

# 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 September 30, 2016

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 October 31, 2016, there were 10,962,330 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.**  
**CONSOLIDATED CONDENSED BALANCE SHEETS**  
(Amounts in thousands, except share and per-share data)

	<u>September 30,</u> <u>2016</u>	<u>December 31,</u> <u>2015*</u>
	(Unaudited)	
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 32,729	\$ 23,993
Accounts receivable, net of allowances for bad debts and customer credits of \$894 and \$1,045 at September 30, 2016 and December 31, 2015, respectively	32,127	28,091
Deferred tax asset	3,089	3,642
Prepaid expenses and other current assets	<u>1,094</u>	<u>1,276</u>
Total current assets	69,039	57,002
Property and equipment, net	5,019	4,296
Investments	680	680
Intangible assets, net	25,171	29,515
Goodwill	42,821	42,903
Long-term deferred tax asset	17,820	17,820
Other assets	<u>1,591</u>	<u>1,372</u>
Total assets	<u>\$ 162,141</u>	<u>\$ 153,588</u>
<b>Liabilities and Stockholders' Equity</b>		
Current liabilities:		
Accounts payable	\$ 11,390	\$ 7,643
Accrued expenses and other current liabilities	10,933	10,744
Current portion of term loan payable	<u>5,250</u>	<u>5,250</u>
Total current liabilities	27,573	23,637
Convertible note payable	1,000	1,000
Long-term portion of term loan payable	8,812	12,750
Borrowings under revolving credit facility	<u>8,000</u>	<u>8,000</u>
Total liabilities	45,385	45,387
Commitments and contingencies	—	—
Stockholders' equity:		
Preferred stock, \$0.001 par value, 11,445,187 shares authorized	—	—

Series A Preferred stock, none issued and outstanding	—	—
Series B Preferred stock, 168,007 shares issued and outstanding		
Common stock, \$0.001 par value; 55,000,000 shares authorized and 10,932,050 and 10,626,624 shares issued and outstanding at September 30, 2016 and December 31, 2015, respectively	11	11
Additional paid-in capital	348,547	342,485
Accumulated deficit	(231,802)	(234,295)
Total stockholders' equity	<u>116,756</u>	<u>108,201</u>
Total liabilities and stockholders' equity	<u>\$ 162,141</u>	<u>\$ 153,588</u>

\* Amounts were derived from audited financial statements.

*See accompanying notes to unaudited consolidated condensed financial statements*

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

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>
Revenues:				
Lead fees	\$ 36,202	\$ 36,459	\$ 98,706	\$ 88,480
Advertising	7,371	3,211	16,412	6,846
Other revenues	338	505	1,188	1,479
Total revenues	43,911	40,175	116,306	96,805
Cost of revenues	28,156	24,878	72,995	59,639
Gross profit	15,755	15,297	43,311	37,166
Operating expenses:				
Sales and marketing	3,964	4,109	14,026	11,430
Technology support	2,943	3,574	10,775	7,952
General and administrative	3,346	3,600	10,405	9,854
Depreciation and amortization	1,270	720	3,809	1,808
Litigation settlements	(24)	(25)	(25)	(75)
Total operating expenses	11,499	11,978	38,990	30,969
Operating income	4,256	3,319	4,321	6,197
Interest and other income (expense), net	(206)	(216)	(643)	(546)
Income before income tax provision	4,050	3,103	3,678	5,651
Income tax provision	1,312	1,488	1,185	2,391
Net income and comprehensive income	\$ 2,738	\$ 1,615	\$ 2,493	\$ 3,260
Basic earnings per common share	\$ 0.26	\$ 0.16	\$ 0.23	\$ 0.33
Diluted earnings per common share	\$ 0.21	\$ 0.14	\$ 0.19	\$ 0.30

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

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

	<b>Nine Months Ended September 30,</b>	
	<b>2016</b>	<b>2015</b>
<b>Cash flows from operating activities:</b>		
Net income	\$ 2,493	\$ 3,260
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	5,492	2,262
Provision for bad debts	225	343
Provision for customer credits	411	716
Share-based compensation	3,171	1,889
Change in deferred tax asset	553	5,663
Changes in assets and liabilities:		
Accounts receivable	(4,590)	(1,159)
Prepaid expenses and other current assets	196	(1,217)
Other assets	156	(3,627)
Accounts payable	3,747	1,879
Accrued expenses and other current liabilities	189	(2,137)
Non-current liabilities	38	(261)
Net cash provided by operating activities	<u>12,081</u>	<u>7,611</u>
<b>Cash flows from investing activities:</b>		
Purchase of Dealix/Autotegrity	—	(25,011)
Investment in GoMoto	(375)	—
Purchases of property and equipment	(1,871)	(1,810)
Net cash used in investing activities	<u>(2,246)</u>	<u>(26,821)</u>
<b>Cash flows from financing activities:</b>		
Borrowings under credit facility	—	2,750
Borrowings under term loan	—	15,000
Payments on term loan borrowings	(3,938)	(2,437)
Proceeds from exercise of stock options	2,877	113
Proceeds from exercise of warrant	—	1,860
Payment of contingent fee arrangement	(38)	(25)
Net cash (used in) provided by financing activities	<u>(1,099)</u>	<u>17,261</u>
Net increase (decrease) in cash and cash equivalents	8,736	(1,949)
Cash and cash equivalents, beginning of period	23,993	20,747
Cash and cash equivalents, end of period	<u>\$ 32,729</u>	<u>\$ 18,798</u>
<b>Supplemental disclosure of cash flow information:</b>		
Cash paid for income taxes	<u>\$ 261</u>	<u>\$ 329</u>
Cash paid for interest	<u>\$ 661</u>	<u>\$ 659</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 and consumer traffic referral programs and mobile products.

The Company’s consumer-facing automotive websites (“**Company Websites**”), including its flagship website Autobytel.com®, 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®” 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 October 1, 2015 (“**AutoWeb Merger Date**”), Autobytel entered into and consummated an Agreement and Plan of Merger by and among Autobytel, New Horizon Acquisition Corp., a Delaware corporation and a wholly-owned subsidiary of Autobytel (“**Merger Sub**”), AutoWeb, Inc., a Delaware corporation (“**AutoWeb**”), and Jose Vargas, in his capacity as Stockholder Representative. On the AutoWeb Merger Date, Merger Sub merged with and into AutoWeb, with AutoWeb continuing as the surviving corporation and as a wholly-owned subsidiary of Autobytel. AutoWeb was a privately-owned company providing an automotive search engine that enables Manufacturers and Dealers to optimize advertising campaigns and reach car buyers through an auction-based marketplace. Prior to the acquisition, the Company owned approximately 15% of the outstanding shares of AutoWeb, on a fully converted and diluted basis, and accounted for the investment on the cost basis. See Note 4.

In connection with the AutoWeb acquisition, Autobytel obtained AutoWeb’s Guatemalan software development and operations, which were previously provided as a contract service provider organization through Engine Enterprises Corp., a British Virgin Islands business company effectively controlled by AutoWeb. The Company terminated this arrangement and now provides and maintains the forgoing services and operations under a wholly-owned, indirect Guatemalan subsidiary of Autobytel, with employees located in Guatemala.

On May 21, 2015, Autobytel and CDK Global, LLC, a Delaware limited liability company (“**CDK**”), entered into and consummated a Stock Purchase Agreement in which Autobytel acquired all of the issued and outstanding shares of common stock in Dealix Corporation, a California corporation (“**Dealix**”) and subsidiary of CDK, and Autotegrity, Inc., a Delaware corporation (“**Autotegrity**”) and subsidiary of CDK (Dealix and Autotegrity are collectively, “**Dealix/Autotegrity**”). Dealix provides new and used car Leads to automotive dealerships, Dealer groups and Manufacturers, and Autotegrity is a consumer Leads acquisition and analytics business.

