate primarily due to state income taxes and permanent non-deductible tax items, while income tax for the first six months of 2013 differed from the federal statutory rate primarily due to various state minimum taxes and the deferred tax liability related to tax deductible goodwill amortization.

## Liquidity and Capital Resources

The table below sets forth a summary of our cash flows for the six months ended June 30, 2014 and 2013:

	<b>Six Months Ended June 30,</b>	
	<b>2014</b>	<b>2013</b>
	<i>(in thousands)</i>	
Net cash provided by operating activities	\$ 2,803	\$ 918
Net cash used in investing activities	(10,591)	(404)
Net cash provided by financing activities	9,338	5

Our principal sources of liquidity are our cash and cash equivalents balances and positive operating cash flow. Our cash and cash equivalents totaled \$20.5 million as of June 30, 2014 compared to cash and cash equivalents of \$18.9 million as of December 31, 2013.

On February 13, 2012, we announced that the Board of Directors had approved a stock repurchase program that authorized the repurchase of up to \$1.5 million of Company common stock. The Board of Directors authorized us to repurchase an additional \$2.0 million of Company common stock on June 7, 2012. Under these repurchase programs, we may repurchase common stock from time to time on the open market or in private transactions. This authorization does not require us to purchase a specific number of shares, and the Board of Directors may suspend, modify or terminate the programs at any time. We would fund repurchases through the use of available cash. We began repurchasing Company common stock on March 7, 2012. No shares have been repurchased since 2012. The shares repurchased in 2012 were cancelled by the Company and returned to authorized and unissued shares.

*Credit Facility and Term Loan* . On January 13, 2014, the Company entered into a Credit Facility Amendment with Union Bank, amending the Company's existing Loan Agreement with Union Bank initially entered into on February 26, 2013, and amended on September 10, 2013 (the existing Loan Agreement, as amended to date, is referred to herein collectively as the " **Credit Facility Agreement** "). The Credit Facility Amendment provides for (i) a new \$9.0 million term loan (" **Term Loan** "); and (ii) amendments to the Company's existing \$8.0 million revolving line of credit (" **Revolving Loan** ").

The Term Loan is amortized over a period of four years, with fixed quarterly principal payments of \$562,500. Borrowings under the Term Loan or under the Revolving Loan bear interest at either (i) the bank's Reference Rate (prime rate) minus 0.50% or (ii) the LIBOR plus 2.50% (an increase under the existing Revolving Loan from 1.50%), at the option of the Company. Interest under both the Term Loan and the Revolving Loan adjust (i) at the end of each LIBOR rate period (1, 2, 3, 6 or 12 months terms) selected by the Company, if the LIBOR rate is selected; or (ii) with changes in Union Bank's Reference Rate, if the Reference Rate is selected. The Company also pays a commitment fee of 0.10% per year on the unused portion of the Revolving Loan payable quarterly in arrears. Borrowings under the Term Loan and the Revolving Loan are secured by a first priority security interest on all of the Company's personal property (including, but not limited to, accounts receivable) and proceeds thereof. The Term Loan matures December 31, 2017, and the maturity date of the Revolving Loan is March 31, 2017. Borrowings under the Revolving Loan may be used as a source to finance capital expenditures, acquisitions and stock buybacks and for other general corporate purposes. Borrowing under the Term Loan was limited to use for the acquisition of AutoUSA, and the Company drew down the entire \$9.0 million of the Term Loan, together with \$1.0 million under the Revolving Loan, in financing this acquisition. The outstanding balances of the Term Loan and Revolving Loan as of June 30, 2014 were \$7.9 million and \$5.25 million, respectively.

*Net Cash Provided by Operating Activities* . Net cash provided by operating activities in the six months ended June 30, 2014 of \$2.8 million resulted primarily from net income of \$1.2 million, as adjusted for non-cash charges to earnings, in addition to cash used to reduce accrued liabilities of \$1.2 million primarily related to the payment of annual incentive compensation amounts and severance accrued in 2013 and paid in the first three months of 2014 offset by a \$1.1 million increase in our accounts payable balance related to the timing of payments made.

Net cash provided by operating activities in the six months ended June 30, 2013 of \$0.9 million resulted primarily from net income of \$0.7 million, as adjusted for non-cash charges to earnings. In addition accounts payable increased \$2.9 million offset by cash used to reduce accrued liabilities of \$2.4 million, inclusive of the payment related to annual incentive compensation amounts accrued in 2012 and paid in the first three months of 2013, and a \$1.9 million increase in our accounts receivable balance, related to increased sales and the timing of payments received from our customers.

*Net Cash Used in Investing Activities* . Net cash used in investing activities was \$10.6 million in the six months ended June 30, 2014 primarily related to the acquisition of AutoUSA.

