

INTERSHOP COMMUNICATIONS AG  
Form 6-K  
May 19, 2003  
**FORM 6-K**

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D. C. 20549**

**REPORT OF FOREIGN ISSUER  
PURSUANT TO RULE 13a-16 OR 15d-16 OF  
THE SECURITIES EXCHANGE ACT OF 1934**

## **3rd quarter results**

**INTERSHOP Communications Aktiengesellschaft**

(Name of Registrant)

**INTERSHOP Communications Stock Corporation**  
(Translation of registrant's Name into English)

Intershop Tower  
07740 Jena  
Federal Republic of Germany  
(011) 49-3641-50-0  
(Address and Telephone Number of registrant's Principal Executive Offices)

Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F:

Form 20-F

Form 40-F

Indicate by check mark whether the registrant by furnishing the information contained in this Form is also thereby furnishing the information to the SEC pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934:

Yes

No

If "Yes" is marked, indicate the file number assigned to the registrant in connection with Rule 12g3-2(b): N/A

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### **Group Management Report for the Three Months Ended**

**March 31, 2003**

*This report contains forward-looking statements regarding future events or the future financial and operational performance of Intershop. Actual events or performance may differ materially from those contained or implied in such forward-looking statements. Risks and uncertainties that could lead to such difference could include, among other things: Intershop's limited operating history, the unpredictability of future revenues and expenses and potential fluctuations in revenues and operating results, significant dependence on large single customer deals, consumer trends, the level of competition, seasonality, risks related to electronic security, possible governmental regulation, and general economic conditions. Additional information regarding factors that potentially could affect Intershop's*

*business, financial condition, and operating results is included in Intershop's filings with the Securities and Exchange Commission, including the company's Form 20-F dated May 9, 2002.*

## **Market Environment**

In the first three months of 2003, Intershop Communications AG Group ( Intershop, the Company, or the Intershop Group ) business continued to be impacted by weak demand for enterprise software, resulting from corporate information technology (IT) spending constraints. Additionally, seasonally low corporate IT budgets heavily influenced Intershop's financial performance in the first quarter of 2003.

## **Revenue**

Due to continued weakness in corporate IT spending coupled with seasonally lower corporate IT budgets, first quarter 2003 revenue decreased to €6.4 million, compared with revenue of €12.0 million in the fourth quarter of 2002 and €12.2 million in the first quarter of 2002. First quarter 2003 license revenue totaled €1.3 million, compared to €6.5 million in the fourth quarter of 2002 and €6.2 million in the first quarter of 2002. Service revenue (including consulting, customer support, maintenance, and other revenue) totaled €5.1 million in the first quarter of 2003, compared to €5.5 million in the fourth quarter of 2002 and €6.0 million in the first quarter of 2002.

With a large installed base across the region, Europe remained the Company's primary market in the first three months of 2003, accounting for €5.7 million, or 89% of total worldwide revenue in the first three months of 2003, as compared to €10.8 million or 90% in the fourth quarter of 2002 and €9.5 million or 78% in the first three months of 2002. Intershop penetrated the European market from offices in Germany, the United Kingdom, France, Sweden, Norway, Denmark, and Finland. Reflecting weak global demand for online commerce software, on January 21, 2003 Intershop announced further restructuring measures and reduced its end-of-quarter European workforce by 6% quarter on quarter, to 414 full-time-equivalent employees as of March 31, 2003.

Intershop continued to support its customers in the Americas region from its US headquarters in San Francisco, California, generating €0.6 million, or 9% of total global revenue in the first three months of 2003, compared to €1.4 million, or 11% in the fourth Quarter of 2002 and €2.4 million, or 20% in the first three months of 2002. Further organizational streamlining reduced end-of-quarter headcount in the Americas by 27% quarter on quarter, to 29 full-time equivalent employees as of March 31, 2003.

In the Asia Pacific region, Intershop generated €0.1 million in revenue in the first three months of 2003, representing 2% of total global revenue for this period. This compares to €-0.2 million or 1% in the fourth quarter of 2002 and €0.3 million, or 3% of total global revenue in the first three months of 2002. The Company's end-of-quarter headcount in the Asia Pacific office locations in Tokyo, Japan and Hong Kong, China increased by 17% quarter on quarter, to 7 full-time equivalent employees as of March 31, 2003.

In the first three months of 2003, Intershop sold 11 Enfinity configurations (i.e., Enfinity platforms and solutions as well as Enfinity MultiSite) bringing to 423 the total number of Enfinity configurations sold to date worldwide.

In the first three months of 2003, the Company continued to utilize cost-effective indirect channels through partners. Business with Intershop's partners generated approximately 12% of license revenue in the first three months of 2003, as compared to 16% in the fourth quarter of 2002 and 75% in the first three months of 2002.

At the 2003 CeBIT trade fair in Hannover, Germany, Intershop and CaContent GmbH presented CaProfessional ISS as the first result of their new partnership announced in the first quarter of 2003. While Intershop's product strategy primarily targets large blue-chip customers, CaProfessional ISS provides the Company access to the upper end of the

small and medium sized (SME) segment of the online procurement solutions market.

### **Gross Margin**

Gross profit generated in the first three months of 2003 was €2.7 million versus €8.1 million in the fourth quarter of 2002 and €6.6 million in the first three years of 2002. Gross margin on sales for the first quarter of 2003 fell to 42%, from 68% in the fourth quarter of 2002 and 54% in the first quarter of 2003. The decrease in gross margin as compared to the first and fourth quarters of 2002 was primarily due to both the absolute and the relative declines in high-margin license revenues.

Due to a higher proportion of high-value Enfinity software sales in total sales and higher associated royalty fees for the use of third-party database software, the Company's license gross margin in the first quarter of 2003 decreased to 88%, from 98% in the previous quarter and 96% in the comparable 2002 period. The Company's service gross margin (including consulting, customer support, maintenance, and other revenue) was 30% in the first three months of 2003, as compared to 31% in the previous quarter and 10% in the first three months of 2002. The quarterly reduction of the service gross margin was primarily due to lower service revenue quarter on quarter. The improvement in Intershop's service gross margin as compared to the comparable period in 2002 was driven primarily by a better utilization of service personnel and a reduction in the service workforce.

