

INTERSHOP COMMUNICATIONS AG  
Form 6-K  
August 15, 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**

## **Intershop Full Six Month Report**

**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 ☒ [X]

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 ☒ [X]

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 Six Months Ended June 30, 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, limited access to capital, 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 June 6, 2003.*

## **Market Environment**

In the first six months of 2003, Intershop Communications AG Group's (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.

## **Revenue**

Due to continued weakness in corporate IT spending, revenue for the first half of 2003 decreased to €12.0 million, compared with revenue of €24.2 million in the first half of 2002. First half-year 2003 license revenue totaled €2.8 million, compared to €12.5 million in the prior year comparable period. Service revenue (including consulting, customer support, maintenance, and other revenue) totaled €9.2 million in the first half of 2003, compared to €11.8 million in the first half of 2002.

With a large installed base across the region, Europe remained the Company's primary market in the first six months of 2003, accounting for €10.6 million, or 88% of total worldwide, as compared to €18.2 million or 75% in the first six months of 2002.

In the Americas region, Intershop generated €1.1 million, or 9% of total global revenue in the first six months of 2003, compared to €5.3 million, or 22% in the first six months of 2002.

In the Asia Pacific region, Intershop generated €0.3 million in revenue in the first six months of 2003, representing 3% of total global revenue for that period. This compares to €0.8 million or 3% in the first six months of 2002.

In the first six months of 2003, Intershop sold 26 Enfinity configurations (i.e., Enfinity platforms and solutions as well as Enfinity MultiSite) bringing the total number of Enfinity configurations sold to date worldwide to 438 since the fourth quarter of 1999. In comparison, Intershop sold 42 Enfinity configurations in the first six months of 2002.

In the first six months of 2003, the Company continued to use cost-effective indirect sales channels through its partners. Business with Intershop's partners generated approximately 20% of license revenue in the first six months of 2003, as compared to 66% in the first six months of 2002. The decline in revenue generated through partners reflects the overall weak demand for online commerce software, resulting from reduced corporate IT spending.

At the 2003 CeBIT trade fair in Hannover, Germany, Intershop and CaContent GmbH presented the online procurement solution CaProfessional ISS as the first product released under 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. In further developing its indirect sales channels, Intershop expanded its partner network, including new partnerships with the Bertelsmann subsidiary Arvato Systems in Germany and the software provider Avail Intelligence in Sweden.

## **Gross Margin**

Gross profit generated in the first six months of 2003 was €5.0 million versus €13.6 million in the first six months of 2002. Gross margin on sales for the first six months of 2003 fell to 42%, from 56% in the first six months of 2002. This decrease in gross margin was primarily due to both the absolute and relative declines in high-margin license revenues.

Due to a higher proportion of Enfinity software sales and higher associated royalty fees for the use of third-party software, the Company's license gross margin in the first half of 2003 decreased to 91%, from 94% in the first half of 2002.

The Company's service gross margin (including consulting, customer support, maintenance, and other revenue) was 27% in the first half of 2003, as compared to 16% in the first half of 2002. This 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**

Due to a number of restructuring initiatives throughout the first half of 2003 and, as a result, improved organizational and process efficiencies, Intershop reduced total operational costs (cost of revenue and operating expense) by 38%, from €43.6 million in the first half of 2002 to €27.2 million in the first half of 2003.

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. In accordance with 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 and to 445 full-time equivalent employees as of June 30, 2003. At the end of the second quarter 2003, Intershop had 402 full-time equivalent employees located in Europe, 32 full-time equivalent employees in the Americas, and 11 full-time equivalent employees in the Asia Pacific region. As of June 30, 2003, Intershop employed 273 full-time equivalents in technical departments (research and development, services), 112 full-time equivalents in sales and marketing, and 60 full-time equivalents in general and administrative functions.

As a result of executing its cost savings plan, the Company recorded restructuring charges of €1.0 million in the first half of 2003, driven primarily by severance payments to former employees and facility-related charges. By comparison, the Company recorded restructuring costs of €4.4 million in the first six months of 2002.

In line with further workforce reductions in the research and development (R&D) department, Intershop's R&D costs decreased from €4.3 million in the first six months of 2002 to €3.5 million in the first six months of 2003.

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 half of 2003. Sales and marketing expenses decreased from €15.9 million in the first half of 2002 to €10.2 million in the first half of 2003.

Included in the Company's sales and marketing expenses for the first half 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 advantages for customers 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. Intershop's UCM strategy enables enterprises to integrate online commerce processes across disparate countries, markets, business units, applications, and systems. The 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.

