Group Management Report for the Three Months Ended March 31, 2005

This quarterly 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.

Market Environment

In the first three months of 2005, Intershop Communications AG Group's ("Intershop", "the Company", or "the Intershop Group") business was still impacted by generally low but slightly increasing levels of corporate information technology (IT) spending. In addition, Intershop's earnings suffered as a result of seasonally lower corporate IT budgets in the first quarter of 2005.

Revenue

Reflecting the described market environment, Intershop's total revenue climbed from €3.7 million in the fourth quarter of 2004 to €4.4 million in the first three months of 2005. By comparison, total revenue in the first three months of fiscal 2004 was €4.4 million. A major contributor to the increase in revenue was a rise in license revenue in the first quarter of 2005. License revenue in the first three months of 2005 totaled €1.3 million, compared with €0.2 million in the fourth quarter of 2004, and €0.6 million in the comparable prior-year period. By contrast, service revenue (including consulting, customer support, maintenance, and other revenue) declined from €3.5 million in the fourth quarter of 2004 to €3.1 million in the first quarter of 2005, compared with €3.9 million in the first three months of 2004.

With a large installed base across the region, Europe remained the Company's primary market in the first three months of 2005, accounting for €2.9 million, or 67% of the worldwide total, as compared to €3.4 million or 93% in the fourth quarter of 2004, and €3.6 million or 81% in the first three months of 2004.

In the Americas region, Intershop generated €1.4 million, or 33% of total global revenue, in the first three months of 2005, compared with €0.3 million, or 7%, in the fourth quarter of 2004, and €0.8 million, or 17%, in the first three months of 2004.

Gross Profit

Gross profit generated in the first three months of 2005 was €2.2 million, versus €1.8 million in the fourth quarter of 2004, and €2.0 million in the first quarter of 2004. Gross margin on sales for the first three months of 2005 was 51%, as compared to 49% in the fourth quarter of 2004, and 44% in the first quarter of 2004.

The Company's license gross margin in the first three months of 2005 was 95%, compared with 84% in the previous quarter, versus 91% in the first three months of 2004.

The Company's service gross margin (including consulting, customer support, maintenance, and other revenue) was 33% in the first three months of 2005, as compared to 47% in the fourth quarter of 2004, and 37% in the first three months of 2004.

Expense and Income

In the first quarter of 2005, Intershop's quarterly operational costs (cost of revenue and operating costs) totaled €5.4 million (as compared to €8.1 million in the fourth quarter of 2004, and €7.0 million in the first quarter of 2004). As of March 31, 2005, the Company employed a total of 220 full-time equivalent employees worldwide (compared with 222 full-time equivalents as of December 31, 2004), of which 206 were employed in Europe, and 14 in the Americas region. As of March 31, 2005, Intershop employed 159 full-time equivalents in technical departments (research and development, services), 32 full-time equivalents in sales and marketing, and 29 full-time equivalents in general and administrative functions.

In the first quarter of 2005, R&D expenses were €0.9 million, compared with €1.0 million in the previous quarter and €1.3 million in the first three months of 2004.

Sales and marketing expenses were €1.3 million in the first three months of 2005, compared with €1.2 million in the previous quarter, and €1.5 million in the first three months of 2004. The sales and marketing expenses of the first quarter of 2005 also included costs incurred for the CeBIT 2005 trade fair in Hanover, Germany.

General and administrative (G&A) expenses totaled €1.1 million in the first three months of 2005, compared with €3.9 million in the fourth quarter of 2004. Expenses in the previous quarter contain extraordinary costs amounting to €2.3 million for accruals for payments in connection with the settlement with the plaintiffs of the security class action in the United States. In the first three months of 2004, the Company recorded G&A expenses of €1.6 million.

Depreciation and amortization of €0.1 million in the first quarter of 2005 remained almost unchanged from the previous quarter as well as from first quarter of 2004. Investments in the periods reported were focused on capital replacements to adequately support the Company's ongoing operations in line with reduced business activities.