### **Expense and Income**

Intershop recorded first quarter 2003 total operational costs (cost of revenue and operating expense) of €14.6 million, compared to €13.5 million in the previous quarter and €25.6 million in the first quarter of 2002.

On January 21, 2003, the Company announced that it planned to reduce its total operational cost base to a quarterly run rate of approximately €13 million from the second quarter of 2003 onwards. In view of the ongoing volatility in the software market, Intershop introduced cost saving measures in the first quarter of 2003 intended to re-deploy the Company's resources to better execute its strategic plan.

According to the cost saving plan, the Company reduced its global workforce from 479 full-time equivalent employees as of December 31, 2002 to 449 full-time equivalent employees as of March 31, 2003. As a result of executing its cost savings plan, the Company's recorded restructuring charges of €0.7 million in the first quarter of 2003, driven primarily by severance payments to former employees and facility-related charges due to the closing of the Company's Berlin, Germany office. By comparison, the Company recorded negative restructuring costs of €0.1 million in the fourth quarter of 2002 due to the reversal of certain restructuring accruals. In the comparable prior year period, Intershop recorded restructuring costs of €3.8 million.

Due to the suspension of a short time work schedule in the research and development (R&D) department, Intershop's R&D costs increased quarter on quarter, from €1.4 million in the fourth quarter of 2002 to €1.7 million in the first quarter of 2003. This compares to first quarter 2002 R&D costs of €2.5 million. The short time work schedule in the R&D department had been introduced in March 2002.

Primarily due to lower revenue-dependent commission payments to sales employees as well as further headcount reductions in both the sales and the marketing departments, sales and marketing expenses were further reduced in the first quarter of 2003. Quarter on quarter, R&D expenses decreased by 18% to €5.7 million in the first three months of 2003; as compared to the first three months of 2002, R&D expenses decreased by 37%.

Included in the Company's sales and marketing expenses for the first quarter 2003 were costs for the 2003 CeBIT trade fair in Hannover, Germany as well as costs for a marketing campaign to roll out Unified Commerce Management (UCM), a best-practices corporate IT strategy aimed at realizing competitive advantage by integrating all online commerce processes. In contrast to traditional, often isolated online commerce implementations, the UCM approach

offers enterprise clients a customer-facing strategy to centrally manage all online commerce initiatives from a single point of control and enables them to integrate online commerce processes across disparate countries, markets, business units, applications, and systems. The new UCM approach focuses on increasing clients' returns on investment (ROI) and on reducing total cost of ownership (TCO). Intershop currently supports the UCM strategy with its unique Enfinity MultiSite software.

General and administrative (G&A) expenses in the first three months of 2003 increased from €1.3 million in the fourth quarter of 2002 to €2.8 million in the first quarter of 2003 as a result of one-time effects in the opposite direction. They have decreased by 40% compared to the first quarter of 2002. The year-over-year decrease in G&A expenses was driven largely by lower bad debts and lower overhead costs associated with the Company's centralization efforts and, as a result, a significantly reduced infrastructure supporting Intershop's business model.

Depreciation and amortization charges were €1.2 million in the first three months of 2003, compared to €1.6 million in the previous quarter and €4.1 million in the first quarter of 2002.

Due to lower revenue and higher total operational costs, Intershop reported a first quarter 2003 operating loss of €8.2 million, as compared to a fourth quarter 2002 operating loss of €1.5 million and a first quarter 2002 operating loss of €13.4 million.

Intershop reported a first quarter 2003 net loss of €8.4 million or a net loss of €0.44 per share. This compares to a net loss of €1.0 million or a net loss of €0.05 per share in the fourth quarter of 2002 and a net loss of €13.3 million or a net loss of €0.75 in the first quarter of 2002.

The Company reported a first quarter 2003 pro forma EBITDA loss (earnings before interest, taxes, depreciation, and amortization) of €7.2 million. This compares to a positive fourth quarter 2002 pro forma EBITDA result of €0.3 million and an pro forma EBITDA loss of €9.4 million in the first quarter of 2002.

## **Liquidity and Balance Sheet**

Net cash usage related to operating activities decreased from €11.4 million in the first three months of 2002 to €5.6 million in the first three months of 2003, primarily driven by lower net losses from operating activities. Investing activities used a total of €0.2 million in the first three months of 2003, largely driven by purchases of marketable securities and purchases of property and equipment. This figure compares to net cash generated by activities of €5.3 million in the first three months of 2002, which was primarily related proceeds from the sale of marketable securities. No cash was generated by financing activities in the first three months of 2003 compared with €10.0 million in the first three months of 2002. Nearly all cash generated from financing activities in the first three months of 2002 stems from the cash investment by the Company's Chief Executive Officer, Stephan Schambach, through a private equity placement.

Cash, cash equivalents, marketable securities, and restricted cash as of March 31, 2003 totaled €16.7 million, compared to €22.5 million as of December 31, 2002. Net cash usage in the first three months of 2003 was driven primarily by operating losses as well as a reduction of net working capital. Net working capital decreased, mainly due to higher days sales outstanding (DSO) which increased from 86 as of December 31, 2002 to 101 as of March 31, 2003.

Trade receivables as of March 31, 2003 were €7.1 million, compared to €11.1 million as of December 31, 2002. The year-over-year decrease was driven primarily by reduced sales in the first quarter of 2003.

Intershop had short-term deferred revenues of €5.7 million as of March 31, 2003, compared to €6.3 million as of December 31, 2002. The quarter-on-quarter decrease in short-term deferred revenues reflects certain large projects

with extended implementation cycles.