Net cash used in investing activities was \$0.4 million in the six months ended June 30, 2013 related to purchases of property and equipment.

*Net Cash Provided by Financing Activities* . Stock options for 118,996 shares of the Company's common stock were exercised in the six months ended June 30, 2014 resulting in \$0.5 million cash inflow. We also borrowed \$9.0 million and \$1.0 million against the Term Loan and Revolving Loan, respectively, to fund the purchase of AutoUSA in the six months ended June 30, 2014. Payments of \$1.1 million were made against the Term Loan borrowings in the six months ended June 30, 2014.

Stock options for 21,738 shares of stock were exercised in the six months ended June 30, 2013, which resulted in \$61,000 cash inflow for the six months ended June 30, 2013. Net cash provided in financing activities in the six months ended June 30, 2013 was offset by contingent payments of \$56,000 related to the Cyber acquisition. Our future cash flows from employee stock options, if any, will depend on the future timing, exercise price and amount of stock options exercised.

## Off-Balance Sheet Arrangements

At June 30, 2014, we had no off-balance sheet arrangements as defined in Regulation S-K, Item 303(a)(4)(D)(ii).

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

In the ordinary course of business, we are exposed to various market risk factors, including fluctuations in interest rates and changes in general economic conditions. For the three months ended June 30, 2014 there were no material changes in the information required to be provided under Item 305 of Regulation S-K from the information disclosed in Item 7A of the 2013 Form 10-K.

## Item 4. *Controls and Procedures*

As of the end of the period covered by this Quarterly Report on Form 10-Q, we carried out an evaluation under the supervision and with the participation of our management, including our Chief Executive Officer and our Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures pursuant to Rule 13a-15 under the Securities Exchange Act of 1934, as amended (“**Exchange Act**”). Based on the evaluation, our Chief Executive Officer and our Chief Financial Officer believe that, as of the end of the period covered by this Quarterly Report on Form 10-Q, our disclosure controls and procedures were effective at ensuring that the information required to be disclosed by us in the reports that we file or submit under the Exchange Act is (i) recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms and (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.

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 (as defined in Rule 13a-15(f) under the Exchange Act) that have materially affected, or were reasonably likely to materially affect, our internal control over financial reporting.

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

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

## PART II. OTHER INFORMATION

### Item 6. Exhibits

- 2.1‡ Asset Purchase Agreement dated as of September 16, 2010, by and among Autotropolis, Inc., a Florida corporation, Cyber Ventures, Inc., a Florida corporation, William Ferriolo, Ian Bentley and the Ian Bentley Revocable Trust created U/A/D 3/1/2005, Autobytel Inc., a Delaware corporation, and Autobytel Acquisition Subsidiary, Inc., a Delaware corporation, which is incorporated herein by reference to Exhibit 2.1 of the Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2010 filed with the SEC on November 12, 2010 (SEC File No. 001-34761)
- 2.2‡ Asset Purchase Agreement dated as of September 30, 2013, by and among Autobytel Inc., a Delaware corporation, Advanced Mobile, LLC, a Delaware limited liability company, and Advanced Mobile Solutions Worldwide, Inc., a Delaware corporation, which is incorporated herein by reference to Exhibit 99.1 of the Current Report on Form 8-K filed with the SEC on October 3, 2013 (SEC File No. 001-34761)
- 2.3‡ Membership Interest Purchase Agreement dated as of January 13, 2014 by and among Autobytel Inc., a Delaware corporation, AutoNation, Inc., a Delaware corporation, and AutoNationDirect.com, Inc., a Delaware corporation, which is incorporated by reference to the Current Report on Form 8-K filed with the SEC on January 17, 2014 (SEC File No. 001-34761) (“ **January 17, 2014 Form 8-K** ”)
- 3.1 Fifth Amended and Restated Certificate of Incorporation of Autobytel Inc. (formerly Autobytel.com Inc. (“ **Autobytel** ” or the “ **Company** ”)) certified by the Secretary of State of Delaware (filed December 14, 1998), *as amended by* Certificate of Amendment dated March 1, 1999, Second Certificate of Amendment of the Fifth Amended and Restated Certificate of Incorporation of Autobytel dated July 22, 1999, Third Certificate of Amendment of the Fifth Amended and Restated Certificate of Incorporation of Autobytel dated August 14, 2001, Certificate of Designation of Series A Junior Participating Preferred Stock dated July 30, 2004, and Amended Certificate of Designation of Series A Junior Participating Preferred Stock dated April 24, 2009, which is incorporated herein by reference to Exhibit 3.1 of the Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2009 filed with the SEC on April 24, 2009 (SEC File No. 000-22239), *as amended by* the Fourth Certificate of Amendment of the Fifth Amended and Restated Certificate of Incorporation of Autobytel effective as of July 11, 2012, which is incorporated by reference to Exhibit 3.1 of the Current Report on Form 8-K filed with the SEC on July 12, 2012 (SEC File No. 001-34761), *and as amended by* Fifth Certificate of Amendment to Fifth Amended and Restated Certificate of Incorporation of Autobytel Inc. dated July 3, 2013, which is incorporated by reference to Exhibit 3.3 of the Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2013 filed with the SEC on August 1, 2013 (SEC File No. 001-34761)
- 3.2 Third Amended and Restated Bylaws of Autobytel dated April 27, 2011, which is incorporated herein by reference to Exhibit 3.1 of the Current Report on Form 8-K filed with the SEC on April 29, 2011 (SEC File No. 001-34761), *as amended by* Amendment to Third Amended and Restated Bylaws of Autobytel dated September 13, 2012, which is incorporated herein by reference to Exhibit 3.1 of the Current Report on Form 8-K filed with the SEC on September 14, 2012 (SEC File No. 001-34761)
- 4.1 Form of Common Stock Certificate of Autobytel, which is incorporated herein by reference to Exhibit 4.1 of the Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2001 filed with the SEC on November 14, 2001 (SEC File No. 000-22239)
- 4.2 Tax Benefit Preservation Plan dated as of May 26, 2010, between Autobytel Inc. and Computershare Trust Company, N.A., as rights agent, together with the following exhibits thereto: Exhibit A – Form of Right Certificate; and Exhibit B – Summary of Rights to Purchase Shares of Preferred Stock of Autobytel Inc., which is incorporated by reference to Exhibit 4.1 to the Current Report on Form 8-K filed with the SEC on June 2, 2010 (SEC File No. 000-22239)

