



Quarterly Report for the Six Months ended June 30, 2000

INTERSHOP Communications AG (Neuer Markt: ISH), one of the world's leading provider of sell-side e-commerce applications and software solutions, announced on August 2, 2000 record financial results for the first six months of 2000, ended June 30, 2000.

In the first six months INTERSHOP continued to pursue its strategy of expansion throughout the world and reinforced its position as one of the global leaders in e-commerce software for sell-side applications and solutions. Once again our state-of-the-art product suite enabled hundreds of new and existing enterprise customers to sell their products through the sell direct and sell indirect B2C and B2B scenarios. INTERSHOP's products also enabled Application Service Providers to offer hosted e-commerce and e-marketplace applications. Extensibility, flexibility, time-to-market and return-on-investment are the most important criteria for the customers these days and INTERSHOP is in a great position to deliver upon their needs.

The company is very pleased to report record revenues as well as our second profitable quarter. This was not only the tenth consecutive quarter of significant organic revenue growth, but revenue and results were also again higher than our expectations. However, the main highlight of the quarter is the success of INTERSHOP enfinity.

In addition to the highlights of the first quarter which were reported in the three-months-report 2000, INTERSHOP continued its successful business development in the second quarter in terms of new customers, new products, channel development and personnel.

Customers

INTERSHOP acquired an impressive list of blue chip customers including Intel, Unisys, Bertelsmann, H.B. Fuller, Tchibo, Mannesmann and Terranetworks. The company has received significant orders from over 500 customers from 50 different countries, from new customers (38% of revenues) as well as from existing customers (62% of revenues). This shows that INTERSHOP has a solid and well-balanced global customer base. In the course of the second quarter, the number of licenses sold increased by 30,000 to 300,000, making INTERSHOP by far the worldwide market leader in terms of the number of e-commerce licenses sold.

Shortly after its launch in Q4 1999, INTERSHOP enfinity, the first complete XML and Java-based sell-side e-business application, set an industry benchmark and established a strong position in the market. In the second quarter, over 50 new INTERSHOP enfinity customers were added to the impressive list of accounts. Direct enfinity customers include Business Mart, Bolsa Do Plastico, BOL (Bertelsmann), H.B. Fuller, Unisys, Tchibo, Terranetworks, MyExpressLane.com, MyToys.de, Sonera and Schott Spezialglass. Due to the relatively short implementation cycle of INTERSHOP enfinity, several customers have gone live with their e-commerce application successfully within a few weeks after the project was initiated. Examples of new marketplaces going live in the second quarter were Mercateo (B2B marketplace for e-procurement of SME), Efoodmanager (the first pan-European B2B food marketplace), Goodax, (B2B reverse auction site for industrial goods) and Gloomedix.com (B2B pan-European marketplace for medical products). Examples of sell direct and sell indirect scenarios realized with INTERSHOP enfinity in the second quarter were Allago, a Dresdner Bank e-procurement platform for SME customers, Weartical.com, and Coolwhite.com.

In the hosted e-commerce market, INTERSHOP was able to strengthen its leading position with the INTERSHOP 4 product line. New business acquired in the course of the second quarter include leading ASPs and CSPs such as Intel, Sparkasse Leipzig, Telia, Wirtualna Polska, Computer Partner, Ocean Internet Services and Vertex Market. The INTERSHOP 4 products generated 47 percent of total license revenues.

New Products

To maintain its technological leadership INTERSHOP continued the ongoing process of product innovation and enhancements. For INTERSHOP enfinity these improvements included the release of enfinity 1.1, language packs for German, French and Spanish and a localization toolkit for other languages. Other improvements include new cartridges for Talisma (eCRM), CyberSource (payment), ArcadiaOne e-Syndication (content exchange), SAP R/3 2.0 (ERP), AnnuncioBright (eCRM) and Interwoven (content management).

The INTERSHOP Marketplace toolkit, a complete toolkit for partners to build e-marketplaces for their customers, was released in May 2000. This bundle includes licenses for INTERSHOP enfinity and ePages, the Marketplace Connector and the ArcadiaOne Content Exchange Cartridge for enfinity.