In the first quarter of 2005 Intershop recorded an operating loss of €1.0, compared with an operating loss of €4.4 million in the previous quarter. By comparison, Intershop recorded an operating loss of €2.6 million in the first three months of 2004.

In the first quarter of 2005, Intershop's net loss was €1.1 million, representing a net loss of €0.04 per share. By comparison, Intershop recorded a net loss of €4.8 million, or €0.19 per share, in the fourth quarter of 2004. In the comparable first quarter of 2004, Intershop's net loss was €2.5 million, representing a net loss of €0.11 per share.

Liquidity and Balance Sheet

Net cash usage related to operating activities increased from €1.8 million in the first three months of 2004 to €4.0 million in the first three months of 2005, primarily based on the payment of the accrued expenses in connection with the settlement with the plaintiffs of the security class action in the United States which amount to €2.3 million.

Investments in capital replacements were the main cause of the almost unchanged net cash usage from investing activities of €0.1 million in the first three months of 2005 as well as in the first three months of 2004.

Cash generated by financing activities was €10.1 million in the first three months of 2005, compared with €3.8 million in the first three months of 2004. The cash generated in the first quarter of 2005 is the result of the successful placement of a zero-coupon convertible bond, with bonds amounting to 11.3 million being subscribed. The zero-coupon convertible bond has a maturity date of December 14, 2008 and is composed of individual bonds with a nominal value of €1 each. The principal features of the zero-coupon

convertible bond are the repayment amount of €1.46 per bond at maturity, if conversion has not taken place, corresponding to an effective interest rate of 10% p.a., and the right to convert into bearer voting ordinary shares of the Company during specified conversion periods (starting in November 2005). The conversion price on each occasion will be €1.00, irrespective of any capital decreases. Automatic conversion will take place if the share price exceeds €5.00 on ten consecutive trading days at any time after January 1, 2006.
The cash generated in the first quarter of 2004 is the result of a rights issue of €1,916,113 from the issuance of 1,916,113 new common bearer shares in Intershop, which was approved by Intershop's Board on March 5, 2004.

As a result of the successful placement of the zero-coupon convertible bond, the Company's cash and cash equivalents, marketable securities, and restricted cash increased from €8.4 million as of December 31, 2004 to €14.5 million as of March 31, 2005. The amount of unrestricted cash included in this total increased from €1.6 million as of December 31, 2004 to €7.7 million as of March 31, 2005.

Days sales outstanding (DSO) increased from 55 as of December 31, 2004 to 68 as of March 31, 2005.

Trade receivables as of March 31, 2005 were €3.3 million, compared with €2.3 million as of December 31, 2004. The increase was driven – amongst others - by a higher DSO as of March 31, 2005 compared with December 31, 2004.

Intershop had short-term deferred revenues of €4.7 million as of March 31, 2005, compared with €4.6 million as of December 31, 2004.

Capital Structure

On April 4, 2005, Intershop announced in the *Frankfurter Allgemeine Zeitung* that on March 30, 2005, Stephan Schambach had informed the Company that his proportion of voting rights an the Company had fallen below 10% since January 25, 2005 and that it has been 9,8% since that time, i.e. it is more than 5% of the Company's voting rights.

Subsequent Events

The Intershop Annual Stockholders' Meeting on April 26, 2005 approved the resolutions proposed by the Management Board and Supervisory Board by a large majority. The key resolutions passed by the 7th Annual Stockholders' Meeting concerned the formal approval of the activities of the Management Board and Supervisory Board, the election of the auditors, the simplified capital decrease in conjunction with a 1-for-3 reverse stock split of Intershop common bearer shares, and the prolongation of the authorization to acquire own shares. All resolutions were passed by a majority of more than 80% of the voting capital represented at the Annual Stockholders' Meeting. The Annual Stockholders' Meeting was attended by about 200 stockholders representing approximately 12% of the capital stock.

