Group Management Report for the Nine Months Ended September 30, 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 nine months of 2005, Intershop Communications AG Group's ("Intershop", "the Company", or "the Intershop Group") business was still impacted by generally low levels of corporate information technology (IT) spending.

Revenue

Reflecting the weak market environment, Intershop's total revenue for the first nine months of 2005 decreased to €12.5 million, compared with revenue of €13.2 million in the first nine months of 2004. In the first nine months of 2005 license revenue increased from €2.3 million by €0.6 compared with first nine months of 2004. Service revenue (including consulting, customer support, maintenance, and other revenue) totaled €10.2 million in the first nine month of 2005, compared to €11.5 million in the first nine months of 2004.

Europe remained the Company's primary market in the first nine months of 2005, accounting for €9.9 million, or 79% of total global revenue, as compared to €10.6 million or 80% in the first nine months of 2004.

In the Americas region, Intershop generated €2.6 million, or 21% of total global revenue, in the first nine months of 2005, compared with €2.4 million, or 18%, in the first nine months of 2004.

Gross Profit

Gross profit generated in the first nine months of 2005 was €5.8 million, versus €6.1 million in the first nine months of 2004. Gross margin on sales for the first nine months of 2005 was 46%, as compared to 47% in the first nine months of 2004.

The Company's license gross margin in the first nine months of 2005 was 93%, as compared to 84% in the comparable prior-year period.

The Company's service gross margin was 36% in the first nine months of 2005, as compared to 41% in the first nine months of 2004.

Expense and Income

In the first nine months of 2005, Intershop's operational costs (cost of revenue and operating costs) totaled €16.1 million (as compared to €18.9 million in the first nine months of 2004). As of September 30, 2005, the Company employed a total of 220 full-time equivalent employees worldwide (compared with 232 full-time equivalent as of September 30, 2004), of which 204 were employed in Europe and 16 in the Americas region. As of September 30, 2005, Intershop employed 150 full-time equivalents in technical departments (research and development, services), 41 full-time equivalents in sales and marketing, and 29 full-time equivalents in general and administrative functions.

The Company recorded restructuring charges of -€0.1 million in the first nine months of 2005, driven primarily by facility-related charges. The negative amount results from release of accrued restructuring costs for employee-related charges. By comparison, the Company recorded restructuring costs of €0.4 million in the first nine months of 2004.

In the first nine months of 2005, R&D expenses totaled €2.1 million whereas in the first nine months of 2004, the Company had spent €3.1 million on R&D.

Sales and marketing expenses were €4.2 million in the first nine months of 2005, compared with €3.8 million in the first nine months of 2004. The sales and marketing expenses of the first nine months of 2005 also included costs incurred for the CeBIT 2005 trade fair in Hanover, Germany.

As a result of further efficiency gains, general and administrative (G&A) expenses decreased from €4.6 million in the first nine months of 2004 to €3.1 million in the first nine months of 2005.

Depreciation and amortization charges were €0.5 million in the first nine months of 2005, compared with €0.4 million in the first nine months of 2004. Investments in the first nine months of 2005 were focused on capital replacements to adequately support the Company's ongoing operations in line with reduced business activities.

Other income and expense amounted to €0.8 million in the first nine months of fiscal year 2005, versus €1.1 million in the comparable prior-year period. Other income and expense of 2005 include extraordinary income of €0.5 million relating to the closing of branches in Dubai, Japan and Great Britain. Furthermore, accrued interest and costs of the convertible bond amounting to €1.0 million are comprised. The figure for the first nine months of 2004 includes extraordinary income in the amount of €0.7 million relating to the spin-off of Intershop's Asian operations.

Primarily due to the reduction in total operational costs, Intershop reduced its operating loss to €3.6 million for the first nine months of 2005, as compared to an operating loss of €5.7 million for the first nine months of 2004.

In the first nine months of 2005, Intershop's net loss was €3.6 million, representing a net loss of €0.42 per share. In the comparable first nine months of 2004, Intershop's net loss was €4.7 million, representing a net loss of €0.20 per share.

Liquidity and Balance Sheet

Net cash usage related to operating activities increased from €3.6 million in the first nine months of 2004 to €6.9 million in the first nine 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.

In the first nine months of 2005 investing activities provided a total of €0.4 million, compared with the net cash usage from investing activities of €0.8 million in the first nine months of 2004.

Cash generated by financing activities was €10.0 million in the first nine months of 2005, compared with €5.2 million in the first nine months of 2004. The cash generated in the first nine months 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 nine months 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 well as a capital increase for cash excluding shareholders' subscription rights from the issuance of 1.6 million new common bearer shares, which was approved by Intershop's Board on September 15, 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 €11.2 million as of September 30, 2005. The amount of unrestricted cash included in this total increased from €1.6 million as of December 31, 2004 to €5.0 million as of September 30, 2005.

Days sales outstanding (DSO) remained with 49 as of September 30, 2005 nearly unchanged (47 as of December 31, 2004).

Trade receivables as of September 30, 2005 totaled €2.0 million, compared with €2.3 million as of December 31, 2004.

Intershop showed short-term deferred revenues of €3.0 million as of September 30, 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.

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. The agreed resolutions including the capital decrease became legally effective upon registration with the Local Court in Gera, Germany on June 28, 2005.