4.3	Certificate of Adjustment Under Section 11(m) of the Tax Benefit Preservation Plan dated July 12, 2012, which is incorporated by reference to Exhibit 4.3 to the Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2012 filed with the SEC on November 8, 2012 (SEC File No. 001-34761)
4.4	Amendment No. 1 to Tax Benefit Preservation Plan dated as of April 14, 2014 between Autobyte Inc. and Computershare Trust Company, N.A., as rights agent, which is incorporated by reference to Exhibit 4.1 to the Current Report on Form 8-K filed with the SEC on April 16, 2014 (SEC File No. 001-34761)
10.1■	Second Amended and Restated Employment Agreement dated April 3, 2014 between the Company and Jeffrey H. Coats, which is incorporated by reference to Exhibit 99.1 to the Current Report on Form 8-K filed with the SEC on April 8, 2014 (SEC File No. 001-34761)
10.2■	Autobyte Inc. 2014 Equity Incentive Plan, which is incorporated by reference to Appendix A to the Company's Definitive Proxy Statement filed with the SEC on April 28, 2014 (SEC File No. 001-34761)
10.3■*	Form of Stock Option Award Agreement pursuant to the Autobyte Inc. 2014 Equity Incentive Plan
31.1*	Rule 13a-14(a)/15d-14(a) Certification by Principal Executive Officer
31.2*	Rule 13a-14(a)/15d-14(a) Certification by Principal Financial Officer
32.1*	Section 1350 Certification by Principal Executive Officer and Principal Financial Officer
101.INS††	XBRL Instance Document
101.SCH††	XBRL Taxonomy Extension Schema Document
101.CAL††	XBRL Taxonomy Calculation Linkbase Document
101.DEF††	XBRL Taxonomy Extension Definition Document
101.LAB††	XBRL Taxonomy Label Linkbase Document
101.PRE††	XBRL Taxonomy Presentation Linkbase Document
*	Filed or furnished herewith.
‡	Certain schedules in this Exhibit have been omitted in accordance with Item 601(b)(2) of Regulation S-K. Autobyte will furnish supplementally a copy of any omitted schedule or exhibit to the Securities and Exchange Commission upon request; provided, however, that Autobyte may request confidential treatment pursuant to Rule 24b-2 of the Securities Exchange Act of 1934, as amended, for any schedule or exhibit so furnished.
††	Furnished with this report. In accordance with Rule 406T of Regulation S-T, the information in these exhibits shall not be deemed to be "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to liability under that section, and shall not be incorporated by reference into any registration statement or other document filed under the Securities Act of 1933, as amended, except as expressly set forth by specific reference in such filing.
■	Management Contract or Compensatory Plan or Arrangement