Business Outlook

On the basis of the substantial reduction in Intershop's total operating costs as of the end of fiscal 2004, the stabilized financial position of the Company at the start of 2005 and the forecast growth in corporate IT expenditure, Intershop expects to be able to continue the positive trend of previous years as regards an improvement in its net income.

Intershop Communications AG
Consolidated Balance Sheets (U.S.GAAP)
(in thousands €, except share, unaudited)

	March 31, 2005	December 31, 2004
ASSETS	€	€
Current assets		
Cash and cash equivalents	7,722	1,632
Restricted cash	6,754	6,754
Trade receivables, net of allowances for doubtful accounts of €1,578 at December 31, 2004	3,294	2,257
Prepaid expenses and other current assets	2,116	810
Total current assets	19,886	11,453
Property and equipment, net	908	924
Other assets	472	458
Goodwill	4,473	4,473
Total assets	**25,739**	**17,308**
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable	1,885	1,689
Accrued restructuring costs	1,734	1,778
Other accrued liabilities	4,329	6,565
Deferred revenue	4,684	4,612
Total current liabilities	12,632	14,644
Long-term liabilities, net of current portion	11,665	-
Deferred revenue		10
Total liabilities	**24,297**	**14,654**
Shareholders' equity		
Common share, stated value €1-authorized: 75,051,106 shares; outstanding: 25,551,412 shares as per March 31, 2005 as per December 31, 2004	25,551	25,551
Paid-in capital	1,710	1,710
Accumulated deficit	(28,605)	(26,025)
Accumulated other comprehensive income	2,787	2,928
Treasury Stock	(1)	(1)
Total shareholders' equity	**1,442**	**4,163**
Total liabilities and shareholders' equity	**25,739**	**18,817**

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

	Three Months Ended March 31,	
	2005	2004
	€	€
Revenues		
Licenses	1,299	565
Services, maintenance, and other	3,074	3,868
Total revenues	**4,373**	**4,433**
Cost of revenues		
Licenses	68	49
Services, maintenance, and other	2,067	2,431
Total costs of revenues	**2,135**	**2,480**
Gross profit	**2,238**	**1,953**
Operating expenses		
Research and development	855	1,298
Sales and marketing	1,282	1,518
General and administrative	1,105	1,644
Restructuring costs and asset impairment	(1)	81
Total operating expenses	**3,241**	**4,541**
Operating loss	**(1,003)**	**(2,588)**
Other income (expense)		
Interest income	37	30
Interest expense	(350)	(6)
Other income (expense), net	236	75
Total other income (expense)	**(77)**	**99**
Net loss	**(1,080)**	**(2,489)**
Basic and diluted result per share	**(0.04)**	**(0.11)**
Shares used in computing:		
For basic and diluted result per share	25,551	22,035

Intershop Communications AG
Consolidated Statements of Cashflows (U.S.GAAP)
(in thousands €, unaudited)

	Three Months Ended March 31,	
	2005	2004
	€	€
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	(1,080)	(2,489)
Adjustments to reconcile net loss to cash used in operating activities		
Depreciation and amortization	94	73
Non-cash effects from deconsolidation	(190)	-
Provision for doubtful accounts	(4)	22
(Gain) Loss on disposal of property and equipment	(10)	(11)
Changes in operating assets and liabilities		
Accounts receivable	(1,006)	652
Prepaid expenses and other current assets	(64)	273
Other assets	-	9
Accounts payable	158	1,006
Deferred revenue	113	(796)
Accrued restructuring costs	(44)	(232)
Accrued expenses and other liabilities	(1,988)	(277)
Net cash used in operating activities	**(4,021)**	**(1,770)**
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds on disposal of equipment	2	124
Purchases of property and equipment, net of capital leases	(78)	(214)
Net cash (used in) provided by investing activities	**(76)**	**(90)**
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from sale of common shares		3,792
Proceeds from placement of zero-coupon convertible bond	11,331	
Payment for costs of the zero-coupon convertible bond	(1,241)	
Net cash provided by financing activities	**10,090**	**3,792**
Effect of change in exchange rates on cash	97	124
Net change in cash and cash equivalents	6,090	2,056
Cash and cash equivalents, beginning of period	**1,632**	**2,611**
Cash and cash equivalents, end of period	**7,722**	**4,667**

