

INTERSHOP COMMUNICATIONS AG

Form 6-K

August 01, 2002

Intershop Communications Reports Second Quarter 2002 Financial Results

--- Intershop On Track to Profitability in Challenging Market Environment ---

Jena, Germany -July 31, 2002 - Intershop Communications AG (Neuer Markt: ISH, Nasdaq: ISHP), a leading provider of e-commerce software for enterprises, today announced financial results for the second quarter of 2002, ended June 30, 2002.

In a challenging market environment, Intershop remains on track towards profitability, successfully meeting revenue expectations, reducing total operational costs (cost of revenue and operating expenses) by 30% quarter on quarter, and improving bottom line results by 57% sequentially.

In line with previous management guidance, second quarter 2002 revenue totaled Euro 12.1 million, compared with Euro 12.2 million in the first quarter of 2002. High-margin license revenue grew from Euro 6.2 million in the first quarter of 2002 to Euro 6.3 million in the second quarter of 2002, representing 52% of total second quarter 2002 revenue.

As in the previous quarter and in line with previous management guidance, Intershop reduced total operational costs by 30% sequentially, from Euro 25.6 million in the first quarter of 2002 to Euro 18.0 million in the second quarter of 2002.

Intershop reduced its second quarter 2002 net loss by 57% sequentially, from a net loss of Euro 13.3 million or a net loss of Euro 0.15 per share in the first quarter of 2002 to a net loss of Euro 5.8 million or a net loss of Euro 0.06 per share in the second quarter of 2002.

Second Quarter 2002 Summary

Robust Business

In line with management guidance given on April 30, 2002, total revenue at Euro 12.1 million, compared to Euro 12.2 million in the first quarter of 2002 and Euro 22.0 million in the second quarter of 2001.

In a challenging market environment, growth in high-margin license revenue to Euro 6.3 million, representing 52% of total revenue, compared to first quarter 2002 license revenue of Euro 6.2 million and second quarter 2001 license revenue of Euro 7.8 million.

20 new Enfinity product family platforms and solutions sold, bringing total number sold to date to 362 worldwide.

Strong customer demand for Enfinity Procurement solutions, representing 69% of total solutions sales.

Well-balanced mix of license revenue through up-selling into existing customer base and winning new customers.

21 customer Intershop-powered websites went live in the second quarter, including World Soccer Association's FIFA World Cup Online Store.

Noteworthy second quarter 2002 customers included the New South Wales Department of Public Works and Services in Australia through our partner Logica, MAN, Hewlett-Packard, Linde Group, Otto Group, Quelle, and Ocado.

Cost Reduction on Track

For the second consecutive quarter and in line with management guidance, total operational costs reduced by 30% quarter on quarter, to Euro 18.0 million in the second quarter of 2002.

Total liquidity including cash, cash equivalents, marketable securities, and restricted cash at Euro 26.0 million at the end of the second quarter 2002, compared with total liquidity of Euro 35.8 million at the end of the first quarter 2002. Second quarter 2002 cash usage affected by more than Euro 2 million in cash payments relating to restructuring activities in the second quarter of 2002 and previous quarters.

Workforce reduced by 93 employees or 15% during the second quarter, to a total of 531 employees as of June 30, 2002.

Bottom Line Result Improving

Net loss further reduced by 57% quarter on quarter, from a net loss of Euro 13.3 million in the first quarter 2002 to a net loss of Euro 5.8 million in the second quarter 2002. Compared to the second quarter 2001 net loss of Euro 28.3 million, Intershop's second quarter 2002 net loss improved by 80%.

Management Review

CEO Stephan Schambach commented, "During the second quarter of 2002 Intershop remained focused on driving Enfinity license sales and providing its customers the most comprehensive e-commerce solutions available. In a tough market environment, our second quarter results confirm that our investment of resources and time in developing new solutions and the difficult decisions we have made in restructuring the business are starting to bear fruit. While revenue was roughly in line with our first quarter performance, we were able to reduce total operational costs by 30% and further improve our bottom line by 57% as a result. In terms of revenue, our Enfinity Procurement solution, which we launched only at the end of last year, met with strong customer demand, generating 69% of total Enfinity solutions sales."