## EXHIBIT INDEX

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- 2.3‡ Membership Interest Purchase Agreement dated as of January 13, 2014 by and among Autobytel Inc., a Delaware corporation, AutoNation, Inc., a Delaware corporation, and AutoNationDirect.com, Inc., a Delaware corporation, which is incorporated by reference to the Current Report on Form 8-K filed with the SEC on January 17, 2014 (SEC File No. 001-34761) (“ **January 17, 2014 Form 8-K** ”)
- 3.1 Fifth Amended and Restated Certificate of Incorporation of Autobytel Inc. (formerly Autobytel.com Inc. (“ **Autobytel** ” or the “ **Company** ”)) certified by the Secretary of State of Delaware (filed December 14, 1998), *as amended by* Certificate of Amendment dated March 1, 1999, Second Certificate of Amendment of the Fifth Amended and Restated Certificate of Incorporation of Autobytel dated July 22, 1999, Third Certificate of Amendment of the Fifth Amended and Restated Certificate of Incorporation of Autobytel dated August 14, 2001, Certificate of Designation of Series A Junior Participating Preferred Stock dated July 30, 2004, and Amended Certificate of Designation of Series A Junior Participating Preferred Stock dated April 24, 2009, which is incorporated herein by reference to Exhibit 3.1 of the Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2009 filed with the SEC on April 24, 2009 (SEC File No. 000-22239), *as amended by* the Fourth Certificate of Amendment of the Fifth Amended and Restated Certificate of Incorporation of Autobytel effective as of July 11, 2012, which is incorporated by reference to Exhibit 3.1 of the Current Report on Form 8-K filed with the SEC on July 12, 2012 (SEC File No. 001-34761), *and as amended by* Fifth Certificate of Amendment to Fifth Amended and Restated Certificate of Incorporation of Autobytel Inc. dated July 3, 2013, which is incorporated by reference to Exhibit 3.3 of the Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2013 filed with the SEC on August 1, 2013 (SEC File No. 001-34761)
- 3.2 Third Amended and Restated Bylaws of Autobytel dated April 27, 2011, which is incorporated herein by reference to Exhibit 3.1 of the Current Report on Form 8-K filed with the SEC on April 29, 2011 (SEC File No. 001-34761), *as amended by* Amendment to Third Amended and Restated Bylaws of Autobytel dated September 13, 2012, which is incorporated herein by reference to Exhibit 3.1 of the Current Report on Form 8-K filed with the SEC on September 14, 2012 (SEC File No. 001-34761)
- 4.1 Form of Common Stock Certificate of Autobytel, which is incorporated herein by reference to Exhibit 4.1 of the Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2001 filed with the SEC on November 14, 2001 (SEC File No. 000-22239)
- 4.2 Tax Benefit Preservation Plan dated as of May 26, 2010, between Autobytel Inc. and Computershare Trust Company, N.A., as rights agent, together with the following exhibits thereto: Exhibit A – Form of Right Certificate; and Exhibit B – Summary of Rights to Purchase Shares of Preferred Stock of Autobytel Inc., which is incorporated by reference to Exhibit 4.1 to the Current Report on Form 8-K filed with the SEC on June 2, 2010 (SEC File No. 000-22239)
- 4.3 Certificate of Adjustment Under Section 11(m) of the Tax Benefit Preservation Plan dated July 12, 2012, which is incorporated by reference to Exhibit 4.3 to the Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2012 filed with the SEC on November 8, 2012 (SEC File No. 001-34761)

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4.4	Amendment No. 1 to Tax Benefit Preservation Plan dated as of April 14, 2014 between Autobytel Inc. and Computershare Trust Company, N.A., as rights agent, which is incorporated by reference to Exhibit 4.1 to the Current Report on Form 8-K filed with the SEC on April 16, 2014 (SEC File No. 001-34761)
10.1■	Second Amended and Restated Employment Agreement dated April 3, 2014 between the Company and Jeffrey H. Coats, which is incorporated by reference to Exhibit 99.1 to the Current Report on Form 8-K filed with the SEC on April 8, 2014 (SEC File No. 001-34761)
10.2■	Autobytel Inc. 2014 Equity Incentive Plan, which is incorporated by reference to Appendix A to the Company's Definitive Proxy Statement filed with the SEC on April 28, 2014 (SEC File No. 001-34761)
10.3■*	Form of Stock Option Award Agreement pursuant to the Autobytel Inc. 2014 Equity Incentive Plan
31.1*	Rule 13a-14(a)/15d-14(a) Certification by Principal Executive Officer
31.2*	Rule 13a-14(a)/15d-14(a) Certification by Principal Financial Officer
32.1*	Section 1350 Certification by Principal Executive Officer and Principal Financial Officer
101.INS††	XBRL Instance Document
101.SCH††	XBRL Taxonomy Extension Schema Document
101.CAL††	XBRL Taxonomy Calculation Linkbase Document
101.DEF††	XBRL Taxonomy Extension Definition Document
101.LAB††	XBRL Taxonomy Label Linkbase Document
101.PRE††	XBRL Taxonomy Presentation Linkbase Document
*	Filed or furnished herewith.
‡	Certain schedules in this Exhibit have been omitted in accordance with Item 601(b)(2) of Regulation S-K. Autobytel will furnish supplementally a copy of any omitted schedule or exhibit to the Securities and Exchange Commission upon request; provided, however, that Autobytel may request confidential treatment pursuant to Rule 24b-2 of the Securities Exchange Act of 1934, as amended, for any schedule or exhibit so furnished.
††	Furnished with this report. In accordance with Rule 406T of Regulation S-T, the information in these exhibits shall not be deemed to be "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to liability under that section, and shall not be incorporated by reference into any registration statement or other document filed under the Securities Act of 1933, as amended, except as expressly set forth by specific reference in such filing.
■	Management Contract or Compensatory Plan or Arrangement