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	Treasury Stock	Total Shareholders` Equity
Balance, January 1, 2003	**19,306,400**	**19,306**	**-**	**4,124**	**2,942**	**-**	**26,372**
Other comprehensive loss:							
Net loss				(20,140)			(20,140)
Foreign currency translation adjustments					(83)		(83)
Unrealized gain (loss) on available for sale security, net					189		189
Comprehensive loss							(20,034)
Conversion of common stock of subsidiary to common stock of parent	2,499,999	2,500		(2,500)			
Conversion of preferred stock of subsidiary to common stock of parent	228,900	229		(229)			
Balance, December 31, 2003	**22,035,299**	**22,035**	**-**	**(18,745)**	**3,048**	**-**	**6,338**
Other comprehensive loss:							
Net loss (unaudited)				(8,776)			(8,776)
Foreign currency translation adjustments (unaudited)					(129)		(129)
Comprehensive loss							(8,905)
Purchase of common stock						-40	-40
Re-issuance of treasury stock				(4)		39	35
Issuance of common bearer stock, rights issue (unaudited)	3,516,113	3,516	1,710				5,226
Balance, December 31, 2004	**25,551,412**	**25,551**	**1,710**	**(27,525)**	**2,919**	**(1)**	**2,654**
Other comprehensive loss:							
Net loss (unaudited)				(1,080)			(1,080)
Foreign currency translation adjustments (unaudited)					(132)		(132)
Balance, March 31, 2005	**25,551,412**	**25,551**	**1,710**	**(28,605)**	**2,787**	**(1)**	**1,442**

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 Frankfurt Stock Exchange. 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, 2004. 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, 2005.

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 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,	**2004**	**2005**
Net loss attributable to common shareholders		
As reported	(2,489)	(1,080)
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(1)	(1)
Pro forma	**(2,490)**	**(1,081)**
Basic and diluted loss per share		
As reported	0.11	0.04
Pro forma	**0.11**	**0.04**

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

	2004	**2005**
Risk-free interest on the date of grant	3.0	3.0
Assumed dividend	-	-
Volatility	117.32%	92.17%
Expected option lives (in years)	3.56	3.32

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 is no longer amortized, but must be tested for impairment on an annual basis and whenever indicators of impairment arise. The goodwill impairment test is to be performed on a reporting unit level. Since the Company's products and services are not divided into different segments or reporting units, goodwill is tested for impairment at the enterprise level. As a first step, the fair value of the enterprise is compared with its carrying amount, whereby the fair value is derived from the Company's market capitalization. Only if the fair value is lower than the carrying amount is the need for goodwill to be written down determined in a second step. At the balance sheet dates for 2003 and 2004, there were no impairment losses requiring to be recognized.

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,	**2004**	**2005**
Net loss	(2,489)	(1,080)
Foreign Currency translation gains (losses)	114	(132)
Total comprehensive income (loss)	**(2,375)**	**(1,212)**

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,	**2004**	**2005**
Net loss attributable to common shareholders	(2,489)	(1,080)
Basic and diluted net loss per share:		
Weighted average common shares outstanding	22,035	25,551
Basic and diluted net loss per share	**(0.11)**	**(0.04)**

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,	**2004** Number of shares outstanding	**2004** Weighted-average exercise price (€)	**2005** Number of shares outstanding	**2005** Weighted-average exercise price (€)
Outstanding at beginning of period	2,055	36.50	1,570	40.20
Granted	6	3.43	9	1.10
Exercised	-	-	-	-
Forfeited	(246)	22.38	(288)	191.32
Outstanding at end of period	1,815	35.56	1,291	20.48
Exercisable options at end of period	726	78.57	793	30.67
Weighted average fair market value of options granted during the year (€)	6	1.31	9	0.54