Due to the Company's efforts to streamline the corporate structure and consolidate the corporate operations needed to support Intershop's business model, general and administrative (G&A) expenses decreased from €8.5 million in the first half of 2002 to €5.6 million in the first half of 2003.

Depreciation and amortization charges were €2.3 million in the first six months of 2003, compared to €5.7 million in the comparable time period in 2002. The period-over-period change was due to the Company's low investing activities in the last two years.

Due primarily to the significant reduction in total operational costs, Intershop reduced its operating loss to €15.2 million for the first six months of 2003, as compared to an operating loss of €19.4 million for the first six months of 2002, despite a decline in revenue over the corresponding period.

Intershop reported a net loss of €15.0 million or a net loss of €0.77 per share for the first six months of 2003. This compares to a net loss of €19.0 million or a net loss of €1.05 per share for the first six months of 2002.

### **Liquidity and Balance Sheet**

Net cash usage related to operating activities decreased from €20.4 million in the first half of 2002 to €11.3 million in the first half of 2003, primarily driven by lower net losses from operating activities and by reduced net working capital requirements in the first six months of 2003 as compared to the first six months of 2002. Investing activities provided a total of €3.8 million in the first six months of 2003, largely driven by proceeds from the sale of marketable securities. This figure compares to net cash provided to the amount of €10.9 million in the first six months of 2002, which was also primarily related to proceeds from the sale of marketable securities. Cash generated in the year-to-date 2002 and 2003 periods reflects re-classifications between balance sheet positions cash and cash equivalents and marketable securities, which together with the balance sheet position restricted cash comprise the Company's total liquidity. No cash was generated by financing activities in the first six months of 2003 compared with €10.0 million in cash generated from financing activities in the first six months of 2002. Nearly all cash generated from financing activities in the first six months of 2002 stems from the cash investment by the Company's then Chief Executive Officer, Stephan Schambach, through a private equity placement.

Cash, cash equivalents, marketable securities, and restricted cash as of June 30, 2003 totaled €10.8 million, compared to €22.5 million as of December 31, 2002. Net cash usage in the first six months of 2003 was driven primarily by operating losses, partially offset by a reduction in net working capital in that period. Intershop is in active negotiations with a number of international financial and strategic investors in order to improve its cash position and capital resources.

Days sales outstanding (DSO) increased from 86 as of December 31, 2002 to 107 as of June 30, 2003, reflecting early payments by a large customer in the fourth quarter of 2002.

Trade receivables as of June 30, 2003 were €6.7 million, compared to €11.1 million as of December 31, 2002. The decrease was driven primarily by reduced sales in the first half of 2003 as compared to the comparable prior-year time period.

Intershop had short-term deferred revenues of €5.7 million as of June 30, 2003, compared to €6.3 million as of December 31, 2002. The decrease in short-term deferred revenues reflects lower service revenues resulting from lower licence revenues.

### **Capital Structure**

Effective January 1, 2003, Intershop's common bearer shares were admitted to the Prime Standard trading segment of the Frankfurt Stock Exchange. The newly created Prime Standard trading segment essentially replaced the former

Neuer Markt trading segment on which Intershop's common bearer shares had previously been traded. With admission to the Prime Standard, 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 became legally effective upon registration with the Local Court in Gera, Germany on December 12, 2002 and was implemented after the close of trading on January 17, 2003. 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.

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.

On June 18, 2003, Intershop confirmed that the share exchange announced on January 23, 2002, under which then CEO and co-founder Stephan Schambach would exchange his shares in subsidiary Intershop Communications, Inc. for common bearer shares in the parent Company, Intershop Communications AG, had been completed. Under the transaction, Mr. Schambach exchanged his 4,166,665 shares in Intershop Communications, Inc., the US subsidiary that prior to the share exchange had been majority-owned by Intershop Communications AG, for 2,499,999 common bearer shares of Intershop Communications AG. To this end, Intershop Communications AG issued 2,499,999 new common bearer shares from Conditional Capital III.

Similarly, on June 17, 2003 Burgess Jamieson, a Member of the Supervisory Board at Intershop Communications AG, exchanged his 381,500 shares in Intershop Communications, Inc. for 228,900 new common bearer shares of Intershop Communications AG. To this end, Intershop Communications AG issued 228,900 new common bearer shares from Conditional Capital III.

The transaction by Mr. Schambach increased the number of shares of Intershop Communications AG that have been issued by 12.8%, from 19,535,300 before the implementation of the share swap to 22,035,299 afterwards. The Company expects the transaction will dilute the consolidated earnings per share for fiscal year 2003 by approximately 6%. As a result of the exchange, Mr. Schambach's interest in the capital of Intershop Communications AG increased from 8.93% before the implementation of the share swap to 19.26% afterwards.

