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**artnet.com AG**  
**Three Month Report 2001**

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## **Letter to Shareholders**

Our three month report (as of March 31, 2001) does not reflect the sum of the cost reductions I announced in the annual report for the year 2000. While we have downscaled rapidly, the three month report includes salary and severance payments to outgoing employees as well as payments for obligations, which could not be cut during this quarter. The trend is clear, however: sales are increasing as monthly costs are decreasing.

In fact, as of writing this letter, I can tell you that April saw a marked improvement, and we are anticipating a small profit in EBIT in May, reaching breakeven.

Planning and preparation for the release of new products is also on schedule.

Internet usage continues to grow rapidly along with its application to the art world even as the cost of sales, hardware, software and data input declines.

Artnet.com, the preeminent art site on the Internet, is well positioned to benefit from these trends.

**Hans Neuendorf**

## **GROUP MANAGEMENT REPORT FOR THE THREE MONTHS ENDING MARCH 31, 2001**

### **Results of Operations**

(All Amounts in US Dollars)

#### **Revenue**

Bookings (being revenue measured under the method employed prior to implementing SAB 101) reached \$1,337,000 for the quarter, an increase of 35% over the year-ago period and an increase of 4% over the prior quarter level of \$1,280,000. In repetition of previous years' cycles, the first quarter maintained the strong increase in sales experienced in the fourth quarter of 2000. Revenue reached \$1,255,000 for the quarter, an increase of 59% over the first quarter 2000 level of \$788,000 and an increase of 22% over the fourth quarter 2000 level of \$1,030,000. The Online Gallery Network provided the largest proportion, totaling \$873,000 during the three-month period which was 68% higher than the first quarter 2000 and a 11% increase over the prior quarter. Gallery revenue continued its rising trend, despite weakening economic conditions, due to strong sales momentum and a committed, well-trained sales force. Database subscription revenue increased 45% to \$327,000 for the three months of 2001, compared to \$226,000 in the year-ago period and \$194,000 in the prior quarter. Database revenue grew due to enhancements in **artnet.com's** usage-based pricing strategy for high-use customers and the addition of a dedicated salesperson. Bookstore revenue reached \$55,000 through March, 28% above the year-ago period and 20% above the prior quarter.

#### **Operating Expenses**

Total operating expenses were \$3,366,000 in the quarter, down from \$3,856,000 in the year-ago period, and down from \$3,619,000 in the fourth quarter of 2000. Cash operating expenses were \$2,383,000 in the three months, down from \$3,001,000 in the year-ago period, and \$4,004,000 from the fourth quarter of 2000, demonstrating the effects of cost-cutting activities and the completion of infrastructure development.

Product support, production and editorial expenses totaled \$878,000, down from \$889,000 in the prior year period. These expenses were down from \$1,451,000 in the prior quarter reflecting cost reductions in production and technology staff. Sales and marketing costs, which include sales salaries and commissions, advertising, marketing and promotional activities decreased to \$661,000 in the quarter, from \$840,000 in the prior year period and up from \$391,000 in the prior quarter. The figures reflect higher sales salaries and commissions due to higher sales levels and the improved pace of collections in the quarter. Advertising, marketing and promotional expenditure was lower. General and administrative expenses, including executive staff, administrative support staff, general operations, premises costs, legal and audit fees, and other overheads, totaled \$832,000 in the quarter. These costs were down from \$1,247,000 in the year-ago period, and \$2,144,000 from the prior quarter. Non-cash compensation expenditure of \$275,000 recorded during the quarter reflected an accrual in anticipation of the third annual vesting period in May 2001 of the one-time option grant to preIPO employees in 1999. Depreciation and amortization was \$376,000 for the quarter, up from \$290,000 in the prior year and \$207,000 for the fourth quarter of 2000. The number of employees at quarter end was [68] compared with 81 at December 31, 2000.

#### **Net Loss**

Loss from operations was \$2,107,000, compared with \$4,656,000 in the first quarter 2000 and \$4,038,000 in the fourth quarter 2000. The decline in loss reflected higher revenue and lower product support, production, editorial, general and administrative costs due to downsizing efforts.

## **Liquidity and Capital Resources**

The Company finished the quarter with \$406,000 in cash resources. Net cash used in operating activities was \$1.7 million in the three-month period compared to \$3.8 million in the year-ago period and \$3.2 million in the fourth quarter 2000. Net cash was not used in investing activities compared with \$200,000 in the year-ago period and \$980,000 in the fourth quarter of 2000. Net cash provided/(used) by financing activities was Euro 399,998 (\$369,854 equivalent) compared with \$36,000 in the year-ago period and \$10,000 in the fourth quarter of 2000. During the quarter a capital contribution of Euro 399,998 was made. The Company anticipates that its funding will be sufficient to reach positive cash flow.