The following table summarizes information with respect to the stock options outstanding on March 31, 2005:

Range of Exercise Price	Number of options outstanding (000s)	Weighted-average remaining contractual life (in years)	Weighted-average exercise price (€)	Number exercisable on March 31, 2005 (000s)	Weighted-average exercise price (€)
0.01 – 5.99	658	7.5	2.55	286	2.94
6.00 – 6.99	142	6.6	6.04	102	6.04
7.00 – 16.99	275	5.5	7.98	206	7.98
17.00 – 49.99	171	1.8	21.57	155	21.70
50.00 – 758.04	45	0.9	403.35	44	403.40
	1,291	**6.0**	**20.48**	**793**	**78.57**

6. Recent Accounting Pronouncements

In April 2002, the Financial Accounting Standards Board (FASB) issued SFAS No. 145 "Rescission of FASB Statements No. 4, 44 and 64, Amendment of FASB Statement No. 13, and Technical Corrections." Effective for fiscal year 2003, under SFAS No. 145, gains and losses on extinguishments of debt will be required to be classified as income or loss from continuing operations rather than as extraordinary items as previously required under Statement 4. Extraordinary treatment will be required for certain extinguishments as provided in APB Opinion No. 30. All other provisions for SFSA No. 145 became effective for transactions occurring after May 15, 2002. Statement 145 also amends Statement 13 to require certain modifications to capital leases be treated as a sale-leaseback and modifies the accounting for sub-leases when the original lessee remains a secondary obligor (or guarantor). In addition, the FASB rescinded Statement 44, which addressed the accounting for intangible assets of motor carriers and made numerous technical corrections. The adoption of SFAS No. 145 did not have a material impact on the Company's Group's 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 No. 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 No. 144. The Company has adopted SFAS No. 146 since January 1, 2003. The adoption of SFAS No. 146 did not 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 adoption did not have a material effect on the Company's financial position, results of operations, or cash flows.

At the November 21, 2002 EITF meeting, the Task Force reached a consensus that cash consideration received by a customer from a vendor is presumed to be a reduction of the prices of the vendor's products or services and should, therefore, be characterized as a reduction of cost of sales when recognized in the customer's income statement. That presumption is overcome when the consideration is either (a) a reimbursement of costs incurred by the customer to sell the vendor's products, in which case the cash consideration should be characterized as a reduction of that cost when recognized in the customer's income statement, or (b) a payment for assets or services delivered to the vendor, in which case the cash consideration should be characterized as revenue when recognized in the customer's income statement. The Task Force also reached a consensus that a rebate or refund of a specified amount of cash consideration that is payable only if the customer completes a specified cumulative level of purchases or remains a customer for a specified time period should be recognized as a reduction of the cost of sales based on a systematic and rational allocation of the cash consideration offered to each of the underlying transactions that results in progress by the customer toward earning the rebate or refund, provided the amounts are reasonably estimable. The Company does not expect the adoption of EITF 02-16 to have a material effect on it's financial position, 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.

In May 2003, the FASB published SFAS No. 150 "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity". The Standard describes how the issuer classifies and measures such financial instruments. The financial instruments that are within the scope of this Standard must therefore be classified as liabilities (or assets in some circumstances) because these financial instruments embody an obligation of the issuer. SFAS No. 150 is effective for financial instruments issued or modified after March 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003. The adoption of SFAS No. 150 did not have any material effect on the Company's financial position, results of operations, or cash flows.