The share swaps by Messrs. Schambach and Jamieson represent a consolidation of the shareholder structure within the Intershop Group between one of the subsidiaries and the parent Company, Intershop Communications AG. The transaction facilitates the consolidation of the ownership structure that arose following the Company's IPO in 1998. In the course of the preparations for the IPO of the newly founded Intershop Communications AG in 1998, both Mr. Schambach and Mr. Jamieson were granted the right to exchange their interests in Intershop Communications, Inc. for common bearer shares of Intershop Communications AG within a period of five years. As a result of the exchanges, Mr. Schambach's and Mr. Jamieson's entire stakes in Intershop Communications, Inc. were transferred to Intershop Communications AG, which holds 100% of the common stock of Intershop Communications, Inc. following the

completion of the transaction.

In the first six 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 currently a Managing Partner at the law firm Kaye Scholer (Germany) in Frankfurt, Germany as well as a Member of the Supervisory Board at KirchMedia i.L. and Gontard & MetalBank AG i.L. Dr. Rieger 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.

### **Subsequent Events**

On July 2, 2003 Intershop announced revised revenue expectations for fiscal year 2003, ending December 31, 2003 and also announced significant restructuring initiatives. Due to a weaker-than-expected second quarter 2003, Intershop revised its expectation for fiscal year 2003 from total revenue of slightly below €45.1 million to a range of €20 million to €25 million. Intershop also announced it would reduce its worldwide headcount of 445 employees as of June 30, 2003, in line with revised revenue expectations for fiscal year 2003. Headcount reductions are expected to impact most areas of the Company, with the least impact expected in research and development as the Company seeks to preserve its core technological expertise. The Company also announced that, outside of Germany, it would sell its products primarily through distribution partners.

On July 14, 2003 Intershop announced that, upon approval by the Supervisory Board, the Company's founder Stephan Schambach had handed over the position of Chief Executive Officer (CEO) and Chairman of the Management Board to Intershop's Chief Financial Officer (CFO) and Member of the Management Board to Dr. Juergen Schoettler, effective July 14, 2003. Stephan Schambach remains a Member of the Management Board focusing on strategy and product development. The Company further announced that Dr. Schoettler, who had served as Intershop's CFO and as a Member of the Management Board since joining the Company in April 2002, would jointly perform the tasks of CEO and CFO.

On July 16, 2003 Intershop announced that, for personal reasons, Werner Fuhrmann had asked the Supervisory Board to be immediately released of his duties as a Member of the Management Board and as President Europe, Middle East, and Africa (EMEA). The Company's Supervisory Board accepted Mr. Fuhrmann's decision. Since joining Intershop in July 2002, Mr. Fuhrmann had served as a Member of the Management Board and President EMEA, in which role he was responsible for sales in the region of Europe, Middle East, and Africa. The Company announced that, for the time being, Mr. Fuhrmann's position would not be filled and that Intershop's sales management would report directly to Dr. Juergen Schoettler, Chairman of the Management Board and Chief Executive Officer.

On July 24, 2003 Intershop announced the Company was planning to merge all assets of its wholly-owned subsidiary Intershop Software Entwicklungs GmbH with the assets of Intershop Communications AG. All operating functions as well as the intellectual property rights of Intershop Software Entwicklungs GmbH will be merged into Intershop Communications AG, which in the past has exclusively acted as the holding entity for the Intershop Group of companies. Intershop's stockholders were notified in the German Federal Bulletin (Bundesanzeiger) pursuant to section 62, paragraph 3 of the German law regulating the transformation of companies (UmwG) on July 25, 2003. The merger of Intershop Software Entwicklungs GmbH into Intershop Communications AG is expected to be effective by the end of August 2003 when the merger agreement is scheduled to be notarized and registered with the Local Court in Gera, Germany. The Company expects the transaction will lower the administrative costs of the Group and will have a positive impact on the consolidated earnings per share for fiscal year 2003.

## Business Outlook

Against the backdrop of a weak global IT spending environment and weaker financial results for the first half of 2003, the Company forecasts revenue of approximately €25 million for fiscal year 2003. As a result of the restructuring measures introduced, the Company forecasts total full-year operational costs in the range of €40 million to €45 million for fiscal 2003. The Company expects fourth quarter 2003 total operational costs will be approximately €7 million. Intershop expects to incur restructuring costs of approximately €1.5 million in the third quarter of 2003. Furthermore, the Company expects approximately €5 million of cash, which is currently restricted, will become unrestricted in the near future. Intershop is in active negotiations with a number of international financial and strategic investors in order to improve its cash position and capital resources. Furthermore, Intershop will focus its business activities on the Company's core German market and will distribute its products outside of Germany largely through its global network of partners.