## **Capital Structure**

Effective January 1, 2003, Intershop's common bearer shares were admitted to the new Prime Standard trading segment of the Frankfurt Stock Exchange. The newly created Prime Standard trading segment essentially replaced the Neuer Markt trading segment on which Intershop's common bearer shares had previously been traded. With admission, Intershop complies with the comprehensive transparency standards of the Prime Standard trading segment, including quarterly financial reporting, use of internationally accepted accounting standards (e.g., US GAAP), publication of a financial calendar, at least one analyst conference per year, ad-hoc disclosures and ongoing financial communication in both German and English.

On January 14, 2003, the Company announced an effective date of January 17, 2003 for the technical execution of the reverse stock split approved at the company's Special Stockholders Meeting held on October 30, 2002. As a result of the reverse stock split, five old Intershop common bearer shares were exchanged for one new Intershop common bearer share. The reverse split was implemented after the close of trading on January 17, 2003 and the converted shares were traded for the first time on January 20, 2003. Following the stock split, the International Securities Identification Number (ISIN) of Intershop Communications AG's common bearer shares changed from ISIN DE 0006227002 (equivalent to German Securities Identification Number WKN 622700) to ISIN DE 0007472920 (equivalent to German Securities Identification Number WKN 747292), and the ticker symbol of Intershop's shares traded on Prime Standard changed from ISH to ISH1. The new shares began trading on a consolidated basis on January 20, 2003. Subsequent to the reverse stock split of Intershop's ordinary common bearer shares traded in Germany, a change of the ratio of Intershop's American Depositary Shares (ADS) quoted on Nasdaq National Market to the underlying ordinary shares traded in Germany was effected on February 6, 2003. After the ratio change, one ADS evidenced one Intershop common bearer share instead of five Intershop common bearer shares before the ratio change.

Subsequent to the one-for-five reverse stock split of Intershop's ordinary common bearer shares traded in Germany, a change of the ratio of Intershop's American Depositary Shares (ADS) quoted on Nasdaq National Market to the underlying ordinary shares traded in Germany was effected on February 6, 2003. After the ratio change, 1 ADS evidenced 1 Intershop common bearer share instead of 5 Intershop common bearer shares before the ratio change. The ratio change did not affect the value of an investor's ADS holdings. The ratio change was non-dilutive and had no impact on Intershop's balance sheet.

In the first three months of 2003, no employee stock options were exercised and exchanged for Intershop Communications AG common bearer shares.

## **Organizational Changes**

On March 31, 2003 Dr. Harald Rieger was appointed by the Local Court in Gera, Germany, to the position of Member of the Supervisory Board. Dr. Rieger is at the same time Managing Partner at the law firm Kaye Scholer (Germany) in Frankfurt, Germany as well as Member of the Supervisory Board at KirchMedia i.L. and Gontard & MetalBank AG i.L. He previously held several positions at Metallgesellschaft AG, including General Counsel, Executive Vice President, and Member of the Executive Board responsible for Legal Affairs and Human Resources.

## **Business Outlook**

Against the backdrop of continuing weakness in global IT spending and weaker-than-expected first quarter 2003 results, Intershop now anticipates that total revenue for the full year of 2003 will be slightly lower than total revenue

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for the full year 2002. For fiscal year 2003, Intershop expects to incur an EBITDA loss of approximately Euro 5.0 million. Previously, Intershop had expected full year 2003 revenue to be flat year over year and EBITDA for fiscal year 2003 to break even with sales.

Intershop Communications AG Consolidated Balance Sheets (U.S.GAAP) (in thousands €, except share and per-share amounts)		
	March 31, 2003 (unaudited)	December 31, 2002
<b>ASSETS</b>	€	€
<b>Current assets</b>		
Cash and cash equivalents	5,443	11,303
Marketable securities	4,189	4,172
Restricted cash	7,093	7,073
Trade receivables, net of allowances for doubtful accounts of €5,693 at March 31, 2003 and €7,511 at December 31, 2002, respectively	7,113	11,131
Prepaid expenses and other current assets	10,943	7,427
<b>Total current assets</b>	<b>34,781</b>	<b>41,106</b>
Property and equipment, net	3,298	4,301
Other assets	1,107	2,268
Goodwill	4,473	4,473
<b>Total assets</b>	<b>43,659</b>	<b>52,148</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current liabilities</b>		
Current debt and current maturities of long-term debt	28	98
Accounts payable	1,456	840
Accrued restructuring costs	4,046	4,881
Other accrued liabilities	14,145	13,472
Deferred revenue	5,730	6,295
<b>Total current liabilities</b>	<b>25,405</b>	<b>25,586</b>
Long-term liabilities, net of current portion	-	152
Deferred revenue	66	38
<b>Total liabilities</b>	<b>25,471</b>	<b>25,776</b>
<b>Shareholders' equity</b>		
Common share, stated value €1-authorized: 92,211,719 shares; outstanding: 19,306,400 shares at March 31, 2003 and 19,306,400 shares at December 31, 2002, respectively		
	19,306	19,306

Intershop Communications AG Consolidated Balance Sheets (U.S.GAAP) (in thousands €, except share and per-share amounts)		
Accumulated deficit	(4,276)	4,124
Accumulated other comprehensive income	3,158	2,942
Total shareholders' equity	<b>18,188</b>	<b>26,372</b>
<b>Total liabilities and shareholders' equity</b>	<b>43,659</b>	<b>52,148</b>