The INTERSHOP 4 product line also received a number of enhancements, such as the availability of IS4 for Compaq Tru64, language packs and localization toolkit, INTERSHOP 4 ePages Plus Pack for Sun Solaris platform, CyberCash Cartridge for ePages and Cartridge for OpenMarket Transact4, Version 5.0. In addition, in July, the new release of INTERSHOP 4.2 was launched.

Because of its open architecture, INTERSHOP products are very attractive to other software vendors. During the quarter, many technology partners have developed new solutions and interfaces with INTERSHOP technologies, including Pironet (content management solution), Paybox (payment system for mobile commerce), enfinity cartridge for webmiles, UnitSpace (3D shop design tool), Novomind (intelligent web agent technology), SmartShip.com (online shipping information system), ExtendedSearch (search engine), Esperanto (real time ERP connector) and Acta Technologies (e-commerce data platform).

Strategic Partners and Channel Development

42 percent of license revenues were directly contributed by the channel partners. More than 2,700 consultants have been trained during the second quarter, 2,150 of them on INTERSHOP enfinity technology. INTERSHOP signed several new cooperative agreements with leading e-commerce implementation companies like Ahead, Popnet, ISM and Lemon. The existing relationships have been intensified with leading IT consultants and system integrators such as PwC, KPMG, EDS, Integra, Icon Medialab and Pixelpark.

On the hardware side, INTERSHOP signed a global strategic alliance with Hewlett-Packard, which represents a milestone in INTERSHOP's history. The alliance covers the HP-UX port of INTERSHOP enfinity supported by both parties contributing significant resources, joint marketing and sales efforts. Both parties will assign dedicated sales professionals; in addition, HP has committed to using INTERSHOP technology internally as a preferred e-commerce solution.

Human Resources and Organization

In the second quarter, INTERSHOP continued its course of organizational expansion. 94 employees joined the company during this period. As of the end of June, this brings the total number of worldwide employees to 765 people.

In June, INTERSHOP acquired OWiS GmbH in order to strengthen its personnel in R&D and Professional Services. OWiS was built as a visionary firm focused on new technology and methods in software development and had grown to approximately 100 people. OWiS is located near INTERSHOP's R&D center in Jena, Germany. The acquisition, effective since July 1st, is a perfect fit with INTERSHOP's resources and brings the company a team of over 50 key software engineers with experience in XML and Java as well as a profound expertise in object-oriented software development.

Revenues

For the first six months of 2000 revenues grew by 249 percent to € 57.5 million, compared to € 16.5 million for the first half of 1999. With license revenues up 280% to € 29.4 million from the comparable first half 1999 figure of 10.5 million €, licensing activities represented the driving force behind this outstanding performance. License revenues increased from 64 % to 69 % of total revenues. The increase in license revenues was mainly driven by INTERSHOP enfinity. License sales of enfinity contributed contributed 43% of total license revenues. Service revenues increased by 195 % to € 17.6 million. Sales from Europe, which include sales from Africa and the Middle East, accounted for 53% of total revenues, the Americas for 41% and – which is especially encouraging – Asia for 6% already.

Gross Profit

Cost of sales came to € 17.5 million in the first half of the year. As a result, total gross profit increased by 239 % to € 40.1 million. The total gross margin was 70 %, which was a little lower than the comparable 1999 numbers of 72%. The decrease was entirely due to lower margins in services, where INTERSHOP hired many new employees, who are usually not immediately fully productive. For the licensing activities the margins have increased to 92% compared to 87 % in the comparable period, due to enfinity's revenue contribution.

Expense and Income

INTERSHOP continued to invest heavily in product development, sales, marketing and organizational resources in the first half year in order to strengthen the company's position in the competitive landscape. Total operating expense was up 88% to € 38.2 million. Sales and marketing expense was up 103% to € 25.3 million and accounted for most of the overall increase. Research and development expenses increased 19% to € 3.5 million. General and administrative costs increased 89% to € 9.3 million. Since revenues outpaced operating expense, INTERSHOP achieved an operating profit € 1.9 million following a loss of € 8.6 million for the comparable period a year ago. Together with other income of € 1.1 million INTERSHOP ended the first six months with a net income of € 3.0 million, compared to a net loss of € 7.7 million the comparable period of 1999. Earnings per share were € 0.15, compared to a loss of € 0.41 per share a year ago.