## AUTOBYTEL INC. 2014 EQUITY INCENTIVE PLAN

Employee Stock Option Award Agreement  
(Non-Qualified Stock Option)

This Employee Stock Option Award Agreement (“**Agreement**”) is entered into effective as of the Grant Date set forth on the signature page to this Agreement (“**Grant Date**”) by and between Autobytel Inc., a Delaware corporation (“**Company**”), and the person set forth as Participant on the signature page hereto (“**Participant**”).

This Agreement and the stock options granted hereby are subject to the provisions of the Autobytel Inc. 2014 Equity Incentive Plan (“**Plan**”). In the event of a conflict between the provisions of the Plan and this Agreement, the Plan shall control. Capitalized terms used but not defined in this Agreement shall have the meanings assigned to such terms in the Plan.

1. **Grant of Options.** Company hereby grants to Participant non-qualified stock options (“**Options**”) to purchase the number of shares of common stock of Company, par value \$0.001 per share, set forth on the signature page to this Agreement (“**Shares**”), at the exercise price per Share set forth on the signature page to this Agreement (“**Exercise Price**”). The Options are not intended to qualify as incentive stock options under Section 422 of the Code.

2. **Term of Options.** Unless the Options terminate earlier pursuant to the provisions of this Agreement or the Plan, the Options shall expire on the seventh (7<sup>th</sup>) anniversary of the Grant Date (“**Option Expiration Date**”).

3. **Vesting.** The Options shall become vested and exercisable in accordance with the following vesting schedule: (i) thirty-three and one-third percent (33 1/3%) shall vest and become exercisable on the first anniversary after the Grant Date; and (ii) one thirty-sixth (1/36th) shall vest and become exercisable on each successive monthly anniversary thereafter for the following twenty-four (24) months ending on the third anniversary of such vesting commencement date. No installments of the Options shall vest after Participant’s termination of employment for any reason.

4. **Exercise of Options.**

(a) **Manner of Exercise.** To the extent vested, the Options may be exercised, in whole or in part, by delivering written notice to Company in accordance with Section 9(f) in such form as Company may require from time to time, or at the direction of Company, through the procedures established with Company’s third party option administration service. Such notice shall specify the number of Shares subject to the Options as to which the Options are being exercised and shall be accompanied by full payment of the Exercise Price of such Shares in a manner permitted under the terms of Section 5.5 of the Plan (including same-day sales through a broker), except that payment in whole or in part in a manner set forth in clauses (ii), (iii) or (iv) of Section 5.5(b) of the Plan may only be made with the consent of the Committee. The Options may be exercised only in multiples of whole Shares, and no fractional Shares shall be issued.

(b) **Issuance of Shares.** Upon exercise of the Options and payment of the Exercise Price for the Shares as to which the Options are exercised and satisfaction of all applicable tax withholding requirements, Company shall issue to Participant the applicable number of Shares in the form of fully paid and nonassessable Shares.

(c) **Withholding.** No Shares will be issued on exercise of the Options unless and until Participant pays to Company, or makes satisfactory arrangements with Company for payment of, any federal, state, local or foreign taxes required by law to be withheld in respect of the exercise of the Options. Participant hereby agrees that Company may withhold from Participant’s wages or other remuneration the applicable taxes. At the discretion of Company, the applicable taxes may be withheld in kind from the Shares otherwise deliverable to Participant on exercise of the Options, up to Participant’s minimum required withholding rate or such other rate determined by the Committee that will not trigger a negative accounting impact.

5. Termination of Options.

(a) Termination Upon Expiration of Option Term. The Options shall terminate and expire in their entirety on the Option Expiration Date. In no event may Participant exercise the Options after the Option Expiration Date, even if the application of another provision of this Section 5 may result in an extension of the exercise period for the Options beyond the Option Expiration Date.

(b) Termination of Employment.

(i) Termination of Employment Other Than Due to Death, Disability or Cause.