At the July 31, 2003 meeting, the ETIF discussed whether non-software deliverables (e.g., non-software related equipment or services) included in an arrangement that contains software that is more than incidental to the products or services as a whole are included within the scope of AICPA Statement of Position 97-2, "Software Revenue Recognition". The Task Force reached the following consensus: In an arrangement that includes software that is more than incidental to the products or services as a whole, software and software-related elements are included within the scope of SOP 97-2. Software-related elements include software-products and services such as those listed in paragraph 9 of SOP 97-2 (examples of software deliverables include software products, upgrades/enhancements, postcontract customer support, and services) as well as any non-software deliverable(s) for which a software deliverable is essential to its functionality. For example, in an arrangement that includes software, computer hardware that will contain the software, and additional unrelated equipment, if the software is essential to the functionality of the hardware, the hardware would be considered software-related and, therefore, included within the scope of SOP 97-2. However, because the software is not essential to the functionality of the unrelated equipment, the equipment would not be considered software-related and would, therefore, be excluded from the scope of SOP 97-2. The Task Force agreed that the consensus in Issue 03-5 should be applied to arrangements entered into in the first reporting period (annual or interim) beginning after the date of Board ratification of the consensus, which was August 13, 2003. As a result of the application of this interpretation, revenues amounting to US$1.0 million (€0.7 million) could not be recognized in 2004.

In December 2003, the Securities & Exchange Commission ("SEC") published Staff Accounting Bulletin ("SAB") No. 104, "Revenue Recognition." This SAB updates portions of the SEC staff's interpretive guidance provided in SAB 101 and included in Topic 13 of the Codification of Staff Accounting Bulletins. SAB 104 deletes interpretative material no longer necessary, and conforms the interpretive material retained, because of pronouncements issued by the FASB's EITF on various revenue recognition topics, including EITF 00-21, "Revenue Arrangements with Multiple Deliverables." SAB 104 also incorporates

into the SAB Codification certain sections of the SEC staff's "Revenue Recognition in Financial Statements – Frequently Asked Questions and Answers." To the extent not incorporated into the SAB codification, the SEC staff's FAQ on SAB 101 (Topic 13) has been rescinded. The adoption of SAB 104 will not have a material effect on the Group's financial position, results of operations or cash flows.

In March 2004, the EITF reached a consensus on Issue No. 03-01 "The Meaning of Other-Than-Temporary Impairments and Its Application to Certain Investments". EITF No. 03-01 defines analytical methods of assessing the other-than-temporary impairment of available-for-sale debt and equity instruments, taking account of SFAS No. 115 and SFAS 124.
The adoption of EITF No. 03-01 will not have a material impact on the Company's financial position, results of operations or cash flows.

In December 2004, the FASB issued SFAS 123 (revised 2004), "Share-Based Payment" (SFAS 123R), which replaced SFAS 123, "Accounting for Stock-Based Compensation", and supersedes Accounting Principal Board Opinion (ABP) 25, "Accounting for Stock Issued to Employees", and related Interpretations. SFAS 123R requires companies to recognize the cost resulting from all share-based payment transactions in the financial statements. With certain limited exceptions, the new standard establishes a grant-date fair-value-based measurement method in accounting for share-based payment transactions. Liability-classified awards are to be remeasured to fair value at each reporting date until the award is settled. Equity-classified awards are measured at grant-date fair value whereas related compensation cost is recognized based on the estimated number of instruments for which the requisite service is expected to be rendered. SFAS 123R is effective as of the beginning of the first interim reporting period that begins after June 15, 2005.
Because of the switch to financial reporting under IFRS in 2005, the adoption of SFAS 123R will not have a material impact on the Company's financial position, results of operations or cash flows.