Capital Structure

In conjunction with the release of the second quarter 2002 financial results, Intershop announced the engagement of the investment bank ING Barings as its financial advisor. CFO Dr. Juergen Schoettler stated, "In the past few quarters, we have streamlined Intershop to become a smaller and nimbler company, while at the same time focusing on our strategic core assets, including our leading e-commerce technology as well as our portfolio of blue-chip customers and partners. As Intershop continues forward on the path to profitability and cash breakeven, we have engaged ING Barings as our financial advisor with the goal to strengthen the company's capital structure and to increase its financial flexibility for the future."

Business Outlook

Despite seasonally weak software spending patterns in the European software industry, total revenue in the third quarter of 2002 is expected to be flat over the second quarter of 2002. Intershop expects to marginally lower its third quarter 2002 total operational costs and to significantly reduce its quarterly cash consumption compared to the second quarter of 2002. With an improved sales pipeline for the rest of the year, Intershop expects revenue will increase in the fourth quarter of 2002 to break even with quarterly EBITDA costs.

The appointment of Werner Fuhrmann as the company's new Executive Board Member, Sales (*Vertriebsvorstand*) and President Europe, Middle East and Africa, is expected to significantly strengthen Intershop's sales efforts.

Investor Conference Call Information

The company will hold a conference call (audio Webcast at <http://www.intershop.com>, section investors) with CEO Stephan Schambach and CFO Dr. Juergen Schoettler to discuss the second quarter 2002 results in more detail. The conference call is scheduled for Wednesday, July 31, 2002, at 10:00 a. m. Central European Time / 4:00 a. m. Eastern Standard Time / 1:00 a. m. Pacific Standard Time. A replay of the call will be made available via the Internet at <http://www.intershop.com>.

About Intershop

Intershop Communications AG (Neuer Markt: ISH; Nasdaq: ISHP) is a leading provider of e-commerce solutions for enterprises who want to automate marketing, procurement, and sales using Internet technology. The Intershop Enfinity commerce platform, combined with proven, flexible industry and cross-industry solutions, enables companies to manage multiple business units from a single commerce platform, optimize their business relationships, improve business efficiencies and cut costs to increase profit margins. By streamlining business processes, companies get higher return on investment (ROI) at a lower total cost of ownership (TCO), increasing the lifetime value of customers and partners. Intershop has more than 2,000 customers worldwide in retail, high-tech and manufacturing, media, telecommunications and financial services. Customers including Bertelsmann, Motorola, Sonera, Ericsson, Otto and Bosch have selected Intershop's Enfinity as the foundation for their global e-commerce strategy. More information about Intershop can be found on the Web at <http://www.intershop.com>.

Investor Relations:

Klaus F. Gruendel
T: +49-40-23709-128
F: +49-40-23709-111
k.gruendel@intershop.com

Press:

Heiner Schaumann
T: +49-3641-50-1000
F: +49-3641-50-1002
h.schaumann@intershop.com

This press release may contain 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, 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.

Intershop Communications AG

Condensed Consolidated Balance Sheet (U. S.-GAAP)

(in thousands Euro)

| | June 30, 2002 | Dec. 31, 2001 |
|---------------------------|------------------|------------------|
| | (unaudited) | |
| ASSETS | EUR | EUR |
| Current assets: | | |
| Cash and cash equivalents | 9.420 | 9.107 |
| Marketable securities | 8.730 | 19.358 |

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| | | |
|---|---------------|---------------|
| Restricted cash | 7.873 | 7.873 |
| Trade receivables, net of allowances for doubtful accounts of (EUR12,287) and (EUR13,940), respectively | 13.360 | 11.679 |
| Prepaid expenses and other current assets | 6.729 | 9.976 |
| Total current assets | 46.112 | 57.993 |
| Property and equipment, net | 7.257 | 13.522 |
| Investments | - | - |
| Goodwill and acquired intangible assets, net | 4.473 | 4.473 |
| Other assets | 3.833 | 3.628 |
| Total assets | 61.675 | 79.616 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| Current liabilities | | |
| Current debt and current maturities of long-term debt | 104 | 99 |
| Accounts payable | 1.883 | 3.540 |
| Accrued restructuring costs | 8.689 | 10.653 |
| Other Accrued liabilities | 11.816 | 15.602 |
| Deferred revenue | 4.187 | 5.569 |
| Total current liabilities | 26.679 | 35.463 |
| Long Term liabilities | 159 | 177 |
| Deferred revenue | 39 | 103 |
| Total liabilities | 26.877 | 35.743 |
| Shareholders' equity | | |
| Common stock, stated value EUR1-authorized: 154,187,975 shares; outstanding: 96,525,322 shares at June 30, 2002 and 88,191,322 shares at December 31, 2001 respectively | 96.525 | 88.191 |
| Paid-in capital | 15.087 | 13.420 |
| Accumulated deficit | (79.669) | (60.632) |
| Accumulated other comprehensive income | 2.855 | 2.894 |
| Total shareholders' equity | 34.798 | 43.873 |
| Total liabilities and shareholders' equity | 61.675 | 79.616 |