(1) Participant may exercise the vested portion of the Options for a period of ninety (90) days (but in no event later than the Option Expiration Date) following any termination of Participant's employment with Company, either by Participant or Company, other than in the event of a termination of Participant's employment by Company for Cause, voluntary termination by Participant without Good Reason or by reason of Participant's death or Disability. In the event the termination of Participant's employment is by Company without Cause or by Participant for Good Reason, any unvested portion of the Options shall become immediately and fully vested as of the date of such termination.

(2) In the event of a voluntary termination of employment with the Company by Participant without Good Reason, (i) unvested Options as of the date of termination shall immediately terminate in their entirety and shall thereafter not be exercisable to any extent whatsoever; and (ii) Participant may exercise any portion of the Options that are vested as of the date of termination for a period of ninety (90) days (but in no event later than the Option Expiration Date) following the date of termination.

(3) For purposes of this Agreement, the terms " **Cause** " and " **Good Reason** " shall have the meanings ascribed to them in that certain Severance Benefits Agreement dated as of \_\_\_\_\_ by and between Company and Participant

(" **Severance Agreement** "). To the extent Participant is not entitled to exercise the Options at the date of termination of employment, or if Participant does not exercise the Options within the time specified in the Plan or this Agreement for post-termination of employment exercises of the Options, the Options shall terminate.

(ii) Termination of Employment for Cause. Upon the termination of Participant's employment by Company for Cause, unless the Options have earlier terminated, the Options (whether vested or not) shall immediately terminate in their entirety and shall thereafter not be exercisable to any extent whatsoever; provided that Company, in its discretion, may, by written notice to Participant given as of the date of termination, authorize Participant to exercise any vested portion of the Options for a period of up to thirty (30) days following Participant's termination of employment for Cause, provided that in no event may Participant exercise the Options beyond the Option Expiration Date.

(iii) Termination of Participant's Employment By Reason of Participant's Death. In the event Participant's employment is terminated by reason of Participant's death, the Options, to the extent vested as of the date of termination, may be exercised at any time within twelve (12) months following the date of termination (but in no event later than the Option Expiration Date) by Participant's executor or personal representative or the person to whom the Options shall have been transferred by will or the laws of descent and distribution, but only to the extent Participant could exercise the Options at the date of termination.

(iv) Termination of Participant's Employment By Reason of Participant's Disability. In the event that Participant ceases to be an Employee by reason of Participant's Disability, unless the Options have earlier terminated, Participant (or Participant's attorney-in-fact, conservator or other representative on behalf of Participant) may, but only within twelve (12) months from the date of such termination of employment (and in no event later than the Option Expiration Date), exercise the Options to the extent Participant was otherwise entitled to exercise the Options at the date of such termination of employment. For purposes of this Agreement, " **Disability** " shall mean Participant's becoming "permanently and totally disabled" within the meaning of Section 22(e)(3) of the Code or as otherwise determined by the Committee in its discretion. The Committee may require such proof of Disability as the Committee in its sole and absolute discretion deems appropriate, and the Committee's determination as to whether Participant has incurred a Disability shall be final and binding on all parties concerned.

(c) Change in Control. In the event of a Change in Control, the effect of the Change in Control on the Options shall be determined by the applicable provisions of the Plan (including, without limitation, Article 11 of the Plan), provided that (i) to the extent the Options are assumed or substituted by the successor company in connection with the Change in Control (or the Options are continued by Company if it is the ultimate parent entity after the Change in Control), the Options will vest and become fully exercisable in accordance with clause (i) of Section 11.2(a) of the Plan if within twenty-four (24) months following the date of the Change in Control Participant's employment is terminated by Company or a Subsidiary (or the successor company or a subsidiary or parent thereof) without Cause or by Participant for Good Reason, and any vested Options (either vested prior to the Change in Control or accelerated by reason of this Section 5(c)) may be exercised for a period of twenty-four (24) months after the date of such termination of employment (but in no event later than the Option Expiration Date; and (ii) any portion of the Options which vests and becomes exercisable pursuant to Section 11.2(b) of the Plan as a result of such Change in Control will (1) vest and become exercisable on the day prior to the date of the Change in Control if Participant is then employed by Company or a Subsidiary and (2) terminate on the date of the Change in Control. For purposes of Section 11(a) of the Plan, the Options shall not be deemed assumed or substituted by a successor company (or continued by Company if it is the ultimate parent entity after the Change in Control) if the Options are not assumed, substituted or continued with equity securities of the successor company or Company, as applicable, that are publicly-traded and listed on an exchange in the United States and that have voting, dividend and other rights, preferences and privileges substantially equivalent to the Shares. If the Options are not deemed assumed, substituted or continued for purposes of Section 11.2(a) of the Plan, the Options shall be deemed not assumed, substituted or continued and governed by Section 11.2(b) of the Plan. Notwithstanding the foregoing, if on the date of the Change in Control the Fair Market Value of one Share is less than the Exercise Price per Share, then the Options shall terminate as of the date of the Change in Control except as otherwise determined by the Committee.