**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 for the year ended December 31, 2015 (“**2015 Form 10-K**”) filed with the Securities and Exchange Commission (“**SEC**”). Autobytel has made its disclosures in accordance with U.S. generally accepted accounting principles (“**GAAP**”) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP 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 consolidated condensed statements of income and comprehensive income and cash flows for the periods ended September 30, 2016 and 2015 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 2015 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. This ASU requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The standard will replace most existing revenue recognition guidance in GAAP when it becomes effective. Early application is not permitted. The standard permits the use of either the retrospective or cumulative effect transition method. In August 2015, the Financial Accounting Standards Board (“FASB”) voted to defer the effective date and it is now effective for public entities for annual periods ending after December 15, 2017. Early adoption of the standard is permitted, but not before the original effective date of December 15, 2016. This update permits the use of either the retrospective or cumulative effect transition method. In April 2016, ASU No. 2016-10, “Identifying Performance Obligations and Licensing” was issued. This ASU clarifies 1) the identification of performance obligations and, 2) licensing implementation guidance as it relates to Topic 606, Revenue from Contracts with Customers. The amendments in this ASU affect the guidance in ASU 2014-09, which is effective for public entities for annual periods ending after December 15, 2017. In May 2016, ASU No. 2016-12, “Narrow-Scope Improvements and Practical Expedients” was issued. This ASU addresses certain issues as it relates to assessing collectability, presentation of sales taxes, noncash consideration, and completed contracts and contract modifications at transition as it relates to Topic 606, Revenue from Contracts with Customers. The amendments in this ASU affect the guidance in ASU 2014-09, which is effective for public entities for annual periods ending after December 15, 2017. The Company is evaluating the effect this guidance will have on the consolidated financial statements and related disclosures.

*Accounting Standards Codification 740 “Income Taxes.”* In November 2015, ASU No. 2015-17, “Balance Sheet Classification of Deferred Taxes” was issued. This ASU requires that deferred tax liabilities and assets be classified as noncurrent in a classified statement of financial position. The amendments in this update apply to all entities that present a classified statement of financial position. The amendments in this ASU are effective for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years. The Company does not believe this ASU will have a material effect on the consolidated financial statements.

*Accounting Standards Codification 842 “Leases.”* In February 2016, ASU No. 2016-02, “Leases (Topic 842)” was issued. This ASU will require lessees to recognize on the balance sheet the assets and liabilities for the rights and obligations created by those leases of terms more than 12 months. The ASU will require both capital and operating leases to be recognized on the balance sheet. Qualitative and quantitative disclosures will also be required to help investors and other financial statement users better understand the amount, timing and uncertainty of cash flows arising from leases. The ASU will take effect for public companies for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. The Company continues to assess whether this ASU will be material to the consolidated financial statements.

*Accounting Standards Codification 323 “Investments-Equity Method and Joint Ventures.”* In March 2016, ASU No. 2016-07, “Simplifying the Transition to the Equity Method of Accounting” was issued. This ASU eliminates the requirement that when an investment qualifies for use of the equity method as a result of an increase in the level of ownership interest or degree of influence, an investor must adjust the investment, results of operations, and retained earnings retroactively on a step-by-step basis as if the equity method had been in effect during all previous periods that the investment was held. The amendments require that the equity method investor add the cost of acquiring the additional interest in the investee to the current basis of the investor’s previously held interest and adopt the equity method of accounting as of the date the investment becomes qualified for equity method accounting. Thus, upon qualifying for the equity method of accounting, no retroactive adjustment of the investment is required. The amendments in this ASU are effective for all entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2016. Earlier application is permitted. The Company continues to assess whether this ASU will be material to the consolidated financial statements.

*Accounting Standards Codification 718 “Compensation-Stock Compensation.”* In March 2016, ASU No. 2016-09, “Improvements to Employee Share-Based Payment Accounting” was issued. This ASU provides for areas of simplification for several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. The amendments in this ASU are effective for annual periods beginning after December 15, 2016, and interim periods within those annual periods. Early adoption is permitted in any interim or annual period. The Company continues to assess whether this ASU will be material to the consolidated financial statements.

*Accounting Standards Codification 230 “Statement of Cash Flows.”* In August 2016, ASU No. 2016-15, “Classification of Certain Cash Receipts and Cash Payments” was issued. This ASU provides guidance on eight specific cash flow issues with the objective of reducing the existing diversity in practice for those issues. The amendments in this ASU are effective for annual periods beginning after December 15, 2017, and interim periods within those annual periods. Early adoption is permitted in any interim or annual period. The Company does not believe this ASU will have a material effect on the consolidated financial statements.

#### 4. Acquisitions

##### Acquisition of AutoWeb

On the AutoWeb Merger Date, Merger Sub merged with and into AutoWeb, with AutoWeb continuing as the surviving corporation and as a wholly-owned subsidiary of Autobytel.

The AutoWeb Merger Date fair value of the consideration transferred totaled \$23.8 million consisting of (i) 168,007 newly issued shares of Series B Junior Participating Convertible Preferred Stock, par value \$0.001 per share, of Autobytel (“**Series B Preferred Stock**”); (ii) warrants to purchase up to 148,240 shares of Series B Preferred Stock (“**AutoWeb Warrants**”), at an exercise price per share of \$184.47 (reflecting 10 times the \$16.77 closing price of a share of the Company’s common stock, \$0.001 par value per share (“**Common Stock**”), plus a ten percent (10%) premium) and (iii) \$0.3 million in cash to cancel vested, in-the-money options to acquire shares of AutoWeb common stock. As a result of accounting for the transaction as a business combination achieved in stages, the Company also recorded \$0.6 million as a gain to the pre-merger investment in AutoWeb. The results of operations of AutoWeb have been included in the Company’s results of operations since the AutoWeb Merger Date.

	<i>(in thousands)</i>
Series B Preferred Stock	\$ 20,989
Series B Preferred warrants to purchase 148,240 shares of Series B Preferred Stock	2,542
Cash	279
Fair value of prior ownership in AutoWeb	4,016
	<u>\$ 27,826</u>

The shares of Series B Preferred Stock are convertible, subject to certain limitations, into ten (10) shares of Common Stock. All shares will automatically convert upon stockholder approval.

The AutoWeb Warrants were valued at \$1.72 per share for a total value of \$2.5 million. The Company used a Monte Carlo simulation model to determine the value of the AutoWeb Warrants. Key assumptions used in valuing the AutoWeb Warrants are as follows: risk-free rate of 1.9%, stock price volatility of 74.0% and a term of 7.0 years. The AutoWeb Warrants become exercisable on October 1, 2018, subject to the following vesting conditions: (i) with respect to the first one-third (1/3) of the warrant shares, if at any time after the issuance date of the AutoWeb Warrants and prior to the expiration date of the AutoWeb Warrants the weighted average closing price of the Common Stock for the preceding 30 trading days (adjusted for any stock splits, stock dividends, reverse stock splits or combinations of the Common Stock occurring after the issuance date) (“**Weighted Average Closing Price**”) is at or above \$30.00; (ii) with respect to the second one-third (1/3) of the warrant shares, if at any time after the issuance date of the AutoWeb Warrants and prior to the expiration date the Weighted Average Closing Price is at or above \$37.50; and (iii) with respect to the last one-third (1/3) of the warrant shares, if at any time after the issuance date of the AutoWeb Warrants and prior to the expiration date the Weighted Average Closing Price is at or above \$45.00. The AutoWeb Warrants expire on October 1, 2022.

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed as of the AutoWeb Merger Date.

	<i>(in thousands)</i>
Net identifiable assets acquired:	
Total tangible assets acquired	\$ 4,456
Total liabilities assumed	543
Net identifiable assets acquired	3,913
Definite-lived intangible assets acquired	17,690
Goodwill	5,954
	<u>\$ 27,557</u>

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The fair value of the acquired intangible assets was determined using the below valuation approaches. In estimating the 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 intangible assets related to the AutoWeb acquisition include the following:

	<b>Valuation Method</b>	<b>Estimated Fair Value</b> <i>(in thousands)</i>	<b>Estimated Useful Life (1)</b> <i>(years)</i>
Customer relationships	Excess of earnings (2)	\$ 7,470	4
Trademark/trade names	Relief from Royalty (3)	2,600	6
Developed technology	Excess of earnings (4)	7,620	7
Total purchased intangible assets		<u>\$ 17,690</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 is recognized over the shorter of the respective life of the agreement or the period of time the assets are expected to contribute to future cash flows.
- (2) 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.
- (3) 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.
- (4) 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 method takes into account technological and economic obsolescence of the technology.