Intershop Communications AG Consolidated Statements of Operations (U.S.-GAAP) (In thousands €, except per-share amounts, unaudited)		
	Three Months Ended March 31,	
	2003	2002
	€	€
<b>Revenues</b>		
Licenses	1,296	6,186
Services, maintenance, and other	5,070	5,973
<b>Total revenues</b>	<b>6,366</b>	<b>12,159</b>
<b>Cost of revenues</b>		
Licenses	153	237
Services, maintenance, and other	3,550	5,364
<b>Total costs of revenues</b>	<b>3,703</b>	<b>5,601</b>
<b>Gross profit</b>	<b>2,663</b>	<b>6,558</b>
<b>Operating expenses</b>		
Research and development	1,698	2,460
Sales and marketing	5,701	9,117
General and administrative	2,790	4,634
Restructuring costs and asset impairment	712	3,793
<b>Total operating expenses</b>	<b>10,901</b>	<b>20,004</b>
<b>Operating loss</b>	<b>(8,238)</b>	<b>(13,446)</b>
<b>Other income (expense)</b>		
Interest income	54	168
Interest expense	(10)	(2)
Other income (expense), net	(205)	(6)
<b>Total other income (expense)</b>	<b>(161)</b>	<b>160</b>
<b>Net loss</b>	<b>(8,399)</b>	<b>(13,286)</b>
<b>Basic and diluted loss per share</b>	<b>(0.44)</b>	<b>(0.75)</b>

Shares used in computing:

For basic and diluted loss per share	19,306	17,638
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Intershop Communications AG Consolidated Statements of Cashflows (U.S.GAAP) (in thousands €, unaudited)		
	Three months ended March 31,	
	2003	2002
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net loss	(8,399)	(13,286)
<i>Adjustments to reconcile net loss to cash used in operating activities</i>		
Depreciation and amortization	1,217	4,096
Provision for doubtful accounts	(1,617)	(195)
(Gain) loss on disposal of marketable securities	(2)	-
Loss on disposal of property and equipment	-	7
<i>Changes in operating assets and liabilities</i>		
Accounts receivable	5,531	(928)
Prepaid expenses and other current assets	(3,647)	2,082
Other assets	1,101	1
Accounts payable	630	(416)
Deferred revenue	(469)	(758)
Accrued restructuring costs	(835)	197
Accrued expenses and other liabilities	905	(2,171)
Net cash used in operating activities	<b>(5,585)</b>	<b>(11,371)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Restricted cash	(20)	-
Proceeds on disposal of equipment	-	677
Purchases of property and equipment, net of capital leases	(214)	-
Proceeds from sale of marketable securities	4,173	19,657
Purchases of marketable securities	(4,162)	(15,002)
Net cash (used in) provided by investing activities	<b>(223)</b>	<b>5,332</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Cash received for unregistered stock	-	10,001
Net cash provided by financing activities	-	<b>10,001</b>



Intershop Communications AG Consolidated Statements of Cashflows (U.S.GAAP) (in thousands €, unaudited)		
Effect of change in exchange rates on cash	(52)	143
Net change in cash and cash equivalents	(5,860)	4,105
Cash and cash equivalents, beginning of period	<b>11,303</b>	<b>9,107</b>
<b>Cash and cash equivalents, end of period</b>	<b>5,443</b>	<b>13,212</b>

Intershop Communications AG Consolidated Statement of Shareholders Equity (in thousands €, except share data)						
	Common Shares	Common Shares Stated Value	APIC	Accumulated Deficit	Accumulated Other Comprehensive Income	Total Shareholders Equity
<b>Balance, January 1, 2001</b>	<b>88,003,016</b>	<b>88,003</b>	<b>168,585</b>	<b>(84,329)</b>	<b>1,709</b>	<b>173,969</b>
Other comprehensive loss:						
Net loss				(131,798)		(131,798)
Foreign currency translation adjustments					837	837
Unrealized gain (loss) on available for sale security, net					348	348
Comprehensive loss						(130,613)
Exercise of stock options	188,306	188	330			518
Appropriation of paid in capital			(155,495)	155,495		
<b>Balance, December 31, 2001</b>	<b>88,191,322</b>	<b>88,191</b>	<b>13,420</b>	<b>(60,632)</b>	<b>2,894</b>	<b>43,874</b>
Other comprehensive loss:						

Intershop Communications AG						
Consolidated Statement of Shareholders Equity						
(in thousands €, except share data)						
Net loss				(27,555)		(27,555)
Foreign currency translation adjustments					157	157
Unrealized gain (loss) on available for sale security, net					(109)	(109)
Comprehensive loss						(27,507)
Exercise of stock options	6,678	7	(3)			4
Private placement of common stock, net	8,334,000	8,334	1,667			10,001
Allocation of par value resulting from reverse stock split	(77,225,600)	(77,226)	77,226			
Appropriation of additional paid-in capital				(92,310)	92,310	
<b>Balance, December 31, 2002</b>	<b>19,306,400</b>	<b>19,306</b>	<b>-</b>	<b>4,124</b>	<b>2,942</b>	<b>26,372</b>
Other comprehensive loss:						
Net loss (unaudited)				(8,399)		(8,399)
Foreign currency translation adjustments (unaudited)					189	189
Unrealized gain (loss) on available for sale					26	26

Intershop Communications AG  
Consolidated Statement of Shareholders' Equity  
(in thousands €, except share data)

security, net  
(unaudited)

Comprehensive loss	(8,184)
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Exercise of stock options

Private placement of common stock, net

Allocation of par value resulting from reverse stock split

Appropriation of additional paid-in capital

<b>Balance,</b>					
<b>March 31, 2003</b>	<b>19,306,400</b>	<b>19,306</b>	<b>(4,275)</b>	<b>3,157</b>	<b>18,188</b>

## Intershop Communications AG and Subsidiaries

### Notes to Consolidated Financial Statements

#### 1. Basis of Presentation

The condensed consolidated financial statements included herein have been prepared by the Company, without audit, pursuant to the rules and regulations of the Neuer Markt. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States have been condensed or omitted pursuant to such rules. However, the Company believes that the disclosures are adequate to make the information presented not misleading. These unaudited condensed consolidated financial statements should be read in conjunction with the financial statements and the notes thereto included in the Company's Annual Report for the fiscal year ended December 31, 2002. The unaudited condensed consolidated financial statements included herein reflect all adjustments (which include only normal, recurring adjustments) which are, in the opinion of management, necessary to state fairly the results for the interim periods presented. The results of operations for the interim periods presented are not necessarily indicative of the operating results to be expected for any subsequent interim period or for the fiscal year ending December 31, 2003.