7. Industry Segment and Geographic Information

The Company's primary line of business is the production and marketing of e-commerce software that enables customers to automate and simplify their purchasing and sales processes and to consolidate and manage all their sales and procurement channels from a central platform. Accordingly, the Company does not disclose significant additional segment information as defined by SFAS No. 131. However, the Company's business had five international sales geographies: Germany, United States, United Kingdom, Asia Pacific, and other (which includes France, Denmark, Norway, and Sweden) by December 31, 2003. These geographies were supported by the central General Administration as well as by the Research & Development and Technical Support departments. The Company's products were developed at its headquarters in Jena, Germany, and were sold in Europe, North America, Australia, and Asia via the Company's own direct distribution, sales partners, and independent distributors. In 2004, the sales geographies in France, Northern Europe, the United Kingdom (effective January 1, 2004), and Asia (effective June 30, 2004) were transferred to independent distributors. Since that time, the Company has retained direct control over only two sales geographies: Germany and the United States.

Three months ended March 31, 2005 (in thousands of €):

	Germany	United States	United Kingdom	Asia Pacific	Other	Total
Revenues						
Licenses	391	908	-	-	-	1,299
Services, maintenance and other	2,536	538	-	-	-	3,074
Total Revenues	**2,927**	**1,446**	**-**	**-**	**-**	**4,373**
Gross profit						
Licenses	323	908	-	-	-	1,231
Services, maintenance and other	588	419	-	-	-	1,007
Total gross profit (loss)	**911**	**1,327**	**-**	**-**	**-**	**2,238**
Total Operating expenses	4,896	471	-	6	3	5,376
Operating income (loss)	**(1,969)**	**975**	**-**	**(6)**	**(3)**	**(1,003)**
Other income (expense) net						(77)
Net loss						**(1,080)**
Long lived assets	628	17	263	-	-	908

Three months ended March 31, 2004 (in thousands of €):

	Germany	United States	United Kingdom	Asia Pacific	Other	Total
Revenues						
Licenses	317	244	4	-	-	565
Services, maintenance and other	3,026	527	248	66	-	3,867
Total Revenues	**3,343**	**771**	**252**	**66**	**-**	**4,432**
Gross profit						
Licenses	290	222	4	-	-	516
Services, maintenance and other	748	374	248	75	(223)	1,222
Total gross profit (loss)	**1,038**	**596**	**252**	**75**	**(223)**	**7,738**
Total Operating expenses	5,721	682	278	319	20	7,020
Operating income (loss)	**(2,378)**	**89**	**(26)**	**(253)**	**(20)**	**(2,588)**
Other income (expense) net						99
Net loss						**(2,489)**
Long lived assets	748	42	330	17	8	1,145

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, 2004.

8. Restructuring Charges and Asset Impairments

The following tables summarize the restructuring charges recorded during the three months ended March 31, 2005 and 2004 respectively (in thousands €):

Three Months ended March 31,	**2004**	**2005**
Employee Related Charges	52	(1)
Facility Related Charges	37	-
Other	(8)	-
Total restructuring charges	**81**	**(1)**

	Employee related charges	Facility related charges	Total
Accrued restructuring costs at December 31, 2004	195	1,583	1,778
Currency Adjustments	8	20	28
Restructuring charges quarter ended March 31, 2005	(1)	-	(1)
Cash Payments	(25)	(46)	(71)
Accrued restructuring costs at March 31, 2005	**177**	**1,557**	**1,734**

The above costs are broken down as follows:

Employee Related Charges
As of March 31, 2005, the Group employed 220 full-time equivalents, as compared to 222 full-time equivalents as of December 31, 2004.

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

Facility Related Charges
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.

Restructuring accruals are calculated on the basis of financial estimates and data available as at March 31, 2005. Adjustments to this restructuring reserve will be made in future periods, if necessary, based upon actual events and available information at that moment in time.

9. 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 2005, the Company incurred research and development costs of approximately €0.9 million compared with €1.3 million in the first quarter of 2004. The Company expenses all research and development costs as incurred.