(d) Extension of Exercise Period. Notwithstanding any provisions of this Section 5 to the contrary, if exercise of the Options following termination of employment or service during the time period set forth in the applicable paragraph or sale during such period of the Shares acquired on exercise would violate any of the provisions of the federal securities laws (or any Company policy related thereto), the time period to exercise the Options shall be extended until the later of (i) forty-five (45) days after the date that the exercise of the Options or sale of the Shares acquired on exercise would not be a violation of the federal securities laws (or a related Company policy), or (ii) the end of the applicable time period based on the applicable reason for the termination of employment as set forth in this Section 5; *provided, however* , that in no event shall the exercisability of the Options be extended beyond the Option Expiration Date.

(e) Other Governing Agreements or Plans. To the extent not prohibited by the Plan, the provisions of this Section 5 regarding the acceleration of vesting of Options and the extension of the exercise period for Options following a Change in Control or a termination of Participant's employment with Company shall be superseded and governed by the provisions, if any, of a written employment or severance agreement between Participant and Company or a severance plan of Company covering Participant, including a change in control severance agreement or plan, to the extent such a provision (i) is specifically applicable to option awards or grants made to Participant and (ii) provides for the acceleration of Options vesting or for a longer extension period for the exercise of the Options in the case of a Change in Control or a particular event of termination of Participant's employment with Company (e.g., an event of termination governed by Section 5(b) (i)) than is provided in the provision of this Section 5 applicable to a Change in Control or to the same event of employment termination; *provided, however* , that in no event shall the exercisability of the Options be extended beyond the Option Expiration Date.

(f) Forfeiture upon Engaging in Detrimental Activities. If, at any time within the twelve (12) months after (i) Participant exercises any portion of the Options; or (ii) the effective date of any termination of Participant's employment by Company or by Participant for any reason, Participant engages in, or is determined by the Committee in its sole discretion to have engaged in, any (i) material breach of any non-competition, non-solicitation, non-disclosure or settlement or release covenant or agreement with Company or any Subsidiary; (ii) activities during the course of Participant's employment with Company or any Subsidiary constituting fraud, embezzlement, theft or dishonesty; or (iii) activity that is otherwise in conflict with, or adverse or detrimental to the interests of Company or any Subsidiary, then (x) the Options shall terminate effective as of the date on which Participant engaged in or engages in that activity or conduct, unless terminated sooner pursuant to the provisions of this Agreement, and (y) the amount of any gain realized by Participant from exercising all or a portion of the Options at any time following the date that Participant engaged in any such activity or conduct, as determined as of the time of exercise, shall be forfeited by Participant and shall be paid by Participant to Company, and recoverable by Company, within sixty (60) days following such termination date of the Options. For purposes of the foregoing, the following will be deemed to be activities in conflict with or adverse or detrimental to the interests of Company or any Subsidiary: (i) Participant's conviction of, or pleading guilty or nolo contendere to any misdemeanor involving moral turpitude or any felony, the underlying events of which related to Participant's employment with Company; (ii) knowingly engaged or aided in any act or transaction by Company or a Subsidiary that results in the imposition of criminal, civil or administrative penalties against Company or any Subsidiary; or (iii) misconduct during the course of Participant's employment by Company or any Subsidiary that results in an accounting restatement by Company due to material noncompliance with any financial reporting requirement under applicable securities laws, whether such restatement occurs during or after Participant's employment by Company or any Subsidiary.

(g) Reservation of Committee Discretion to Accelerate Option Vesting and Extend Option Exercise Window. The Committee reserves the right, in its sole and absolute discretion, to accelerate the vesting of the Options and to extend the exercise window for Options that have vested (either in accordance with the terms of this Agreement or by discretionary acceleration by the Committee) under circumstances not otherwise covered by the foregoing provisions of this Section 5; provided that in no event may the Committee extend the exercise window for Options beyond the Option Expiration Date. The Committee is under no obligation to exercise any such discretion and may or may not exercise such discretion on a case-by-case basis.

(h) Reversion of Expired, Cancelled and Forfeited Options to Plan. Any Options that do not vest or that are cancelled, terminated or expire unexercised are forfeited and revert to the Plan and shall again be available for Awards under the Plan.

## 6. Miscellaneous.

(a) No Rights of Stockholder. Participant shall not have any of the rights of a stockholder with respect to the Shares subject to this Agreement until such Shares have been issued upon the due exercise of the Options.

(b) Nontransferability of Options. The Options shall be nontransferable or assignable except to the extent expressly provided in the Plan. Notwithstanding the foregoing, Participant may by delivering written notice to Company in a form provided by or otherwise satisfactory to Company, designate a third party who, in the event of Participant's death, shall thereafter be entitled to exercise the Options. This Agreement is not intended to confer upon any person other than the parties hereto any rights or remedies hereunder.