#### 2. Accounting Policies

The consolidated financial statements presented are prepared in conformity with U.S. generally accepted accounting principles (U.S.-GAAP). The principle accounting policies adopted by the Company are as follows:

## Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management 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. Actual results could differ from those estimates. Certain financial statement captions that are prepared using estimates where it is reasonably possible that these estimates will change in the near term include allowance for doubtful accounts and restructuring accruals.

## Revenue Recognition

The Company generates the following types of revenue:

**Licenses.** License fees are earned under software license agreements primarily to end-users, and to a lesser extent resellers and distributors. Revenues from licenses to end-users are recognized upon shipment of the software if persuasive evidence of an arrangement exists, collection of the resulting

receivable is probable and the fee is fixed and determinable. If an acceptance period is required, revenues are recognized upon the earlier of customer acceptance or the expiration of the acceptance period.

**Service and maintenance.** Services consist of support arrangements and consulting and education services. Support agreements generally call for the Company to provide technical support and provide certain rights to unspecified software updates to customers. Revenue on technical support and software update rights is recognized ratably over the term of the support agreement. The Company provides consulting and education services to its customers; revenue from such services is generally recognized as the services are performed.

For arrangements that include multiple elements, the fee is allocated to the various elements based on vendor-specific objective evidence of fair market value established by independent sale of the elements when sold separately.

## Stock-Based Compensation

The Financial Accounting Standards Board ( FASB ) issued SFAS No. 123, Accounting for Stock-Based Compensation, in October 1995. This accounting standard permits the use of either a fair value based method of accounting or the method defined in Accounting Principles Board Opinion 25, Accounting for Stock Issued to Employees ( APB 25 ) to account for stock-based compensation arrangements. The Company has elected to continue to account for its stock-based compensation arrangements under the provisions of APB 25, and, accordingly, has included in Note 12 the pro forma disclosures required under SFAS No. 123. If compensation cost for the Plan had been determined based on the fair value at the grant dates for the awards calculated in accordance with the method prescribed by SFAS No. 123, the impact on the Company's net loss and net loss per share would have been as follows (in thousands of €, except per-share amounts):

	Three Months ended March 31,	2002	2003
Net loss attributable to common shareholders			
As reported		(13,286)	(8,399)
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects		(1,375)	(16)
Pro forma		(14,661)	(8,415)
Basic and diluted loss per share			

	Three Months ended March 31,	2002	2003
As reported		(0.75)	(0.44)
Pro forma		(0.83)	(0.44)

The following assumptions have been made to estimate the fair value of the options:

	2002	2003
Risk-free interest on the date of grant	4.0	3.75
Assumed dividend	-	-
Volatility	92.5%	79.0%
Expected option lives (years)	4.15	4.03

#### Goodwill

Since the beginning of 2002, the Company has adopted the accounting standard SFAS No. 142, Goodwill and Other Intangible Assets, which was published in June 2001. Under SFAS No. 142, goodwill will no longer be amortized, but will be tested for impairment on an annual basis and whenever indicators of impairment arise. The Company identified indicators of impairment under SFAS No. 142 to be the same as under SAB No. 100. The goodwill impairment test, which is based on fair value, is to be performed on a reporting unit level. A reporting unit is defined by SFAS No. 131 as an operating segment or one level lower. The Company markets its products and services in one segment and thus allocates goodwill to one reporting unit. Therefore, impairment is tested at the enterprise level using the Company's market capitalization as fair value. Goodwill will no longer be allocated to other long-lived assets for impairment testing in accordance with SFAS No. 121.

A full description of the accounting policies adopted by the Company can be found within the Company's Annual Report for the financial year ending December 31, 2002.

### 3. Comprehensive Income

Comprehensive income includes foreign currency translation gains and losses and unrealized gains and losses on equity securities that are reflected in stockholders' equity instead of net income.

The following table sets forth the calculation of comprehensive income for the periods indicated (in thousands €):

	Three Months ended March 31,	2002	2003
Net loss		(13,286)	(8,399)
Foreign Currency translation gains (losses)		(189)	189
Unrealized loss on available-for-sale securities		(107)	26
<b>Total comprehensive income (loss)</b>		<b>(13,582)</b>	<b>(8,184)</b>

### 4. Earnings Per Share

Basic net loss per common share is presented in conformity with Statement of Financial Accounting Standards ( FAS ) No. 128 "Earnings Per Share" for all periods presented. Basic net loss per share is computed using the weighted-average number of vested outstanding shares of common stock. Diluted net loss per share is computed using the weighted-average number of vested shares of common stock outstanding and, when dilutive, unvested common stock outstanding, potential common shares from options and warrants to purchase common stock using the treasury

stock method and from convertible securities using the as-if-converted basis. The options exercised that result in shares subject to repurchase have been excluded in computing the number of weighted average shares outstanding for basic earnings per share purposes. All potential common shares have been excluded from the computation of diluted net loss per share for the periods presented because the effect would be antidilutive.

The following table sets forth the computation of basic earnings per share for the periods indicated (in thousands €, except per share data):

Three Months ended March 31,	2002	2003
Net loss attributable to common shareholders	(13,286)	(8,399)
Basic and diluted net loss per share:		
Weighted average common shares outstanding	17,638	19,306
<b>Basic and diluted net loss per share</b>	<b>(0.75)</b>	<b>(0.44)</b>

### 5. Stock-Based Compensation

The Company applies APB Opinion No. 25 and related interpretations in accounting for the Plan.