10. Shareholders' Equity

The following tables summarize the change in shareholders' equity for the three months ended March 31, 2005 and 2004 (in thousands €):

Three Months ended March 31,	2004 (corrected)	2005
Net loss	(2,489)	(1,080)
Foreign Currency translation gains (losses)	114	(132)
Cash received for unregistered stock	3,792	-
Opening Shareholders' equity	6,338	2,654
Closing Shareholders' equity	**7,755**	**1,442**

11. 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 U.S. against Intershop Communications AG, Management Board members, certain other officers, and the underwriters of the Company's September 2000 public offering. The plaintiffs allege that the defendants made material misrepresentations and omissions of material facts concerning the Company's business performance. The plaintiffs seek an unspecified amount of damages. The Management Board believes there is no merit to these allegations and intends to defend itself vigorously. Nonetheless the Company decided to negotiate with the plaintiffs to try to reach a settlement of their claims. We were able to reach such a settlement on January 26, 2005. The settlement envisages a payment of US$2 million, and of an additional amount equal to 20% of the proceeds in excess of €6 million that Intershop receives from the issue of the convertible bond of November 29, 2004. In addition, the plaintiffs will receive a further payment in the event that Intershop is taken over within a year of the date of the settlement. Following the plaintiffs' agreement to the settlement, the settlement still requires the approval of the competent court in California, United States.
In Germany, 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. 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 was 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 public prosecutor discontinued the preliminary proceedings in April 2005.

In 2002, a claim of €5 million regarding the violation of a license agreement was legally asserted by another software company. An out-of-court settlement was initially agreed, but the software company declined to take up the terms of the settlement. In 2004, the Munich Regional Court dismissed its claim for monetary compensation. However, the court required Intershop to provide details of the supply of software owned by the other software company. Intershop will now collate and submit these details. Intershop is of the opinion that the other software company has no basis for asserting any further claims.

In the year under review, a claim against the Company for approximately US$750,000 was filed with a court in New York on behalf of a bank that advised the Company in connection with its IPO in 2000. The claim relates to costs that the bank is alleged to have incurred in mounting a defense against the plaintiffs of the class action lawsuit, in which a claim was also made against the bank. The Company will defend itself vigorously against the claims for compensation and is of the opinion that a claim for reimbursement of costs is invalid for formal reasons, and that in any event the level of costs asserted is open to question.

12. Directors' Holdings

As of March 31, 2005, the following Company directors held Intershop Communications AG ordinary bearer shares or options to purchase such shares as well as bonds of the zero-coupon convertible bond, placed by the Company:

Name	Title, Function	Share held *	Stock options held*, **	Convertible bonds
Eckhard Pfeiffer	Chairman of the Supervisory Board	50,000	-	120,000
Hans W. Gutsch	Vice-Chairman of the Supervisory Board	6,086	-	152,990
Peter Mark Droste	Member of the Supervisory Board	-	-	100,000
Dr. Jürgen Schöttler	Chairman of the Management Board, Chief Executive Officer, Chief Financial Officer	-	160,000	111,519
Ralf Männlein	Member of the Management Board responsible for Sales and Marketing	-	70,000	50,000

* 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 2004 annual report (page 49). Jürgen Schöttler's stock options have an average reverse stock split adjusted exercise price of €4.16 per share, and Ralf Männlein's stock options have an exercise price of €1.89 per share.

13. Securities Transactions subject to Reporting Requirements

The members of the Company's executive bodies made the following transactions of Intershop bearer shares or convertible bonds during the first quarter of 2005:

Name	Date	Type of security	Type of transaction	Amount	Total value (€)
Supervisory Board:					
Eckhard Pfeiffer	January 25, 2005	Bond	Purchase	120,000	120,000
Hans W. Gutsch	January 25, 2005	Share	Sale	70,000	52,990
		Bond	Purchase	152,990	152,990
Peter Mark Droste	January 26, 2005	Bond	Purchase	100,000	100,000
Management Board:					
Dr. Jürgen Schöttler	January 25, 2005	Share	Sale	15,217	11,519
		Bond	Purchase	111,519	111,519
Ralf Männlein	January 26, 2005	Bond	Purchase	50,000	50,000

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