Additionally, in connection with the acquisition of AutoWeb, the Company entered into non-compete agreements with key executives of AutoWeb. The fair value of the AutoWeb non-compete agreements was \$270,000 and 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. The Company is amortizing the value of the AutoWeb non-compete agreements over two years.

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 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 \$6.0 million was attributable primarily to expected synergies and the assembled workforce of AutoWeb. The Company incurred approximately \$1.1 million of acquisition-related costs related to the AutoWeb acquisition.

*Pro forma information*

The following unaudited pro forma information presents the consolidated results of the Company and AutoWeb for the three and nine months ended September 30, 2015, 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, 2015, are as follows:

	<b>Three Months Ended September 30, 2015</b>	<b>Nine Months Ended September 30, 2015</b>
	<i>(in thousands)</i>	
Unaudited pro forma consolidated results:		
Revenues	\$ 41,666	\$ 99,668
Net income	\$ 1,978	\$ 2,995

## 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, excluding any unvested restricted stock. 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, common shares issuable upon conversion of convertible notes and unvested restricted stock. The following are the share amounts utilized to compute the basic and diluted net earnings per share for the three and nine months ended September 30, 2016 and 2015:

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>
Basic Shares:				
Weighted average common shares outstanding	10,842,853	10,499,719	10,729,802	9,805,056
Weighted average unvested restricted stock	(116,667)	(125,000)	(120,134)	(73,260)
Basic Shares	<u>10,726,186</u>	<u>10,374,719</u>	<u>10,609,668</u>	<u>9,731,796</u>
Diluted Shares:				
Basic shares	10,726,186	10,374,719	10,609,668	9,731,796
Weighted average dilutive securities	2,611,245	1,164,983	2,560,723	985,944
Diluted Shares	<u>13,337,431</u>	<u>11,539,702</u>	<u>13,170,391</u>	<u>10,717,740</u>

For the three months ended September 30, 2016, weighted average dilutive securities included dilutive options, restricted stock awards, the warrant and convertible note issued in connection with the acquisition of AutoUSA, LLC (“AutoUSA”) and shares issued in connection with the AutoWeb acquisition. For the three months ended September 30, 2015, weighted average dilutive securities included dilutive options, restricted stock awards and the warrant and convertible note issued in connection with the AutoUSA acquisition.

For the nine months ended September 30, 2016, weighted average dilutive securities included dilutive options, restricted stock awards, the warrant issued in connection with the acquisition of AutoUSA and shares issued in connection with the AutoWeb acquisition. For the nine months ended September 30, 2015, weighted average dilutive securities included dilutive options, restricted stock awards and the AutoUSA warrant.

For the three and nine months ended September 30, 2016, 2.0 million and 2.0 million of potentially anti-dilutive shares of common stock have been excluded from the calculation of diluted net earnings per share, respectively. For the three and nine months ended September 30, 2015, 1.4 million and 1.6 million of potentially anti-dilutive shares of common stock have been excluded from the calculation of diluted net earnings per share, respectively.

On June 7, 2012, the Company announced that its board of directors had authorized the Company to repurchase up to \$2.0 million of Company Common Stock, and on September 17, 2014 the Company announced that the board of directors had approved the repurchase of up to an additional \$1.0 million of Company Common Stock. The authorization may be increased or otherwise modified, renewed, suspended or terminated by the Company at any time, without prior notice. The Company may repurchase Common Stock from time to time on the open market or in private transactions. Shares repurchased under this program have been retired and returned to the status of authorized and unissued shares. The Company funded repurchases and anticipates that the Company would fund future repurchases through the use of available cash. The repurchase authorization does not obligate the Company to repurchase any particular number of shares. The timing and actual number of repurchases of additional shares, if any, under the Company’s stock repurchase program will depend upon a variety of factors, including price, market conditions, release of quarterly and annual earnings and other legal, regulatory and corporate considerations at the Company’s sole discretion. The impact of repurchases on the Company’s Tax Benefit Preservation Plan, as amended, and on the Company’s use of its net operating loss carryovers and other tax attributes if the Company were to experience an “ownership change,” as defined in Section 382 of the Internal Revenue Code, is also a factor that the Company considers in connection with share repurchases. No shares were repurchased in the three and nine months ended September 30, 2016 and September 30, 2015, respectively.

*Warrants.* The warrant to purchase 69,930 shares of Company common stock issued in connection with the acquisition of AutoUSA on January 13, 2014 (“**AutoUSA Acquisition Date**”) was valued at \$7.35 per share for a total value of \$0.5 million (“**AutoUSA Warrant**”). 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 may be adjusted for stock splits, stock dividends, combinations and other similar events). The AutoUSA Warrant becomes exercisable on January 13, 2017 and expires on January 13, 2019. The right to exercise the AutoUSA Warrant is accelerated in the event of a change in control of the Company.

For information regarding the AutoWeb Warrants, see Note 4.

## 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:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
	<i>(in thousands)</i>			
Share-based compensation expense:				
Cost of revenues	\$ 19	\$ 43	\$ 47	\$ 106
Sales and marketing [1]	384	153	1,358	439
Technology support [2]	83	202	513	429
General and administrative [3]	460	287	1,267	922
Share-based compensation costs	<u>946</u>	<u>685</u>	<u>3,185</u>	<u>1,896</u>
Amount capitalized to internal use software	<u>6</u>	<u>1</u>	<u>14</u>	<u>7</u>
Total share-based compensation costs	<u>\$ 940</u>	<u>\$ 684</u>	<u>\$ 3,171</u>	<u>\$ 1,889</u>

- (1) Certain awards were modified in connection with the termination of an executive officer’s employment with the Company and their vesting accelerated in accordance with the terms of the applicable option agreements. The total expense related to these modifications and acceleration of vested awards was approximately \$0.3 million in the nine months ended September 30, 2016.
- (2) The vesting of certain awards was accelerated in accordance with the terms of the applicable option agreements in connection with the termination of an executive officer’s employment with the Company. The total expense related to acceleration of vested awards was approximately \$0.2 million in the nine months ended September 30, 2016.
- (3) Certain awards were modified in accordance with the Company’s former Chief Financial Officer’s consulting agreement and their vesting accelerated in accordance with the terms of the applicable option agreements. The total expense related to these modifications and acceleration of vested awards was approximately \$0.2 million in the nine months ended September 30, 2015.

*Service-Based Options.* The Company granted the following service-based options for the three and nine months ended September 30, 2016 and 2015:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Number of service-based options granted	314,000	16,200	805,400	600,750
Weighted average grant date fair value	\$ 7.40	\$ 8.12	\$ 7.73	\$ 5.69
Weighted average exercise price	\$ 15.51	\$ 17.42	\$ 16.26	\$ 12.38

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.