Option activity under the plans was as follows (in thousands of €, except per-share data):

Three Months ended March 31,	2002	2002	2003	2003
	Number of shares outstanding	Weighted-average exercise price (€)	Number of shares outstanding	Weighted-average exercise price (€)
Outstanding at beginning of period	1,158	174.25	1,979	77.60
Granted	1,099	7.31	21	2.69
Exercised	1	3.19	-	-
Forfeited	118	181.05	72	62.80
<b>Outstanding at end of period</b>	<b>2,138</b>	<b>88.24</b>	<b>1,928</b>	<b>34.85</b>
Exercisable options at end of period	406	205.99	767	128.83
Weighted average fair market value of options granted during the year	1,099	4.98	21	1.68

The following table summarizes information with respect to the stock options outstanding on March 31, 2003:

Range of Exercise	Number of options	Weighted-average remaining	Weighted-average exercise price (€)	Number exercisable	Weighted-average exercise price (€)
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Price	outstanding (000s)	contractual life (in years)		on 12/31/02 (000s)	
0.07	5.99264	8.3	4.88	26	5.07
6.00	6.99321	8.3	6.04	101	6.05
7.00					
16.99	573	8.0	7.99	167	7.99
17.00					
49.99	449	3.6	21.65	230	22.49
50.00					
758.04	321	2.2	395.97	243	377.01
	<b>1,928</b>	<b>6.1</b>	<b>75.05</b>	<b>767</b>	<b>128.83</b>

## 6. Recent Accounting Pronouncements

In December 2002, SFAS No. 148, Accounting for Stock-Based Compensation--Transition and Disclosure, was issued. SFAS No. 148 supplements SFAS No. 123, Accounting for Stock-Based Compensation, and offers alternative methods of transition for a voluntary change to the fair value based method of accounting of stock-based employee compensation recommended in SFAS No. 123. SFAS No. 148 also supplements the disclosure obligations contained in SFAS No. 123 and APB Opinion No. 28, Interim Financial Reporting. The transition and disclosure obligations contained in SFAS 148 apply to the fiscal years after December 15, 2002; earlier application is also permitted. The Company has adopted the disclosure provisions of SFAS No. 148 in 2002. The Company continues to account for employee stock based compensation under the intrinsic value method as prescribed by APB Opinion No. 25.

In June 2001, the FASB issued SFAS No. 143, Accounting for Asset Retirement Obligations. SFAS No. 143 requires companies to record an appropriate charge in connection with the retirement or disposal of property and equipment in the period in which this took place, provided that the fair value can be reasonably determined. The costs incurred in the retirement or disposal of assets are netted against the carrying amount of the long-lived assets. Companies will calculate the changes over time in the amount of the anticipated expenses to be incurred for the retirement or disposal of an asset by discounting the amount calculated at the beginning of the period. The interest rate used in the calculation of this change corresponds to the risk-adjusted rate to be fixed in accordance with the company's credit rating the first time the expenses are recognized. The carrying amount of the related property and equipment increases by the amount calculated, which is then written down over the objects' remaining useful lives and recorded as operating expenses in the income statement. SFAS No. 143 is effective for the fiscal years beginning after June 15, 2002. The adoption of SFAS No. 143 did not have a material adverse effect on its financial position, results of operations, or cash flows.

In June 2002, the FASB published SFAS No. 146, Accounting for Costs Associated with Exit or Disposal Activities. This statement addresses financial accounting and reporting for costs associated with exit or disposal activities and supersedes the preliminary provisions of the Emerging Issues Task Force (EITF) Issue No. 94-3,

Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring). This statement requires that a liability for a cost associated with an exit or disposal activity must be recognized when the liability is incurred. Under Issue 94-3, the liability for an exit cost was recognized as the date of an entity's commitment to a concrete exit or disposal plan. The new standard holds that a

company's commitment to a plan does not represent a direct obligation to another party that would be defined as a liability. SFAS 146 therefore rescinds the definitions and requirements for the accounting of exit costs contained in Issue 94-3 until a liability is actually incurred and stipulates that the amount of the liability be initially measured at the current fair value. However, this standard does not apply to expenses arising in connection with the retirement of activities in divisions acquired by way of a combination or covered by SFAS 144. The Company does not expect the adoption of SFAS No. 146 to have a material adverse effect on its financial position, results of operations, or cash flows.

In November 2002, the FASB issued FASB Interpretation No. 45 ( FIN 45 ), Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others. FIN 45 requires a guarantor to recognize, at the inception of a guarantee, a liability for the fair value of the obligation undertaken by it in issuing the guarantee. It also expands the disclosure requirements in the financial statements of the guarantor with respect to its obligations under certain guarantees that it has issued. The Company is required to adopt the initial recognition and initial measurement accounting provisions of this interpretation on a prospective basis to guarantees issued or modified after December 31, 2002. The Company does not anticipate the adoption to have a material effect on the Company's financial position, or results of operations, or cash flows.

In January 2003, the FASB issued FASB Interpretations No. 46 ( FIN 46 ), Consolidation of Variable Interest Entities. This interpretation clarifies the application of Accounting Research Bulletin No. 51, Consolidated Financial Statements, to certain entities in which equity investors do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. FIN 46 is effective February 1, 2003 for variable interest entities created after January 31, 2003, and July 31, 2003 for variable interest entities created prior to February 1, 2003. The Company does not anticipate the adoption of FIN 46 to have a material impact on its financial position, results of operations, or cash flows.

## 7. Industry Segment and Geographic Information

The Company operates primarily in one line of business, which is providing Unified Commerce Management software for managing online commerce processes across extended enterprises. Accordingly, the Company does not disclose significant additional segment information under the definition of segment reporting, defined by SFAS No. 131. However, the Company's business has five international sales geographies: Germany, United States, United Kingdom, Asia Pacific, and other (which includes France, Denmark, Norway, and Sweden). These geographies are supported by the central General Administration as well as by the Research & Development and Technical Support departments. The Company's products are developed at its headquarter in Jena, Germany, and are sold in Europe, North America, Australia, and Asia via the Company's own direct distribution, sales partners, and independent distributors.