Intershop Communications AG
 Condensed Consolidated
 Statement of Operations
 (U. S.-GAAP)
 (In thousands Euro,
 except per share amounts,
 unaudited)

| | Three Months Ended June 30, | Six Months Ended June 30, |
|--|--------------------------------|------------------------------|
|--|--------------------------------|------------------------------|

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| | 2002 | 2001 | 2002 | 2001 |
|---|----------------|-----------------|-----------------|-----------------|
| | EUR | EUR | EUR | EUR |
| Revenues: | | | | |
| Licenses | 6.266 | 7.844 | 12.452 | 13.557 |
| Services, maintenance and other revenue | 5.805 | 14.141 | 11.778 | 28.705 |
| Total revenues | 12.071 | 21.985 | 24.230 | 42.262 |
| Cost of revenues: | | | | |
| Licenses | 472 | 1.314 | 709 | 1.764 |
| Services, maintenance and other revenue | 4.544 | 10.251 | 9.908 | 24.394 |
| Total costs of revenues | 5.016 | 11.565 | 10.617 | 26.158 |
| Gross Profit | 7.055 | 10.420 | 13.613 | 16.104 |
| Operating expenses: | | | | |
| Research and development | 1.817 | 4.223 | 4.278 | 8.775 |
| Sales and marketing | 6.770 | 17.811 | 15.887 | 38.244 |
| General and administrative | 3.853 | 12.031 | 8.486 | 24.128 |
| Goodwill and acquired intangible asset amortization | - | 2.398 | - | 4.737 |
| Restructuring costs | 581 | 1.114 | 4.374 | 2.995 |
| Total operating expenses | 13.021 | 37.577 | 33.025 | 78.879 |
| Operating income (loss) | (5.966) | (27.157) | (19.412) | (62.775) |
| Other income (expense): | | | | |
| Interest income | 63 | 719 | 232 | 2.125 |
| Interest expense | (1) | (3) | (2) | (12) |
| Write down of investments | - | (2.482) | - | (2.482) |
| Other income (expense), net | 152 | 596 | 145 | 264 |
| Total other income (expense) | 214 | (1.170) | 375 | (105) |
| Net income (loss) | (5.752) | (28.327) | (19.037) | (62.880) |
| Basic earnings (loss) per share | (0,06) | (0,32) | (0,21) | (0,71) |
| Shares used in computing: | | | | |
| For basic earnings (loss) per share | 93.562 | 88.125 | 90.877 | 88.082 |

Intershop Communications
AG

Condensed Consolidated Statement of Cash
Flows (U. S.-GAAP)

(in thousands Euro;
unaudited)

| | Six Months Ended June 30, 2002 | 2001 |
|--|---|----------|
| | EUR | EUR |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net (loss) income | (19.037) | (62.880) |
| <i>Adjustments to reconcile net loss to cash used in operating activities:</i> | | |
| Depreciation and amortization | 5.722 | 4.343 |