*Market Condition Options.* On January 21, 2016, the Company granted 100,000 stock options to its chief executive officer with an exercise price of \$17.09 and grant date fair value of \$1.47 per option, using a Monte Carlo simulation model ("CEO Market Condition Options"). The CEO Market Condition Options were previously valued at \$2.94 per option but were revalued when the requisite stockholder approval for the Company's Amended and Restated 2014 Equity Incentive Plan was obtained in June 2016. The CEO Market Condition Options are subject to both stock price-based and service-based vesting requirements that must be satisfied for the CEO Market Condition Options to vest and become exercisable. The CEO Market Condition Options provide that the stock price-based vesting condition will be met (i) with respect to the first one-third (1/3) of the CEO Market Condition Options, if at any time after the grant date and prior to the expiration date of the CEO Market Condition Options the weighted average closing price of the Company's common stock on The Nasdaq Capital Market for the preceding thirty (30) trading days (adjusted for any stock splits, stock dividends, reverse stock splits or combinations occurring after the issuance date) ("Weighted Average Closing Price") is at or above \$30.00; (ii) with respect to the second one-third (1/3) of the CEO Market Condition Options, if at any time after the grant date and prior to the expiration date the Weighted Average Closing Price is at or above \$37.50; and (iii) with respect to the last one-third (1/3) of the CEO Market Condition Options, if at any time after the grant date and prior to the expiration date the Weighted Average Closing Price is at or above \$45.00. With respect to any of the CEO Market Condition Options for which the stock price-based requirements are met, these options are also subject to the following service-based vesting schedule: (i) thirty-three and one-third percent (33 1/3%) of these options will vest and become exercisable on January 21, 2017 and (ii) one thirty-sixth (1/36 th ) of these options will vest and become exercisable on each successive monthly anniversary thereafter for the following twenty-four months ending on January 21, 2019.

*Stock option exercises .* The following stock options were exercised for the three and nine months ended September 30, 2016 and 2015, respectively:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Number of stock options exercised	176,388	—	334,861	19,074
Weighted average exercise price	\$ 7.99	\$ —	\$ 8.59	\$ 5.92

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 September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Dividend yield	—	—	—	—
Volatility	59%	57%	58%	56%
Risk-free interest rate	1.1%	1.4%	1.2%	1.3%
Expected life (years)	4.4	4.4	4.4	4.4

**Restricted Stock Awards.** The Company granted an aggregate of 125,000 restricted stock awards (“**RSAs**”) on April 23, 2015 in connection with the promotion of one of its executive officers. Of the 125,000 RSAs, 25,000 were service-based and the forfeiture restrictions lapse with respect to one-third of the restricted stock on each of the first, second and third anniversaries of the date of the award. This executive officer was also awarded 100,000 shares of the Company’s common stock in the form of performance-based restricted stock. The shares are subject to forfeiture upon the earlier of (such earliest date being referred to as the “**Termination Date**”) (i) a termination of the executive officer’s employment with the Company; (ii) March 31, 2018; and (iii) other events of forfeiture set forth in the award agreement, subject to the following: (i) the forfeiture restrictions with respect to 50,000 of the restricted shares will lapse if any time prior to the Termination Date the weighted average closing price of the Company’s common stock for the preceding 30 trading days is at or above \$30.00 per share, and (ii) the forfeiture restrictions with respect to any of the restricted shares that remain subject to forfeiture restrictions will lapse if any time prior to the Termination Date the weighted average closing price of the Company’s common stock for the preceding 30 trading days is at or above \$45.00 per share. None of the forfeiture restrictions had lapsed during the nine months ended September 30, 2016.

## 7. Investments

The Company’s investments at September 30, 2016 and December 31, 2015 consisted primarily of investments in privately-held SaleMove, Inc., a Delaware corporation (“**SaleMove**”), and GoMoto, Inc., a Delaware corporation (“**GoMoto**”).

In September 2013, the Company entered into a Convertible Note Purchase Agreement with SaleMove in which Autobytel invested \$150,000 in SaleMove in the form of an interest bearing, convertible promissory note. In November 2014, the Company invested an additional \$400,000 in SaleMove in the form of an interest bearing, convertible promissory note. Upon closing of a preferred stock financing by SaleMove in July 2015, these two notes were converted in accordance with their terms into an aggregate of 190,997 Series A Preferred Stock, which shares are classified as a long-term investment on the consolidated balance sheet as of September 30, 2016.

In October 2013, the Company entered into a Reseller Agreement with SaleMove to become a reseller of SaleMove’s technology for enhancing communications with consumers. SaleMove’s technology allows Dealers and Manufacturers to enhance the online shopping experience by interacting with consumers in real-time, including live video, audio and text-based chat or by phone. The Company and SaleMove will equally share in revenues from automotive-related sales of the SaleMove products and services. In connection with this reseller arrangement, the Company advanced to SaleMove \$1.0 million to fund SaleMove’s 50% share of various product development, marketing and sales costs and expenses, with the advanced funds to be recovered by the Company from SaleMove’s share of sales revenue. SaleMove advances are repaid to the Company from SaleMove’s share of net revenues from the Reseller Agreement. As of September 30, 2016, the net advances due from SaleMove totaled \$591,000.

In December 2014, the Company entered into a Series Seed Preferred Stock Purchase Agreement with GoMoto in which the Company paid \$100,000 for 317,460 shares of Series Seed Preferred Stock, \$0.001 par value per share. The \$100,000 investment in GoMoto was recorded at cost because the Company does not have significant influence over GoMoto. In October 2015 and May 2016, the Company invested an additional \$375,000 and \$375,000, respectively, in GoMoto in the form of convertible promissory notes (“**GoMoto Notes**”). The GoMoto Notes accrue interest at an annual rate of 4.0% and are due and payable in full on or after October 28, 2017 upon demand or at GoMoto’s option ten days’ written notice unless converted prior to the maturity date. The GoMoto Notes will be converted into preferred stock of GoMoto in the event of a preferred stock financing by GoMoto of at least \$1.0 million prior to the maturity date of the convertible note. The GoMoto Notes are recorded at cost and classified as an other long-term asset on the consolidated balance sheet as of September 30, 2016.

## 8. Selected Balance Sheet Accounts

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

	<b>September 30, 2016</b>	<b>December 31, 2015</b>
	<i>(in thousands)</i>	
Computer software and hardware and capitalized internal use software	\$ 17,576	\$ 15,741
Furniture and equipment	1,450	1,419
Leasehold improvements	1,429	1,424
	<u>20,455</u>	<u>18,584</u>
Less – Accumulated depreciation and amortization	<u>(15,436)</u>	<u>(14,288)</u>
Property and equipment, net	<u>\$ 5,019</u>	<u>\$ 4,296</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 the Company's 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 an undiscounted 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, Nissan, Scion, Subaru, Toyota, Volkswagen and Volvo), Ford Direct and Trilogy. During the first nine months of 2016, approximately 27% of the Company's total revenues was derived from these three customers, and approximately 40%, or \$13.0 million of gross accounts receivables, related to these three customers at September 30, 2016.

During the first nine months of 2015, approximately 28% of the Company's total revenues was derived from General Motors, Urban Science Applications and Jumpstart Automotive, and approximately 35%, or \$10.1 million of gross accounts receivables, related to these three customers at September 30, 2015.

*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 Ventures, Inc., Advanced Mobile, LLC, AutoUSA, Dealix/Autotegrity and AutoWeb, the Company identified \$38.1 million of intangible assets. The Company's intangible assets are amortized over the following estimated useful lives:

Intangible Asset	Estimated Useful Life	September 30, 2016			December 31, 2015		
		Gross	Accumulated Amortization	Net	Gross	Accumulated Amortization	Net
<i>(in thousands)</i>							
Trademarks/trade names/licenses/domains	5 years – Indefinite	\$ 11,494	\$ (6,586)	\$ 4,908	\$ 11,494	\$ (6,071)	\$ 5,423
Software and publications	3 years	1,300	(1,300)	—	1,300	(1,300)	—
Customer relationships	2-10 years	19,563	(6,678)	12,885	19,563	(4,341)	15,222
Employment/non-compete agreements	5 years	1,510	(1,172)	338	1,510	(849)	661
Developed technology	1-5 years	8,955	(1,915)	7,040	8,955	(746)	8,209
		<u>\$ 42,822</u>	<u>\$ (17,651)</u>	<u>\$ 25,171</u>	<u>\$ 42,822</u>	<u>\$ (13,307)</u>	<u>\$ 29,515</u>



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

Year	Amortization Expense <i>(in thousands)</i>
2016	\$ 1,388
2017	5,366
2018	5,028
2019	3,655
2020	2,224
2021	2,116
	<u>\$ 19,777</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 December 31, 2015 and September 30, 2016.