Cash flows, Balance Sheet and Liquidity

In the first six months € 10.6 million were used in operating activities, mainly due to higher trade receivables and an increase in prepaid expenses. Cash used for investing activities came to € 9.9 million. Cash inflow provided by financing activities came € 26.0 million.

As of June 30th, INTERSHOP had cash and cash equivalents of € 18.1 million, compared to € 12.1 million by the end of 1999. Trade receivables were € 38.2 million. INTERSHOP had deferred revenues of € 10.8 million by the end of the quarter. Shareholders' Equity increased to € 32.6 million, compared to € 22.9 million by the end of 1999.

Capital structure

In the first quarter of current year, a total of 193.084 stock options from conditional capital were exchanged for common bearer shares, of which 137.084 from Conditional Capital II (employee options) and 56,000 from Conditional Capital III (for conversion of Inc. shares). In March, INTERSHOP filed a Form F-1 registration statement with the United States Securities & Exchange Commission for the offering of 4,350,000 American Depositary Shares (ADS). Each ADS is to represent one-tenth of a common share. A total of 435,000 of the Company's common shares were converted in March to secure the issue. As a result, INTERSHOP ended the first quarter with share capital consisting of a total of 17.506.188 common shares. Due to the significant deterioration in market conditions it was determined to be in the best interests of INTERSHOP to delay the ADS offering until the broader market conditions provide a more stable and receptive environment for equity financing.

The Shareholders Meeting on June 27th adopted all of the resolution. The main resolutions were a 1:5 stock split through a capital increase in capital stock from company funds, a revision of the authorized capital, a resolution authorizing the Company to purchase and sell its own stocks, and a resolution authorizing the Company to increase the capital stock with exclusion of shareholders' subscription rights.

Outlook

Looking at the successful first six months in 2000 the Company is very confident that it will reach the financial goals for the full year. For the third quarter INTERSHOP does not expect a significant increase in revenues compared to the second quarter as the third quarter is traditionally not as strong. On the expense side INTERSHOP will continue its high investments in Marketing, and R&D and services costs will increase as a result of the acquisition of OWiS. As INTERSHOP will continue its geographical expansion, e.g. in Asia, this should also result in additional expenses.

The major event in the second half of the year will be the INTERSHOP OPEN 2, the annual user conference that will be held in New York from October 29th to October 31st. At this event INTERSHOP will present its latest product suite as well as new, innovative e-commerce business models.

A major future challenge is the functional enlargement of INTERSHOP's technology and the Company plans activities in this direction in the next months. In terms of financing INTERSHOP has various options and INTERSHOP is preparing appropriate equity activities to be able to react to strategic opportunities.

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INTERSHOP Communications AG
Condensed Consolidated Balance Sheet (U.S.-GAAP)
(in thousands Euro)

	<u>June 30,</u> <u>2000</u>	<u>December 31,</u> <u>1999</u>
CURRENT ASSETS		
Cash and cash equivalents	18.054	12.065
Restricted cash	1.507	1.437
Trade receivables, net	38.170	23.333
Prepaid expenses and other current assets	16.366	3.870
Total current assets	74.097	40.705
PROPERTY AND EQUIPMENT, net	13.475	5.610
INVESTMENTS	2.702	6.222
OTHER ASSETS	1.518	1.252
Total assets	91.792	53.790
CURRENT LIABILITIES		
Current debt and current maturities of long-term debt	0	33
Notes Payable to Shareholder	16.759	7.000
Accounts payable	9.053	5.149
Accrued liabilities	22.495	9.960
Deferred revenue	10.780	8.543
Total current liabilities	59.087	30.685
LONG-TERM DEBT	20	20
DEFERRED REVENUE	53	220
Total liabilities	59.160	30.925
Convertible redeemable preferred stock		
SHAREHOLDERS' EQUITY		
Common stock	17.506	16.878
Paid-in capital	57.113	48.169
Notes receivable from stockholder	-	(141)
Deferred compensation	(131)	(273)
Accumulated deficit	(42.446)	(45.406)
Cumulative comprehensive income (loss)	590	3.637
Total shareholders' equity	32.632	22.864
Total liabilities and shareholders' equity	91.792	53.789