Intershop Communications AG Consolidated Balance Sheets (U.S.GAAP) (in thousands €, except share and per-share amounts)		
	June 30, 2003 (unaudited)	December 31, 2002
	€	€
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	3,772	11,303
Marketable securities	-	4,172
Restricted cash	7,073	7,073
Trade receivables, net of allowances for doubtful accounts of €6,001 at June 30, 2003 and €7,511 at December 31, 2002, respectively	6,713	11,131
Prepaid expenses and other current assets	8,933	7,427
Total current assets	26,491	41,106
Property and equipment, net	2,344	4,301
Other assets	575	2,268
Goodwill	4,473	4,473
<b>Total assets</b>	<b>33,883</b>	<b>52,148</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current liabilities		
Current debt and current maturities of long-term debt	30	98
Accounts payable	902	840
Accrued restructuring costs	2,966	4,881
Other accrued liabilities	12,928	13,472
Deferred revenue	5,708	6,295
Total current liabilities	22,534	25,586

Intershop Communications AG Consolidated Balance Sheets (U.S.GAAP) (in thousands €, except share and per-share amounts)		
Long-term liabilities, net of current portion	-	152
Deferred revenue	64	38
<b>Total liabilities</b>	<b>22,598</b>	<b>25,776</b>
Shareholders' equity		
Common share, stated value €1-authorized: 78,567,219 shares; outstanding: 22,035,299 shares at June 30, 2003 and 19,306,400 shares at December 31, 2002, respectively		
	22,035	19,306
Accumulated deficit	(13,577)	4,124
Accumulated other comprehensive income	2,827	2,942
<b>Total shareholders' equity</b>	<b>11,285</b>	<b>26,372</b>
<b>Total liabilities and shareholders' equity</b>	<b>33,883</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		Six Months Ended	
	June 30,		June 30,	
	2003	2002	2003	2002
	€	€	€	€
Revenues				
Licenses	1,530	6,266	2,826	12,452
Services, maintenance, and other	4,108	5,805	9,177	11,778
<b>Total revenues</b>	<b>5,638</b>	<b>12,071</b>	<b>12,003</b>	<b>24,230</b>
Cost of revenues				
Licenses	103	472	256	709
Services, maintenance, and other	3,164	4,544	6,713	9,908
<b>Total costs of revenues</b>	<b>3,267</b>	<b>5,016</b>	<b>6,969</b>	<b>10,617</b>
<b>Gross profit</b>	<b>2,371</b>	<b>7,055</b>	<b>5,034</b>	<b>13,613</b>
Operating expenses				
Research and development	1,792	1,817	3,490	4,278
Sales and marketing	4,512	6,770	10,212	15,887



Intershop Communications AG Consolidated Statements of Operations (U.S.-GAAP) (In thousands €, except per-share amounts, unaudited)				
General and administrative	2,777	3,853	5,568	8,486
Restructuring costs and asset impairment	244	581	956	4,374
Total operating expenses	<b>9,325</b>	<b>13,021</b>	<b>20,226</b>	<b>33,025</b>
<b>Operating loss</b>	<b>(6,954)</b>	<b>(5,966)</b>	<b>(15,192)</b>	<b>(19,412)</b>
Other income (expense)				
Interest income	102	63	155	232
Interest expense	(7)	(1)	(17)	(2)
Other income (expense), net	287	152	83	145
Total other income (expense)	<b>382</b>	<b>214</b>	<b>221</b>	<b>375</b>
<b>Net loss</b>	<b>(6,572)</b>	<b>(5,752)</b>	<b>(14,971)</b>	<b>(19,037)</b>
<b>Basic and diluted loss per share</b>	<b>(0.33)</b>	<b>(0.31)</b>	<b>(0.77)</b>	<b>(1.05)</b>
Shares used in computing:				
For basic and diluted loss per share	19,698	18,713	19,502	18,176

Intershop Communications AG Consolidated Statements of Cashflows (U.S.GAAP) (in thousands €, unaudited)			Six months ended	
			June 30,	
			2003	2002
			€	€
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>				
Net loss			(14,971)	(19,037)
<i>Adjustments to reconcile net loss to cash used in operating activities</i>				
Depreciation and amortization			2,304	5,722
Provision for doubtful accounts			(1,195)	(125)
(Gain) loss on disposal of marketable securities			(40)	162
Loss on disposal of property and equipment			18	56
<i>Changes in operating assets and liabilities</i>				