Goodwill consisted of the following (in thousands):

Goodwill as of December 31, 2015	\$ 42,903
Current year activity	(82)
Goodwill as of September 30, 2016	<u>\$ 42,821</u>

During the nine months ended September 30, 2016, the Company made adjustments to the Dealix/Autoteegrity purchase price allocation due to changes in accounts receivable and sales tax payable acquired, and adjusted goodwill accordingly.

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

	September 30, 2016	December 31, 2015
	<i>(in thousands)</i>	
Compensation and related costs and professional fees	\$ 3,366	\$ 3,981
Other accrued expenses	6,547	5,715
Amounts due to customers	519	486
Other current liabilities	501	562
Total accrued expenses and other current liabilities	<u>\$ 10,933</u>	<u>\$ 10,744</u>

*Convertible Notes Payable.* In connection with the acquisition of AutoUSA, the Company issued a convertible subordinated promissory note for \$1.0 million (“**AutoUSA Note**”) to AutoNationDirect.com, Inc. 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.

## 9. Credit Facility

On June 1, 2016, the Company entered into a Fourth Amendment to Loan Agreement (“**Credit Facility Amendment**”) with MUFG Union Bank, N.A., formerly Union Bank, N.A. (“**Union Bank**”), amending the Company’s existing Loan Agreement with Union Bank initially entered into on February 26, 2013, as amended on September 10, 2013, January 13, 2014 and May 20, 2015 (the existing Loan Agreement, as amended to date, is referred to collectively as the “**Credit Facility Agreement**”). The Credit Facility Agreement provided for a \$9.0 million term loan (“**Term Loan 1**”). The Credit Facility Amendment provides for (i) a new \$15.0 million term loan (“**Term Loan 2**”); (ii) the amendment of certain financial covenants in the Credit Facility Agreement; and (iii) amendments to the Company’s existing \$8.0 million working capital revolving line of credit (“**Revolving Loan**”).

Term Loan 1 is amortized over a period of four years, with fixed quarterly principal payments of \$562,500. Borrowings under Term Loan 1 bear interest at either (i) the bank’s Reference Rate (prime rate) minus 0.50% or (ii) the London Interbank Offering Rate (“**LIBOR**”) plus 2.50%, at the option of the Company. Interest under Term Loan 1 adjusts (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. Borrowings under Term Loan 1 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. Term Loan 1 matures on December 31, 2017. Borrowing under Term Loan 1 was limited to use for the acquisition of AutoUSA, and the Company drew down the entire \$9.0 million of Term Loan 1, together with \$1.0 million under the Revolving Loan, in financing this acquisition. The outstanding balance of Term Loan 1 as of September 30, 2016 was \$2.8 million.

Term Loan 2 is amortized over a period of five years, with fixed quarterly principal payments of \$750,000. Borrowings under Term Loan 2 bear interest at either (i) LIBOR plus 3.00% or (ii) the bank’s Reference Rate (prime rate), at the option of the Company. Borrowings under the Revolving Loan bear interest at either (i) the LIBOR plus 2.50% or (ii) the bank’s Reference Rate (prime rate) minus 0.50%, at the option of the Company. Interest under both Term Loan 2 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 paid an upfront fee of 0.10% of the Term Loan 2 principal amount upon drawing upon Term Loan 2 and also pays a commitment fee of 0.10% per year on the unused portion of the Revolving Loan, payable quarterly in arrears. Borrowings under Term Loan 2 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. Term Loan 2 matures June 30, 2020, and the maturity date of the Revolving Loan was extended from March 31, 2017 to April 30, 2018. Borrowings under the Revolving Loan may be used as a source to finance working capital, capital expenditures, acquisitions and stock buybacks and for other general corporate purposes. Borrowing under Term Loan 2 was limited to use for the acquisition of Dealix/Autotegrity, and the Company drew down the entire \$15.0 million of Term Loan 2, together with \$2.75 million under the Revolving Loan and \$6.76 million from available cash on hand, in financing this acquisition. The outstanding balances of Term Loan 2 and the Revolving Loan as of September 30, 2016 were \$11.3 million and \$8.0 million, respectively.

The Credit Facility Agreement contains certain customary affirmative and negative covenants and restrictive and financial covenants, including that the Company maintain specified levels of minimum consolidated liquidity and quarterly and annual earnings before interest, taxes and depreciation and amortization, which the Company was in compliance with as of September 30, 2016.

## 10. 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*

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.

## 11. 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 nine months ended September 30, 2016 differed from the U.S. federal statutory rate primarily due to state income taxes and a nonrecurring remeasurement book gain on an investment reversed for tax purposes.

The total amount of unrecognized tax benefits, excluding associated interest and penalties, was \$0.5 million as of September 30, 2016, all of which, if subsequently recognized, would have affected the Company's tax rate.

The total balance of accrued interest and penalties related to uncertain tax positions was \$12,000 and \$10,000 as of September 30, 2016 and December 31, 2015, 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 the three and nine months ended September 30, 2016 and 2015.

The Company is subject to taxation in the U.S. and in various foreign and state jurisdictions. Due to expired statutes of limitation, the Company's federal income tax returns for years prior to calendar year 2013 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 2012 are no longer subject to examination. The Company is currently under examination by the State of Michigan for the years 2011 through 2014, but does not anticipate any material adjustments. The Company does not anticipate a significant change to the total amount of unrecognized tax benefits 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

### Cautionary Note Concerning Forward-Looking Statements

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 for the year ended December 31, 2015 ("2015 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 2015 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 on Form 10-Q. 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 and Critical Accounting Policies

See Note 2, *Basis of Presentation*, to the accompanying unaudited consolidated condensed financial statements.

We prepare our financial statements in conformity with accounting principles generally accepted in the United States of America ("GAAP"), which require us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ materially from our estimates. To the extent that there are material differences between these estimates and our actual results, our financial condition or results of operations may be affected. For a detailed discussion of the application of our critical accounting policies, see Note 2 of the "Notes to Consolidated Financial Statements" in Part II, Item 8 "Financial Statements and Supplementary Data" in the 2015 Form 10-K. There have been no changes to our critical accounting policies since we filed our 2015 Form 10-K.

### Recent Acquisitions

On October 1, 2015 ("AutoWeb Merger Date"), Autobytel entered into and consummated an Agreement and Plan of Merger by and among Autobytel, New Horizon Acquisition Corp., a Delaware corporation and a wholly-owned subsidiary of Autobytel ("Merger Sub"), AutoWeb, Inc., a Delaware corporation ("AutoWeb") and Jose Vargas, in his capacity as Stockholder Representative, pursuant to which Merger Sub merged with and into AutoWeb, with AutoWeb continuing as the surviving corporation and as a wholly-owned subsidiary of Autobytel.

On May 21, 2015, Autobytel and CDK Global, LLC, A Delaware limited liability company ("CDK"), entered into and consummated a Stock Purchase Agreement in which Autobytel acquired all of the issued and outstanding shares of common stock in Dealix Corporation, a California corporation and subsidiary of CDK, and Autotegrity, Inc., a Delaware corporation and subsidiary of CDK (collectively, "Dealix/Autotegrity"). Dealix Corporation provides new and used car Leads to automotive dealerships, Dealer groups and Manufacturers, and Autotegrity, Inc. is a consumer Leads acquisition and analytics business.

For additional information concerning these acquisitions, see Note 4, *Acquisitions*, to the accompanying unaudited consolidated financial statements.