INTERSHOP Communications AG
Condensed Consolidated Statement of Operations (U.S.-GAAP)
(in thousands Euro, except per share data)

	6 Months Ended June 30,	
	<u>2000</u>	<u>1999</u>
REVENUES		
Licenses	39.950	10.515
Services, maintenance and other revenue	17.591	5.954
Total revenues	<u>57.541</u>	<u>16.469</u>
COST OF REVENUES		
Licenses	3.280	1.346
Services, maintenance and other revenue	14.207	3.305
Total costs of revenues	<u>17.487</u>	<u>4.651</u>
Gross Profit	40.054	11.818
Gross Profit %	70%	72%
OPERATING EXPENSES		
Research and Development	3.534	2.979
Sales and marketing	25.318	12.447
General and administrative	9.343	4.942
Total operating expenses	<u>38.195</u>	<u>20.368</u>
OPERATING INCOME / (LOSS)	1.859	(8.550)
OTHER INCOME (EXPENSE)		
Interest income	225	289
Interest expense	(139)	5
Other income	1.015	590
Total other income (expense)	<u>1.100</u>	<u>884</u>
Net Income (Loss)	<u>2.960</u>	<u>(7.667)</u>
NET LOSS ATTRIBUTABLE TO COMMON SHAREHOLDERS	<u>2.960</u>	<u>(7.667)</u>
NET LOSS PER SHARE ATTRIBUTABLE TO COMMON SHAREHOLDERS		
BASIC	<u>0,15</u>	<u>(0,41)</u>
DILUTED	<u>0,15</u>	<u>0,15</u>
WEIGHTED AVERAGE COMMON AND COMMON EQUIVALENT SHARES OUTSTANDING:		
BASIC	<u>19.512</u>	<u>18.666</u>
DILUTED	<u>20.315</u>	<u>20.315</u>

INTERSHOP Communications AG
Condensed Consolidated Statement of Cashflows (U.S.-GAAP)
(in thousands Euro)

	6 Months Ended June 30,	
	<u>2000</u>	<u>1999</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	2.960	(7.667)
<i>Adjustments to reconcile net loss to cash provided by (used in) operating activities:</i>		
Depreciation	1.998	1.098
Provision for doubtful accounts	1.281	784
Amortization of deferred compensation	142	159
Gain on equipment disposal	-	(1)
<i>Change in:</i>		
Accounts receivable	(16.118)	(5.079)
Prepaid expenses and deposits	(12.496)	42
Other assets	(265)	(610)
Accounts payable	3.903	371
Deferred revenue	2.070	(1.089)
Accrued expenses and other liabilities	5.886	(1.748)
Net cash provided by (used in) operating activities	<u>(10.639)</u>	<u>(13.740)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Investment in Unaffiliated Company	-	(1.199)
Restricted cash	(70)	(156)
Purchases of equipment, net of capital leases	<u>(9.863)</u>	<u>(1.721)</u>
Net cash used in investing activities	<u>(9.933)</u>	<u>(3.076)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from sale of common stock	3.722	2.054
Proceeds from debt issuance	10.758	945
Capital Contribution	12.500	-
Collection on notes receivable from stockholders	141	-
Repayments of indebtedness	<u>(1.033)</u>	<u>(1.435)</u>
Net cash provided by (used in) financing activities	<u>26.088</u>	<u>1.564</u>
Effect of change in exchange rates on cash	<u>473</u>	<u>2.367</u>
Net change in cash and cash equivalents	5.989	(12.883)
Cash and cash equivalents, beginning of period	<u>12.065</u>	<u>34.185</u>
Cash and cash equivalents, end of period	<u><u>18.054</u></u>	<u><u>21.302</u></u>