(c) Severability. If any provision of this Agreement shall be held unlawful or otherwise invalid or unenforceable in whole or in part by a court of competent jurisdiction, such provision shall (i) be deemed limited to the extent that such court of competent jurisdiction deems it lawful, valid and/or enforceable and as so limited shall remain in full force and effect, and (ii) not affect any other provision of this Agreement or part thereof, each of which shall remain in full force and effect.

(d) Governing Law, Jurisdiction and Venue. This Agreement shall be governed by and interpreted in accordance with the laws of the State of Delaware other than its conflict of laws principles. The parties agree that in the event that any suit or proceeding is brought in connection with this Agreement, such suit or proceeding shall be brought in the state or federal courts located in New Castle County, Delaware, and the parties shall submit to the exclusive jurisdiction of such courts and waive any and all jurisdictional, venue and inconvenient forum objections to such courts.

(e) Headings. The headings in this Agreement are for reference purposes only and shall not affect the meaning or interpretation of this Agreement.

(f) Notices. All notices required or permitted under this Agreement shall be in writing and shall be sufficiently made or given if hand delivered or mailed by registered or certified mail, postage prepaid. Notice by mail shall be deemed delivered on the date on which it is postmarked.

Notices to Company should be addressed to:

Autobytel Inc.  
18872 MacArthur Blvd., Suite 200  
Irvine, CA 92612-1400  
Attention: General Counsel

Notice to Participant should be addressed to Participant at Participant's address as it appears on Company's records.

Company or Participant may by writing to the other party designate a different address for notices. If the receiving party consents in advance, notice may be transmitted and received via telecopy or via such other electronic transmission mechanism as may be available to the parties. Such notices shall be deemed delivered when received.

(g) Agreement Not an Employment Contract. This Agreement is not an employment or service contract, and nothing in this Agreement or in the granting of the Options shall be deemed to create in any way whatsoever any obligation on Participant's part to continue as an employee of Company or any Subsidiary or on the part of Company or any Subsidiary to continue Participant's employment or service as an Employee.

(h) Counterparts. This Agreement may be executed in multiple counterparts, each of which shall be deemed an original Agreement but all of which, taken together, shall constitute one and the same Agreement binding on the parties hereto. The signature of any party hereto to any counterpart hereof shall be deemed a signature to, and may be appended to, any other counterpart hereof.

(i) Administration. The Committee shall have the power to interpret the Plan and this Agreement and to adopt such rules for the administration, interpretation and application of the Plan and this Agreement as are consistent with the Plan and to interpret or revoke any such rules. All actions taken and all interpretations and determinations made by the Committee (including determinations as to the calculation, satisfaction or achievement of performance-based vesting requirements, if any, to which the Options are subject) shall be final and binding upon Participant, Company and all other interested persons. No member of the Committee shall be personally liable for any action, determination or interpretation made in good faith with respect to the Plan or this Agreement.

(j) Entire Agreement; Modification. This Agreement and the Plan contain the entire agreement between the parties with respect to the subject matter contained herein and may not be modified except as provided in the Plan or in a written document signed by each of the parties hereto and may be rescinded only by a written agreement signed by both parties.

**Remainder of Page Intentionally Left Blank; Signature Page Follows**

IN WITNESS WHEREOF, the parties have executed this Agreement effective as of the Grant Date.

Grant Date: \_\_\_\_\_  
Total Options Awarded: \_\_\_\_\_  
Exercise Price Per Share: \_\_\_\_\_ \$ \_\_\_\_\_

**“Company”**

Autobytel Inc., a Delaware corporation

By: \_\_\_\_\_  
Glenn E. Fuller, Executive Vice President, Chief Legal and Administrative  
Officer and Secretary

**“Participant”**

\_\_\_\_\_  
[Printed Name of Participant]

**CERTIFICATION**

I, Jeffrey H. Coats, 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: July 31, 2014

/s/ Jeffrey H. Coats  
Jeffrey H. Coats  
*President and Chief Executive Officer*

**CERTIFICATION**

I, Curtis E. DeWalt, 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: July 31, 2014

/s/ Curtis E. DeWalt  
Curtis E. DeWalt,  
*Senior Vice President and  
Chief Financial Officer*

**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, 2014 (the “*Report*”), we, Jeffrey H. Coats, President and Chief Executive Officer of the Company, and Curtis E. DeWalt, Senior Vice President and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

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

/s/ Jeffrey H. Coats  
Jeffrey H. Coats  
*President and Chief Executive Officer*  
July 31, 2014

/s/ Curtis E. DeWalt  
Curtis E. DeWalt  
*Senior Vice President and  
Chief Financial Officer*  
July 31, 2014

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.