## 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, consumer traffic referral programs and mobile products.

Our consumer-facing automotive websites (“**Company Websites**”), including our flagship website Autobyte.com®, 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”® 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 measure Lead quality by the conversion of Leads to actual vehicle sales, which we refer to as the “buy rate.” Buy rate is the percentage of the consumers submitting Leads that we delivered to our customers represented by the number of these consumers who purchased vehicles within ninety days of the date of the Lead submission. We rely on detailed feedback from Manufacturers and wholesale customers to confirm the performance of our Leads. Our Manufacturer and wholesale customers each match the Leads we deliver to our customers against vehicle sales to provide us with information about vehicle purchases by the consumers who submitted Leads that we delivered to these customers. Autobyte also contracts with IHS Automotive, a leading provider of market insights and measurement solutions driven by Polk data, to statistically measure the performance of leads submitted through the Autobyte Network. This information allows us to estimate the buy rates for the consumers who submitted our Internally-Generated Leads and our Non-Internally Generated Leads and based on these estimates, to estimate an industry average buy rate. Based on the most current IHS data (which are provided to us only on an aggregated, non-personally identifiable basis), we have estimated that, on average, consumers who submit Internally-Generated Leads that we deliver to our customers have an estimated buy rate of approximately 17%. Buy rates that individual Dealers may achieve can be impacted by factors such as the strength of processes and procedures within the dealership to manage communications and follow up with consumers.

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 nine months ended September 30, 2016 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 fuel prices on demand for the number and types of vehicles;
- Increases or decreases in the number of retail Dealers or in the number of Manufacturers and other wholesale customers in our customer base;
- The effect of changes in search engine algorithms and methodologies on our Lead generation and website advertising activities and margins;
- Volatility in spending by Manufacturers and others in their marketing budgets and allocations; and
- The competitive impact of consolidation in the online automotive referral industry.

In addition, our future business, results of operations and financial condition will be affected by our acquisition of AutoWeb, discussed above in the Notes to Unaudited Consolidated Condensed Financial Statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q.

## Results of Operations

### Three Months Ended September 30, 2016 Compared to the Three Months Ended September 30, 2015

The following table sets forth certain statement of income data for the three-month periods ended September 30, 2016 and 2015 (certain amounts may not calculate due to rounding):

	<u>2016</u>	<u>% of total revenues</u>	<u>2015</u>	<u>% of total revenues</u>	<u>\$ Change</u>	<u>% Change</u>
<i>(Dollar amounts in thousands)</i>						
Revenues:						
Lead fees	\$ 36,202	82 %	\$ 36,459	91 %	\$ (257)	(1)
Advertising	7,371	17	3,211	8	4,160	130
Other revenues	<u>338</u>	<u>1</u>	<u>505</u>	<u>1</u>	<u>(167)</u>	<u>(33)</u>
Total revenues	43,911	100	40,175	100	3,736	9
Cost of revenues	<u>28,156</u>	<u>64</u>	<u>24,878</u>	<u>62</u>	<u>3,278</u>	<u>13</u>
Gross profit	15,755	36	15,297	38	458	3
Operating expenses:						
Sales and marketing	3,964	9	4,109	10	(145)	(4)
Technology support	2,943	7	3,574	9	(631)	(18)
General and administrative	3,346	7	3,600	9	(254)	(7)
Depreciation and amortization	1,270	3	720	2	550	76
Litigation settlements	<u>(24)</u>	<u>—</u>	<u>(25)</u>	<u>—</u>	<u>1</u>	<u>(4)</u>
Total operating expenses	<u>11,499</u>	<u>26</u>	<u>11,978</u>	<u>30</u>	<u>(479)</u>	<u>(4)</u>
Operating income	4,256	10	3,319	8	937	28
Interest and other income (expense), net	<u>(206)</u>	<u>(1)</u>	<u>(216)</u>	<u>—</u>	<u>10</u>	<u>(5)</u>
Income before income tax provision	4,050	9	3,103	8	947	31
Income tax provision	<u>1,312</u>	<u>3</u>	<u>1,488</u>	<u>4</u>	<u>(176)</u>	<u>(12)</u>
Net income	<u>\$ 2,738</u>	<u>6 %</u>	<u>\$ 1,615</u>	<u>4 %</u>	<u>\$ 1,123</u>	<u>70 %</u>

*Leads.* Lead fees revenues decreased \$0.3 million, or 1%, in the third quarter of 2016 compared to the third quarter of 2015 primarily as a result of the elimination of poor quality traffic from the Dealix/Autoteqtrity acquisition in May 2015.

*Advertising.* Advertising revenues increased \$4.2 million, or 130%, in the third quarter of 2016 compared to the third quarter of 2015 as a result of an increase in click revenue due to increased click volume and pricing.

*Other Revenues.* Other revenues consist primarily of revenues from our mobile products and revenues from our Reseller Agreement with SaleMove. Other revenues decreased to \$0.3 million in the third quarter of 2016 from \$0.5 million in the third quarter of 2015 primarily due to the discontinuation of a Manufacturer's brand utilizing other Company products.

*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 online 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 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 \$3.3 million, or 13%, in the third quarter of 2016 compared to the third quarter of 2015 primarily due to increased traffic acquisition costs associated with both lead and click volume together with increased intangible amortization costs from both the Dealix/Autotegrity and AutoWeb acquisitions.

*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 third quarter of 2016 decreased \$0.1 million, or 4%, compared to the third quarter of 2015 due primarily to decreased trade print expenses in 2016.

*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 third quarter of 2016 decreased by \$0.6 million, or 18%, compared to the third quarter of 2015 due primarily to decreased headcount and resource related costs associated with the Dealix/Autotegrity acquisition and integration.

*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 third quarter of 2016 decreased \$0.3 million, or 7%, compared to the third quarter of 2015 because professional fees were higher in 2015 as a result of the Dealix/Autotegrity and AutoWeb acquisitions in 2015.

*Depreciation and Amortization.* Depreciation and amortization expense in the third quarter of 2016 increased \$0.6 million to \$1.3 million compared to \$0.7 million in the third quarter of 2015 primarily due to the addition of intangible assets related to the acquisition of AutoWeb.

*Litigation Settlements.* Payments received primarily from 2010 settlements of patent infringement claims against third parties relating to the third parties' methods of Lead delivery were relatively flat in the third quarter of 2016 compared to the third quarter of 2015.

*Interest and Other Income (Expense), Net.* Interest and other expense was \$0.2 million for the third quarter of 2016 and the third quarter of 2015. Interest expense decreased to \$212,000 in the third quarter of 2016 from \$215,000 in the third quarter of 2015 primarily due to a decreased balance on our term loans.

*Income Taxes.* Income tax expense was \$1.3 million in the third quarter of 2016 compared to \$1.5 million in the third quarter of 2015. Income tax expense for the third quarter of 2016 differed from the federal statutory rate primarily due to state income taxes and a nonrecurring remeasurement book gain on an investment reversed for tax purposes.



**Nine Months Ended September 30, 2016 Compared to the Nine Months Ended September 30, 2015**

The following table sets forth certain statement of income data for the nine-month periods ended September 30, 2016 and 2015 (certain amounts may not calculate due to rounding):

	<u>2016</u>	<u>% of total revenues</u>	<u>2015</u>	<u>% of total revenues</u>	<u>\$ Change</u>	<u>% Change</u>
<i>(Dollar amounts in thousands)</i>						
Revenues:						
Lead fees	\$ 98,706	85 %	\$ 88,480	91 %	\$ 10,226	12
Advertising	16,412	14	6,846	7	9,566	140
Other revenues	<u>1,188</u>	<u>1</u>	<u>1,479</u>	<u>2</u>	<u>(291)</u>	<u>(20)</u>
Total revenues	116,306	100	96,805	100	19,501	20
Cost of revenues	<u>72,995</u>	<u>63</u>	<u>59,639</u>	<u>62</u>	<u>13,356</u>	<u>22</u>
Gross profit	43,311	37	37,166	38	6,145	17
Operating expenses:						
Sales and marketing	14,026	12	11,430	12	2,596	23
Technology support	10,775	9	7,952	8	2,823	36
General and administrative	10,405	9	9,854	10	551	6
Depreciation and amortization	3,809	3	1,808	2	2,001	111
Litigation settlements	<u>(25)</u>	<u>—</u>	<u>(75)</u>	<u>—</u>	<u>50</u>	<u>(67)</u>
Total operating expenses	<u>38,990</u>	<u>33</u>	<u>30,969</u>	<u>32</u>	<u>8,021</u>	<u>26</u>
Operating income	4,321	4	6,197	6	(1,876)	(30)
Interest and other income (expense), net	<u>(643)</u>	<u>(1)</u>	<u>(546)</u>	<u>—</u>	<u>(97)</u>	<u>18</u>
Income before income tax provision	3,678	3	5,651	6	(1,973)	(35)
Income tax provision	<u>1,185</u>	<u>1</u>	<u>2,391</u>	<u>3</u>	<u>(1,206)</u>	<u>(50)</u>
Net income	<u>\$ 2,493</u>	<u>2</u>	<u>\$ 3,260</u>	<u>3</u>	<u>\$ (767)</u>	<u>(24)</u>

**Leads.** Lead fees revenues increased \$10.2 million, or 12%, in the first nine months of 2016 compared to the first nine months of 2015 primarily as a result of increased lead volume associated with the Dealix/Autotegrity acquisition in May 2015.