Three months ended March 31, 2003 (in thousands of €):

	Germany	United States	United Kingdom	Asia Pacific	Other*	Total
Revenues						
Licenses	710	130	318	43	95	1,296



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	Germany	United States	United Kingdom	Asia Pacific	Other*	Total
Services, maintenance and other	3,747	439	216	21	647	5,070
Total Revenues	4,457	569	534	64	742	6,366
Gross profit						
Licenses	557	130	318	43	95	1,143
Services, maintenance and other	677	164	128	21	530	1,520
Total gross profit (loss)	1,234	294	446	64	625	2,663
Total Operating expenses	10,480	1,223	796	424	1,681	14,604
Operating income (loss)	-6,023	-654	-262	-360	-939	-8,238
Other income (expense) net						-161
Net loss						-8,399
Long lived assets	2,608	125	407	-	158	3,298

Three months ended March 31, 2002 (in thousands of €):

	Germany	United States	United Kingdom	Asia Pacific	Other*	Total
Revenues						
Licenses	3,732	1,863	88	158	345	6,186
Services, maintenance and other	4,152	523	231	150	917	5,973
Total Revenues	7,884	2,386	319	308	1,262	12,159
Gross profit						
Licenses	3,891	1,702	48	87	220	5,948
Services, maintenance and other	598	(306)	(225)	130	413	610
Total gross profit (loss)	4,489	1,396	(177)	217	633	6,558
Total Operating expenses	12,255	2,152	2,059	1,153	2,385	20,004
Operating income (loss)	(7,766)	(756)	(2,236)	(936)	(1,752)	(13,446)
Other income (expense) net						160
Net loss						(13,286)
Long lived assets	6,915	440	1,058	105	269	8,787

\* Significant other geographic locations include and France and Sweden.

The accounting policies followed by the Company's business segments are the same as those described for the group and these can be found within the Company's Annual Report for the financial year ending December 31, 2002.

## 8. Restructuring Charges and Asset Impairments

In the quarter ended March 31, 2002, the Company adopted measures to reduce its workforce and to consolidate existing facilities, among other things. Other measures included the appointment of new management, the creation of a simplified organizational structure, and a sales campaign for new products. These steps were aimed at aligning the Company's cost structure with changing market conditions and accelerating its path to profitability. The Company completed the majority of these restructuring measures by December 2002.

In January 2003 the Company decided to reduce its total operational cost base (cost of revenue and operating cost) by about 20 percent, to a quarterly run rate of approximately Euro 13 million. A charge of € 0.7 million was recorded in this quarter to provide for these actions and other related items.

The following tables summarize the restructuring charges recorded during the three months ended March 31, 2003 and 2002 respectively (in thousands €):

Three Months ended March 31,	2002	2003
Employee Related Charges	1,670	462
Facility Related Charges	2,048	153
Other	75	97
<b>Total restructuring charges</b>	<b>3,793</b>	<b>712</b>

	Employee related charges	Facility related charges	Other	Total
Accrued restructuring costs at December 31, 2000	618	4,181	82	4,881
Currency Adjustments	(10)	(78)	-	(88)
Restructuring charges quarter ended March 31, 2003	462	153	97	712
Cash Payments	(313)	(1,048)	(98)	(1,459)
<b>Accrued restructuring costs at March 31, 2003</b>	<b>757</b>	<b>3,208</b>	<b>81</b>	<b>4,046</b>

The nature of the charges summarized above is as follows:

### Employee Related Charges

As at December 31, 2002 the number of employees was 479 full-time equivalents (December 31, 2001: 733). In the first quarter 2003 the number of employees was reduced to 449 full-time equivalents in connection with the cost reductions.

The accruals for employee-related charges mainly comprise the expected future payments relating to the termination of contracts, including severance payments, payroll taxes, and legal costs.

#### Facility Related Charges

In the first quarter of 2003, the Intershop Group recorded restructuring costs of approximately €0.2 million in connection with the consolidation of existing facilities, which principally relate to probable future payments for existing lease commitments for property no longer in use, net of sublease income.

The accruals for facility-related costs mainly include the expected future payments for existing lease commitments for property no longer in use, net of sublease income. The sub lease income has been estimated based upon the contractual agreements in place as of the date the financials were prepared.

#### Other

The Company recorded a charge of approximately € 0.1 million for various non-cancelable contracts, of which there is no future benefit to the Company.

The restructuring accrual is calculated based on financial estimates and information available as at March 31, 2003. Adjustments to the restructuring reserves will be made in future periods, if necessary, based upon actual events and available information at that moment in time.

### **9. Dividends**

The Company did not pay any dividends in the first quarter of 2003 or in the previous financial year.

### **10. Research and development**

The Company is continuing to invest resources into research and development of new products in the e-commerce software market. In the first quarter of 2003, the Company incurred research and development costs of approximately € 1.7 million compared with € 2.5 million in the first quarter of 2002. The Company expenses all research and development costs as incurred.

### **11. Share Repurchase**

The Company did not own or repurchase any of its own shares in the first quarter of 2003.

### **12. Marketable Securities**

In accordance with SFAS No. 115, Accounting for Certain Investments in Debt and Equity Securities, the Company classifies its investments in readily marketable debt and equity securities as available-for-sale securities.

Available-for-sale securities are carried at fair value, with the unrealized gains and losses, net of tax, reported in accumulated other comprehensive income as a separate component of shareholders' equity.

### **13. Shareholders' Equity**

The following tables summarize the change in shareholders' equity for the three months ended March 31, 2003 and 2002 (in thousands €):

Three Months ended March 31,	2002	2003
Net loss	(13,286)	(8,399)
Foreign Currency translation gains (losses)	(189)	189
Unrealized gain (loss) on available-for-sale securities	(107)	26
Cash received for unregistered stock	10,001	-
Opening Shareholders equity	43,874	26,372
<b>Closing Shareholders equity</b>	<b>40,293</b>	<b>18,188</b>

Stephan Schambach (Chief Executive Officer and *Vorstand* member) held 4,166,667 shares in Intershop Communications, Inc., a majority-owned subsidiary of Intershop Communications AG, as of March 31, 2003. These shares can be converted into 2,500,000 Intershop Communications AG common bearer shares any time before 2004. In January 2002, the Company announced that Stephan Schambach intends to execute his conversion right detailed above. As of March 31, 2003, this conversion had not been completed.