## **Outlook**

**artnet.com** continues to pursue its corporate strategy of sales growth in all product areas in 2001, through acceleration of sales efforts, strategic alliances, and improvements in site design and content. A major product line extension is planned for the second quarter which will permit online Gallery Network searchability on a broader base of parameters, enabling sales to the large new market of decorative arts dealers.

artnet.com AG  
**CONSOLIDATED BALANCE SHEET**  
**(ACCORDING TO US GAAP) UNAUDITED**

	<b>March 31</b>	<b>December 31</b>	<b>March 31</b>	<b>December 31</b>
	<b>2001</b>	<b>2000</b>	<b>2001</b>	<b>2000</b>
	<b>USD</b>	<b>USD</b>	<b>EURO</b>	<b>EURO</b>
<b>Current Assets</b>				
Cash	\$405,621	\$1,322,788	€ 461,191	€ 1,430,164
Accounts Receivable, Net	1,677,625	1,574,250	1,907,460	1,702,039
Prepays and Other Current Assets	212,731	223,757	241,875	241,920
<b>Total Current Assets</b>	<b>2,295,977</b>	<b>3,120,795</b>	<b>2,610,526</b>	<b>3,374,123</b>
Property and Equipment, Net	2,576,389	2,951,429	2,929,354	3,191,010
Leased Assets, Net	83,069	84,220	94,449	91,057
Trademark Fees, Net	-	-	-	-
Security Deposits	140,203	179,968	159,411	194,578
<b>Total Assets</b>	<b>\$5,095,639</b>	<b>\$6,336,412</b>	<b>€ 5,793,742</b>	<b>€ 6,850,768</b>
<b>Liabilities</b>				
Current Liabilities:				
Accounts Payable	1,407,108	\$1,631,003	1,599,882	€ 1,763,399
Other Accrued Expenses	878,310	1,024,672	998,641	1,107,651
Unearned Revenue	1,732,925	1,677,009	1,970,336	1,813,140
Capital Leases (Current)	25,945	25,945	29,499	28,051
<b>Total Current Liabilities</b>	<b>4,044,290</b>	<b>4,358,629</b>	<b>4,598,355</b>	<b>4,712,241</b>
Capital Leases (Non-current)	4,452	4,452	5,062	4,813
<b>Total Liabilities</b>	<b>4,048,742</b>	<b>4,363,081</b>	<b>4,603,420</b>	<b>4,717,054</b>
<b>Stockholders' Equity</b>				
Common Stock	5,689,601	\$5,689,601	6,469,076	5,349,102
Additional Paid-in Capital	56,556,575	55,695,518	64,304,825	53,581,425
Deferred Compensation	(7,210,622)	(7,485,622)	(8,198,477)	(6,564,084)
Treasury Stock	(735,971)	(735,971)	(836,799)	(722,807)
Accumulative Deficit	(47,752,541)	(30,764,933)	(54,294,639)	(27,594,101)
Current Losses	(2,107,287)	(18,194,812)	(2,395,985)	(19,312,843)
Accumulated Comprehensive Income:				
For Currency Translation Adjustment	(3,392,856)	(2,230,450)	(3,857,677)	(2,602,979)
<b>Total Stockholders' Equity</b>	<b>1,378,688</b>	<b>1,973,331</b>	<b>1,567,568</b>	<b>2,133,714</b>
<b>Total Liabilities and Equity</b>	<b>\$5,095,639</b>	<b>\$6,336,412</b>	<b>€ 5,793,742</b>	<b>€ 6,850,768</b>