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| | | |
|--|----------|----------|
| Amortization of goodwill | - | 4.678 |
| Depreciation of investments | - | 2.482 |
| Provision for doubtful accounts | (125) | 8.984 |
| Loss/(Gain) on disposal of marketable securities | 162 | (692) |
| Loss on disposal of equipment | 56 | - |
| <i>Change in:</i> | | |
| Accounts receivable | (1.823) | 1.574 |
| Prepaid expenses and other current assets | 3.208 | 432 |
| Other assets | (345) | (2.040) |
| Accounts payable | (1.618) | (6.423) |
| Deferred revenue | (1.358) | (405) |
| Accrued restructuring liability | 1.963 | - |
| Accrued expenses and other liabilities | (7.245) | (3.231) |
| Net cash used in operating activities | (20.440) | (53.178) |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Restricted cash | - | (7.768) |
| Sale proceeds on disposal of equipment | 412 | - |
| Purchases of equipment, net of capital leases | - | (5.183) |
| Sale proceeds on disposal of marketable securities | 30.865 | 28.715 |
| Purchase of marketable securities | (20.356) | (19.974) |
| Net cash used in investing activities | 10.921 | (4.210) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Proceeds from sale of common stock | 10.001 | 497 |
| Net cash provided by financing activities | 10.001 | 497 |
| Effect of change in exchange rates on cash | (169) | 1.282 |
| Net change in cash and cash equivalents | 313 | (55.609) |
| Cash and cash equivalents, beginning of period | 9.107 | 84.062 |
| Cash and cash equivalents, end of period | 9.420 | 28.453 |

Intershop Communications AG
Consolidated Statement of Convertible Redeemable Preferred
Stock and Shareholders' Equity

(in thousands EUR, except share data)

| | Common Stock Shares | Stated Value | APIC | Notes Receivable | Deferred Compensation | Accumulated Deficit | Comprehensive Income (Loss) | Total Stockholders' Equity | Cur Cor Inco |
|--|---------------------------|-----------------|---------------|---------------------|--------------------------|------------------------|--------------------------------|----------------------------------|--------------------|
| Balance, December 31, 1999 | 84.390.520 | 16.878 | 48.169 | (141) | (273) | (45.406) | 3.637 | 22.865 | (14) |
| Net loss | | | | | | (38.923) | | (38.923) | (38) |
| Foreign currency translation adjustments | | | | | | | 1.523 | 1.523 | 1.52 |
| Unrealized Gain (Loss) on Available for Sale Security, net | | | | | | | (3.451) | (3.451) | (3.4) |
| Private Placement of Common Stock, net | 1.675.000 | 100 | 38.900 | | | | | 39.000 | |
| Issuance of Common Stock | 280.000 | 335 | 111.876 | | | | | 112.211 | |

| | | | | | | | | | | |
|--|------------------|--------------|---------------|----------------|----------|----------|-----------------|--------------|----------------|------------------|
| for Secondary Offering, net | | | | | | | | | | |
| Conversion of preferred stock of subsidiary to common stock of parent, net of share amounts not converted | | | (56) | | | | | | | |
| Issuance of Common Stock for Acquisitions | 882.485 | 275 | 22.586 | | | | | 22.861 | | |
| Exercise of stock options | | 334 | 4.635 | | | | | 4.969 | | |
| Capital Contribution (net of tax) | | | 12.500 | | | | | 12.500 | | |
| Collections on notes receivables from stockholders | | | | 141 | | | | 141 | | |
| Amortization of deferred compensation | | | | | 273 | | | 273 | | |
| Allocation of par value resulting from stock split | | 70.025 | (70.025) | | | | | | | |
| Balance, December 31, 2000 | 1,888.003 | 1,016 | 88.003 | 168.585 | - | - | (84.329) | 1.709 | 173.969 | (55.000) |
| Net loss | | | | | | | (131.798) | | (131.798) | (131.798) |
| Foreign currency translation adjustments | | | | | | | | 837 | 837 | 837 |
| Unrealized Gain (Loss) on Available for Sale Security, net | | | | | | | | 348 | 348 | 348 |
| Exercise of stock options | 188.306 | 188 | 330 | | | | | | 518 | |
| Appropriation of paid in capital | | | (155.495) | | | | 155.495 | | | |
| Balance, December 31, 2001 | 1,888.191 | 1,322 | 88.191 | 13.420 | - | - | (60.632) | 2.894 | 43.874 | (181.798) |
| Net loss (unaudited) | | | | | | | (19.037) | | (19.037) | (19.037) |
| Foreign currency translation adjustments (unaudited) | | | | | | | | (31) | (31) | (31) |
| Unrealized Gain (Loss) on Available for Sale Security, net (unaudited) | | | | | | | | (8) | (8) | (8) |
| Private Placement of Common Stock, net (unaudited) | 8.334.000 | 8.334 | 1.667 | | | | | | 10.001 | |
| Balance, June 30, 2002 | 296.525 | 322 | 96.525 | 15.087 | - | - | (79.669) | 2.855 | 34.799 | (200.833) |