**Advertising.** Advertising revenues increased \$9.6 million, or 140%, in the first nine months of 2016 compared to the first nine months of 2015 as a result of an increase in click revenue due to increased click volume and pricing.

**Other Revenues.** Other revenues decreased \$0.3 million, or 20%, in the first nine months of 2016 compared to the first nine months of 2015 primarily due to the discontinuation of a Manufacturer's brand utilizing other products.

**Cost of Revenues.** Cost of revenues increased \$13.4 million, or 22%, in the first nine months of 2016 compared to the first nine months of 2015 primarily due to increased lead volume from the Dealix/Autotegrity acquisition in May 2015 together with increased intangible amortization costs from both the Dealix/Autotegrity and AutoWeb acquisitions.

**Sales and Marketing.** Sales and marketing expense in the first nine months of 2016 increased \$2.6 million, or 23%, compared to the first nine months of

2015 due primarily to increased headcount related costs associated with the Dealix/Autotegrity and AutoWeb acquisitions coupled with severance expense of \$0.6 million and accelerated stock compensation expense of \$0.3 million associated with the termination of two executive officers.

*Technology Support.* Technology support expense in the first nine months of 2016 increased by \$2.8 million, or 36%, compared to the first nine months of 2015 due primarily to increased headcount related costs associated with the Dealix/Autotegrity and AutoWeb acquisitions coupled with severance expense of \$0.3 million and accelerated stock compensation expense of \$0.2 million associated with the termination of an executive officer.

*General and Administrative.* General and administrative expense in the first nine months of 2016 increased \$0.6 million, or 6%, compared to the first nine months of 2015 due to increased headcount costs and facility fees offset with a reduction in professional fees associated with the Dealix/Autotegrity and AutoWeb acquisitions.

*Depreciation and Amortization.* Depreciation and amortization expense in the first nine months of 2016 increased \$2.0 million to \$3.8 million compared to \$1.8 million in the first nine months of 2015 primarily due to the addition of intangible assets related to the acquisitions of Dealix/Autotegrity and AutoWeb.

*Litigation Settlements.* Payments received primarily from 2010 settlements of patent infringement claims against third parties relating to the third parties' methods of Lead delivery for the first nine months of 2016 were \$25,000 compared to \$75,000 in the first nine months of 2015. We also paid \$41,000 related to settlement of claims alleged under the Controlling the Assault of Non-Solicited Pornography And Marketing Act of 2003 inherited in connection with the acquisition of Dealix/Autotegrity in the first nine months of 2016.

*Interest and Other Income (Expense), Net.* Interest and other expense was \$0.6 million for the first nine months of 2016 compared to \$0.5 million in the first nine months of 2015. Interest expense increased to \$0.7 million in the first nine months of 2016 from \$0.6 million in the first nine months of 2015 primarily due to increased borrowings on our term loans and revolving line of credit.

*Income Taxes.* Income tax expense was \$1.2 million in the first nine months of 2016 compared to income tax expense of \$2.4 million in the first nine months of 2015. Income tax expense for the first nine months of 2016 differed from the federal statutory rate primarily due to state income taxes and a nonrecurring remeasurement book gain on an investment reversed for tax purposes.

## Liquidity and Capital Resources

The table below sets forth a summary of our cash flows for the nine months ended September 30, 2016 and 2015:

	Nine Months Ended September 30,	
	2016	2015
	<i>(in thousands)</i>	
Net cash provided by operating activities	\$ 12,081	\$ 7,611
Net cash used in investing activities	(2,246)	(26,821)
Net cash (used in) provided by financing activities	(1,099)	17,261

Our principal sources of liquidity are our cash and cash equivalents balances. Our cash and cash equivalents totaled \$32.7 million as of September 30, 2016 compared to \$24.0 million as of December 31, 2015.

For information concerning the Company's previously announced share repurchase authorization, see Note 5, Notes to Unaudited Consolidated Condensed Financial Statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q.

*Credit Facility and Term Loan.* For information concerning our term and revolving bank loans, see Note 9, Notes to Unaudited Consolidated Condensed Financial Statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q.

*Net Cash Provided by Operating Activities.* Net cash provided by operating activities in the nine months ended September 30, 2016 of \$12.1 million resulted primarily from net income of \$2.5 million, as adjusted for non-cash charges. We also had net decreases in working capital, driven by an increase in our accounts receivable balance related to the timing of payments received offset by an increase in accounts payable of \$3.7 million.

Net cash provided by operating activities in the nine months ended September 30, 2015 of \$7.6 million resulted primarily from net income of \$3.3 million, as adjusted for non-cash charges to earnings. This was offset by net decreases in working capital, driven by cash used to reduce accrued liabilities of \$2.1 million primarily related to the payment of annual incentive compensation amounts and severance accrued in 2014 and paid in the first nine months of 2015 and decreases in other assets.

*Net Cash Used in Investing Activities.* Net cash used in investing activities was \$2.2 million in the nine months ended September 30, 2016 which primarily related to a \$0.4 million investment in GoMoto, Inc., a Delaware corporation, and purchases of property and equipment and expenditures related to capitalized internal use software of \$1.9 million.

Net cash used in investing activities was \$26.8 million in the nine months ended September 30, 2015 which related to the acquisition of Dealix/Autotegrity and purchases of property and equipment.

*Net Cash (Used In) Provided by Financing Activities* . Net cash used in financing activities of \$1.1 million primarily related to payments of \$3.9 million made against the term loan borrowings in the first nine months of 2016. In addition, stock options for 334,861 shares of the Company's common stock were exercised in the first nine months of 2016 resulting in \$2.9 million cash inflow.

Net cash provided by financing activities of \$17.3 million primarily related to borrowings on our term loans of \$15.0 million, borrowings on the Revolving Loan of \$2.8 million, proceeds from the exercise of a warrant of \$1.9 million offset by payments of \$2.4 million made against the term loan borrowings in the first nine months of 2015. The warrant was issued in 2010 in connection with our acquisition of substantially all of the assets of Cyber Ventures, Inc. and Autotropolis, Inc. In addition, stock options for 19,074 shares of the Company's common stock were exercised in the first nine months of 2015 resulting in \$0.1 million cash inflow.