#### 14. Legal Matters

The Company is a defendant in various legal matters arising in the normal course of business. It is possible that an adverse ruling in any such matter individually, or some or all of the matters collectively, may have a materially adverse effect on our results of operations. The Company expenses legal costs associated with loss contingency as such legal costs are incurred.

The Company is a defendant in a consolidated class action lawsuit in the United States and an investigation by the German Federal Financial Supervisory Authority (Bundesanstalt für Finanzdienstleistungsaufsicht, BAFin, formerly German Federal Supervisory Office for Securities Trading--Bundesaufsichtsamt für den Wertpapierhandel, BAWe). At the beginning of 2001, several securities class action lawsuits were filed in the US against Intershop Communications AG, Management Board members, certain other officers, and the underwriters of the Company's September 2000 public offering. The complaints allege that the defendants made material misrepresentations and omissions of material facts concerning the Company's business performance. The complaints seek an unspecified amount of damages. The Company believes there is no merit to these cases and intends to defend the cases vigorously. However, there can be no assurance that the Company will prevail in the lawsuit, or that the outcome of the lawsuit will not adversely affect the Company's operations. In Germany, the BAFin announced in January 2001 that it had initiated an investigation regarding a possible violation of the duty to disclose material information in connection with the release on January 2, 2001, of Intershop Communications AG's preliminary results for 2000. The BAFin handed this case over to the public prosecutor in Hamburg, Germany, who initiated an investigation into complaints about stock price manipulations in May 2001. The Company is cooperating in full with these investigations and, to the best of the management's knowledge, has never previously been the subject of such investigations. The Company believes there is no merit to these allegations.

In January 2001, a US company filed a suit in the federal district court in Delaware against Intershop Communications, Inc., claiming violation of certain patent rights. The complaint seeks an unspecified amount of compensation for damages based on the alleged patent infringements. This case was settled for US\$0.5 million on September 24, 2001. As part of the settlement, the parties exchanged certain licenses and rights for a limited term under certain of their respective United States patents and patent applications, in addition to other terms and conditions of the settlement agreement which were not disclosed.

In the reporting period, a claim about €5 million regarding the violation of a license agreement was legally asserted by another software company. An out-of-court settlement with this software company has been reached but is subject to

the approval of the software company's stockholders. At the date of reporting, the Company has not been informed that the approval would not be given.

## 15. Directors Holdings

As of March 31, 2003, the following Company directors held Intershop Communications AG ordinary bearer shares or options to purchase such shares (post one-for-five reverse stock split):

Name	Title, Function	Shares held*	Stock options held*. **
Eckhard Pfeiffer	Chairman of the Supervisory Board	80,000	0
Theodore J. Smith	Vice-Chairman of the Supervisory Board	21,458	0
Peter Mark Droste	Member of the Supervisory Board	0	0
Hans W. Gutsch	Member of the Supervisory Board	70,000	0
Burgess Jamieson	Member of the Supervisory Board	0	0
Dr. Harald Rieger (since March 31, 2003)	Member of the Supervisory Board	0	0
Stephan Schambach	Chief Executive Officer, Chairman of the Management Board (Vorstandsvorsitzender)	1,744,300***	0
Dr. Jürgen Schöttler	Chief Financial Officer, Member of the Management Board (Finanzvorstand)	14,000	60,000
Werner Fuhrmann	President Europe, Middle East and Africa (EMEA), Member of the Management Board (Vorstand)	66	60,000

\* All information post one-for-five reverse stock split. As part of the Company's initiative to strengthen its balance sheet and increase its financial flexibility, on October 30, 2002 Intershop's stockholders approved the reduction of the company's capital by €77,225,600, or a ratio of five to one, from €96,532,000 to €19,306,400. This reduction in share capital took legal effect on December 12, 2002, when a resolution on a simplified reduction of capital was entered in the commercial register of Gera, Germany, local court, in accordance with sections 229 ff. of the Aktiengesetz (German Stock Corporation Act). The new shares began trading on a consolidated basis on January 20, 2003. Following the stock split, the International Securities Identification Number (ISIN) of Intershop Communications AG's common bearer shares changed from ISIN DE 000 622 700 2 to ISIN DE 000 747 292 0.

\*\* The stock options were granted under the conditions of the 1999 Equity Incentive Plan. Details on the 1999 Equity Incentive Plan can be found in the Notes to the Consolidated Financial Statements in the Company's 2002 annual report (section 12.). Dr. Schoettler's stock options have a reverse stock split adjusted exercise price of €7.90 per share; Mr. Fuhrmann's stock options have a reverse stock split adjusted exercise price of €5.20 per share.

\*\*\* As of March 31, 2003, Stephan Schambach held 4,166,667 shares in Intershop Communications, Inc. These shares can be converted into 2,500,000 Intershop Communications AG common bearer shares at any time prior to 2004. On January 23, 2002, Mr. Schambach announced his intention to exchange his 4,166,667 shares in Intershop Communications, Inc. into 2,500,000 Intershop Communications AG common bearer shares. As of March 31, 2003

this share conversion was not completed.

## 16. Securities Transactions subject to Reporting Requirements

The members of the Company's executive bodies made the following purchases of Intershop common bearer shares during the fiscal year 2002 (expressed in line with the 5:1 reverse stock split):

Name	Date	Type of Transaction	Amount	Total Value(€)
<i>Management Board:</i>				
Dr. Jürgen Schöttler	February 28, 2003	Purchase	2,100	5,250
Dr. Jürgen Schöttler	March 3, 2003	Purchase	5,900	14,750
Stephan Schambach	March 5, 2003	Purchase	77,000	254,100

### Intershop Communications AG

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## Signatures

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

### INTERSHOP Communications Aktiengesellschaft

Date: May 19, 2003

By: /s/ Stephan Schambach

Stephan Schambach  
 Chief Executive Officer  
 (Vorstandsvorsitzender)