**CONSOLIDATED STATEMENT OF OPERATIONS**  
**(ACCORDING TO US GAAP) UNAUDITED**

For the Three Months Ended March 31,	2001 USD	2000 USD	2001 EURO	2000 EURO
<b>Revenue:</b>				
Online Gallery Network Advertising	\$872,867	\$519,110	992,450	€ 525,687
Database Subscriptions	326,828	225,753	371,603	228,613
Bookstore	55,124	43,555	62,676	44,107
<b>Total Revenue</b>	<b>1,254,820</b>	<b>788,418</b>	<b>1,426,730</b>	<b>798,407</b>
<b>Operating Expenses:</b>				
Bookstore Costs of Goods Sold	12,094	25,176	13,751	25,495
Product Support, Production and Editorial	877,649	889,500	997,887	900,770
Selling and Marketing	661,118	840,500	751,691	851,149
General and Administrative	1,164,125	1,246,441	1,323,610	1,262,233
Non-cash Compensation	275,000	564,285	312,675	571,434
Depreciation and Amortization	376,191	289,695	427,729	293,365
<b>Total Operating Expenses</b>	<b>3,366,178</b>	<b>3,855,597</b>	<b>3,827,344</b>	<b>3,904,446</b>
Loss from Operations	(2,111,358)	(3,067,179)	(2,400,614)	(3,106,039)
Interest Expense	-	(2,924)	-	(2,961)
Interest Income	8,319	105,986	9,459	107,329
Other Income	(4,184)	4,773	(4,757)	4,833
Loss From Continuing Operations Before Income Taxes	(2,107,223)	(2,959,344)	(2,395,913)	(2,996,838)
Income Tax Provision	(64)	0	(73)	-
Loss From Continuing Operations	(2,107,287)	(2,959,344)	(2,395,985)	(2,996,838)
Discontinued Operations:				
Loss from Auction and Print store Operations, Net of Tax	-	(1,280,000)	-	(1,296,217)
Loss From Discontinued Operations	-	(1,280,000)	-	(1,296,217)
Loss Before Cumulative Effect of Accounting Change	(2,107,287)	(4,239,344)	(2,395,985)	(4,293,055)
Cumulative Effect of Accounting Change	-	(417,000)	-	(422,283)
<b>Net Loss</b>	<b>\$ (2,107,287)</b>	<b>\$ (4,656,344)</b>	<b>\$ (2,395,985)</b>	<b>\$ (4,715,338)</b>
Net Loss Per Share Attributable to Common Shareholders:				
Loss From Continuing Operations	(\$0.33)	(\$0.71)	(€ 0.38)	(€ 0.72)
Loss from Auction and Print store Operations	-	-	-	(0.31)
Loss Before Cumulative Effect of Accounting Change	(0.33)	(1.02)	(0.38)	(1.03)
Cumulative Effect of Accounting Change	-	-	-	(0.10)
Net Loss (Basic and Diluted)	(\$0.33)	(\$1.12)	(€ 0.38)	(€ 1.14)
Weighted Average Common and Common Equivalent Shares Outstanding:				
Basic and Diluted	5,460,522	4,152,028	6,208,614	4,152,028

**CONSOLIDATED STATEMENT OF CASH FLOWS**  
**(ACCORDING TO US GAAP) UNAUDITED**

For the Three Months Ended March 31,	2001 USD	2000 USD	2001 EURO	2000 EURO
<b>Operating Activities:</b>				
Net Loss	(\$2,107,287)	(\$4,656,344)	(€ 2,395,985)	(€ 4,715,339)
<b>Adjustments:</b>				
Depreciation and Amortization	376,191	289,695	427,729	293,366
Provision for Doubtful Accounts	15,000	20,000	17,055	30,960
Non-cash Compensation	275,000	564,285	312,675	571,434
<b>Changes in Operating Assets and Liabilities:</b>				
Accounts Receivable	(118,375)	(326,487)	(134,592)	(375,973)
Other Current Assets	79,507	(45,262)	90,399	(63,183)
Security Deposits	39,765	(68,119)	45,213	(77,646)
Accounts Payable	(223,895)	42,044	(254,569)	82,922
Accrued Expenses	(146,360)	(248,669)	(166,411)	(197,514)
Unearned Revenue	55,916	617,000	63,576	624,820
<b>Net Cash Used in Operating Activities</b>	<b>(1,754,538)</b>	<b>(3,811,857)</b>	<b>(1,994,910)</b>	<b>(3,826,155)</b>
<b>Investing Activities:</b>				
Purchases of Fixed Assets	-	(132,028)	-	(325,958)
<b>Net Cash Used in Investing Activities</b>	<b>-</b>	<b>(132,028)</b>	<b>-</b>	<b>(325,958)</b>
<b>Financing Activities:</b>				
Principal Payments on Capital Leases	-	(35,681)	-	(32,105)
Proceeds from Sale of Common Stock	369,854	-	420,524	-
<b>Net Cash Provided by Financing Activities</b>	<b>369,854</b>	<b>(35,681)</b>	<b>420,524</b>	<b>(32,105)</b>
Effects of Exchange Rate Changes on Cash	467,517	(577,374)	531,567	184,111
Change in Cash	(917,167)	(4,556,940)	(1,042,819)	(4,000,107)
Cash at Beginning of Period	1,322,788	16,476,725	1,504,010	16,398,126
Cash at End of Period	<u>\$405,621</u>	<u>\$11,919,785</u>	<u>€ 461,191</u>	<u>€ 12,398,019</u>

## Stock and Option Holdings of Management Board and Supervisory Board Members

	December 31, 2000				May 3, 2001		
	Shares	Options	Average Option Exercise Price		Shares	Options	Average Option Exercise Price
Hans Neuendorf	1,344,765	161,502	3.68		1,456,185	161,502	3.68
Caroline Neuendorf	16,000						
Klaus- Jochen Schaeffer	376,890	39,557	4.87		380,000	39,557	4.87
Andrea Schaeffer	197,835	66,155	4.87		220,000	66,155	4.87
Total Company	5,349,102	778,396	4.61		5,460,522	778,396	4.61