#### **Off-Balance Sheet Arrangements**

At September 30, 2016, 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 and nine months ended September 30, 2016 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 2015 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 are (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 errors 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‡ 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 herein by reference to Exhibit 2.1 to the Current Report on Form 8-K filed with the SEC on January 17, 2014 (SEC File No. 001-34761)
- 2.2‡ Stock Purchase Agreement dated as of May 21, 2015 by and among Autobytel Inc., a Delaware corporation, CDK Global, LLC, a Delaware limited liability company, Dealix Corporation, a California corporation, and Autotegrity, Inc., a Delaware corporation, which is incorporated by reference to Exhibit 2.1 to the Current Report on Form 8-K filed with the SEC on May 27, 2015 (SEC File No. 001-34761)
- 2.3‡ Agreement and Plan of Merger dated as of October 1, 2015 by and among Autobytel Inc., a Delaware corporation, New Horizon Acquisition Corp., a Delaware corporation, AutoWeb, Inc., a Delaware corporation, and Jose Vargas, which is incorporated by reference to Exhibit 2.1 to the Current Report on Form 8-K filed with the SEC on October 6, 2015 (SEC File No. 001-34761) (“**October 2015 Form 8-K**”)
- 3.1 Fifth Amended and Restated Certificate of Incorporation of Autobytel Inc. (formerly Autobytel.com Inc.) 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 Inc. dated July 22, 1999, Third Certificate of Amendment of the Fifth Amended and Restated Certificate of Incorporation of Autobytel Inc. dated August 14, 2001, and Amended Certificate of Designation of Series A Junior Participating Preferred Stock dated April 24, 2009, which are incorporated herein by reference to Exhibit 3.1 to 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); Fourth Certificate of Amendment to Fifth Amended and Restated Certificate of Incorporation of Autobytel Inc. dated July 10, 2012, which is incorporated herein by reference to Exhibit 3.1 to the Current Report on Form 8-K filed with the SEC on July 12, 2012 (SEC File No. 001-34761); and Fifth Certificate of Amendment to Fifth Amended and Restated Certificate of Incorporation of Autobytel Inc. dated July 3, 2013, which is incorporated herein by reference to Exhibit 3.3 to 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); and Certificate of Designations of Series B Junior Participating Convertible Preferred Stock of Autobytel Inc. dated October 1, 2015, which is incorporated herein by reference to Exhibit 3.1 to the October 2015 Form 8-K
- 3.2 Fifth Amended and Restated Bylaws of Autobytel Inc. dated October 1, 2015, which is incorporated herein by reference to Exhibit 3.2 to the October 2015 Form 8-K
- 4.1 Form of Common Stock Certificate of Autobytel Inc., which is incorporated herein by reference to Exhibit 4.1 to 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 herein 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), as amended by 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 herein 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)
- 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)
- 10.1 Amendment No. 2 to Second Amended and Restated Employment Agreement dated September 21, 2016, by and between Autobytel Inc. and, Chief Executive Officer, Jeffrey H. Coats, which is incorporated by reference to Exhibit 10.3 to the Current Report on Form 8-K filed with the SEC on September 26, 2016 (SEC File No. 001-34761)
- 10.2 Promotion and Amendment of Offer Letter to Kimberly Boren dated September 21, 2016, which is incorporated by reference to Exhibit 10.4 to the Current Report on Form 8-K filed with the SEC on September 26, 2016 (SEC File No. 001-34761)
- 10.3
- 10.4 Employee Stock Option Award Agreement (Non-Qualified Stock Option), effective as of September 21, 2016, by and between Autobytel Inc. and José Vargas, which is incorporated herein by reference to Exhibit 10.3 to the Current Report on Form 8-K filed with the SEC on October 21, 2016 (SEC File No. 001-34761)

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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.

**SIGNATURES**

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

AUTOBYTEL INC.

Date: November 3, 2016

By: /s/ Kimberly S. Boren  
**Kimberly S. Boren**  
*Executive Vice President and Chief Financial Officer*  
**(Duly Authorized Officer and Principal Financial Officer)**

Date: November 3, 2016

By: /s/ Wesley Ozima  
**Wesley Ozima**  
*Vice President and Controller*  
**(Principal Accounting Officer)**

**EXHIBIT INDEX**

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- 2.2‡ Stock Purchase Agreement dated as of May 21, 2015 by and among Autobytel Inc., a Delaware corporation, CDK Global, LLC, a Delaware limited liability company, Dealix Corporation, a California corporation, and Autotegrity, Inc., a Delaware corporation, which is incorporated by reference to Exhibit 2.1 to the Current Report on Form 8-K filed with the SEC on May 27, 2015 (SEC File No. 001-34761)
- 2.3‡ Agreement and Plan of Merger dated as of October 1, 2015 by and among Autobytel Inc., a Delaware corporation, New Horizon Acquisition Corp., a Delaware corporation, AutoWeb, Inc., a Delaware corporation, and Jose Vargas, which is incorporated by reference to Exhibit 2.1 to the Current Report on Form 8-K filed with the SEC on October 6, 2015 (SEC File No. 001-34761) (“**October 2015 Form 8-K**”)
- 3.1 Fifth Amended and Restated Certificate of Incorporation of Autobytel Inc. (formerly Autobytel.com Inc.) 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 Inc. dated July 22, 1999, Third Certificate of Amendment of the Fifth Amended and Restated Certificate of Incorporation of Autobytel Inc. dated August 14, 2001, and Amended Certificate of Designation of Series A Junior Participating Preferred Stock dated April 24, 2009, which are incorporated herein by reference to Exhibit 3.1 to 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); Fourth Certificate of Amendment to Fifth Amended and Restated Certificate of Incorporation of Autobytel Inc. dated July 10, 2012, which is incorporated herein by reference to Exhibit 3.1 to the Current Report on Form 8-K filed with the SEC on July 12, 2012 (SEC File No. 001-34761); and Fifth Certificate of Amendment to Fifth Amended and Restated Certificate of Incorporation of Autobytel Inc. dated July 3, 2013, which is incorporated herein by reference to Exhibit 3.3 to 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); and Certificate of Designations of Series B Junior Participating Convertible Preferred Stock of Autobytel Inc. dated October 1, 2015, which is incorporated herein by reference to Exhibit 3.1 to the October 2015 Form 8-K
- 3.2 Fifth Amended and Restated Bylaws of Autobytel Inc. dated October 1, 2015, which is incorporated herein by reference to Exhibit 3.2 to the October 2015 Form 8-K
- 4.1 Form of Common Stock Certificate of Autobytel Inc., which is incorporated herein by reference to Exhibit 4.1 to 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 herein 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), as amended by 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 herein 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)
- 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)
- 10.1 Amendment No. 2 to Second Amended and Restated Employment Agreement dated September 21, 2016, by and between Autobytel Inc. and, Chief Executive Officer, Jeffrey H. Coats, which is incorporated by reference to Exhibit 10.3 to the Current Report on Form 8-K filed with the SEC on September 26, 2016 (SEC File No. 001-34761)
- 10.2 Promotion and Amendment of Offer Letter to Kimberly Boren dated September 21, 2016, which is incorporated by reference to Exhibit 10.4 to the Current Report on Form 8-K filed with the SEC on September 26, 2016 (SEC File No. 001-34761)
- 10.3 Stock Option Award Agreement (Non-Qualified Stock Option), effective as of September 21, 2016, by and between Autobytel Inc. and Matías de Tezanos, which is incorporated herein by reference to Exhibit 10.2 to the Current Report on Form 8-K filed with the SEC on October 21, 2016 (SEC File No. 001-34761)
- 10.4 Employee Stock Option Award Agreement (Non-Qualified Stock Option), effective as of September 21, 2016, by and between Autobytel Inc. and José Vargas, which is incorporated herein by reference to Exhibit 10.3 to the Current Report on Form 8-K filed with the SEC on October 21, 2016 (SEC File No. 001-34761)



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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.

## CERTIFICATION

I, Jeffrey H. Coats, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Autobyte 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 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: November 3, 2016

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

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## CERTIFICATION

I, Kimberly S. Boren, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Autobyte 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 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: November 3, 2016

/s/ Kimberly S. Boren  
Kimberly S. Boren,  
*Executive Vice President and  
Chief Financial Officer*

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

In connection with the Quarterly Report of Autobytel Inc. (the “*Company*”) on Form 10-Q for the period ended September 30, 2016 (the “*Report*”), we, Jeffrey H. Coats, President and Chief Executive Officer of the Company, and Kimberly S. Boren, Executive Vice President and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

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

/s/ Jeffrey H. Coats  
Jeffrey H. Coats  
*President and Chief Executive Officer*  
November 3, 2016

/s/ Kimberly S. Boren  
Kimberly S. Boren  
*Executive Vice President and  
Chief Financial Officer*  
November 3, 2016

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.

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