On July 7, 2005, the Company announced an effective date of July 7, 2005 for the technical execution of the reverse stock split approved at the company's Stockholders' Meeting held on April 26, 2005. As a result of the reverse stock split, three old Intershop common bearer shares were exchanged for one new Intershop common bearer share. The reverse split was implemented after the close of trading on July 7, 2005. Following the stock split, the International Securities Identification Number (ISIN) of Intershop Communications AG's common bearer shares changed from ISIN DE 0007472920 (equivalent to German Securities Identification Number – WKN 747292) to ISIN DE 000A0EPUH1 (equivalent to German Securities Identification Number – WKN A0EPUH), and the ticker symbol of Intershop's shares traded on Prime Standard changed from ISH1 to ISH2. The new shares began trading on a consolidated basis on July 8, 2005.

On July 22, 2005, Intershop announced in the *Frankfurter Allgemeine Zeitung* that on July 20, 2005, Stephan Schambach had informed the Company that his proportion of voting rights an the Company had fallen below 5% since July 8, 2005 and that it has been 3,97% since that time.

On September 28, 2005, Intershop announced that the Company's Executive Board *(Vorstand)* and Supervisory Board *(Aufsichtsrat)* have decided to implement a public rights issue from authorized capital in order to raise cash and strengthen the Company's balance sheet.

As part of the subscription offer, the Company offered all current Intershop shareholders the opportunity to subscribe for one new Intershop common bearer share per two existing Intershop common bearer shares held at a price of €1.00 per share (indirect pre-emptive right) during the period from September 28, 2005 to October 13, 2005. For this offer, Intershop issued up to 4,258,550 new common bearer shares from authorized capital. Any shares not subscribed by shareholders will be placed with investors by Munich, Germany-based VEM Aktienbank AG, the investment bank handling the transaction.

Organizational Changes

On August 25, 2005, Intershop announced that its Chairman of the Supervisory Board, Mr. Eckhard Pfeiffer, Houston/Texas, in the Board Meeting on August 25, 2005, declared the resignation from his Chairman position effective immediately, and the termination of his membership as a Board Member effective September 30th, 2005 due to personal reasons. The Board appointed Deputy Chairman, Mr. Hans Gutsch, as its new Chairman. The Company will file an application to appoint Mr. Wolfgang Meyer, Member of the Management Board of Schott Lithotec AG and Chairman of the Management Board of Schott Jenaer Glas, Jena, as its new third Board Member.

Subsequent Events

On October 19, 2005, Intershop announced that the rights issue took announced on September 28, 2005 legal effect by entry in the commercial register at the Local Court of Gera, Germany.

In the course of the transaction, all of the up to 4,258,550 new common bearer shares negotiable under the subscription offer were placed at € 1.00 per share, equivalent to a net cash inflow of approximately 4.3 million €. The capital increase was legally effected upon registration in the Commercial Register at the Local Court of Gera, Germany, The new shares are expected to admitted to the Prime Standard segment of the Frankfurt Stock Exchange on Middle of November 2005.

The new shares will increase the total number of Intershop issued and outstanding shares by 50 percent, from 8,517,100 to 12,775,650 and the Company's share capital has thereby been increased from 8,517,100 € to 12,775,650 €.

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)

	September 30, 2005	December 31, 2004
ASSETS	€	€
Current assets		
Cash and cash equivalents	5.037	1.632
Restricted cash	6.207	6.754
Trade receivables, net of allowances for doubtful accounts of €1,578 at December 31, 2004	2.037	2.257
Prepaid expenses and other current assets	2.223	810
Total current assets	15.504	11.453
Property and equipment, net	559	924
Financial investments	59	-
Other assets	27	458
Goodwill	4.473	4.473
Total assets	**20.622**	**17.308**
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable	2.299	1.689
Accrued restructuring costs	1.486	1.778
Other accrued liabilities	3.328	6.565
Deferred revenue	2.981	4.612
Total current liabilities	10.094	14.644
Long-term liabilities, net of current portion	12.164	-
Deferred revenue	-	10
Total liabilities	**22.258**	**14.654**
Shareholders' equity		
Common share, stated value €1-authorized: 75,051,106 shares; outstanding: 8.517.100 shares as per September 30, 2005 and 25,551,412 share as per December 31, 2004	8.517	25.551
Paid-in capital	-	1.710
Accumulated deficit	(12.368)	(27.525)
Accumulated other comprehensive income	2.215	2.919
Treasury Stock	-	(1)
Total shareholders' equity	**(1.636)**	**2.654**
Total liabilities and shareholders' equity	**20.622**	**17.308**

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2005	2004 (corrected)	2005	2004 (corrected)
	€	€	€	€
Revenues				
Licenses	538	310	2.270	1.682
Services, maintenance, and other	3.382	3.802	10.214	11.485
Total revenues	**3.920**	**4.112**	**12.484**	**13.167**
Cost of revenues				
Licenses	55	116	164	261
Services, maintenance, and other	2.149	2.167	6.542	6.758
Total costs of revenues	**2.204**	**2.283**	**6.706**	**7.019**
Gross profit	**1.716**	**1.829**	**5.778**	**6.148**
Operating expenses				
Research and development	630	1.082	2.089	3.125
Sales and marketing	1.531	1.058	4.179	3.766
General and administrative	1.227	1.424	3.225	4.562
Restructuring costs and asset impairment	(152)	233	(146)	381
Total operating expenses	**3.236**	**3.797**	**9.347**	**11.834**
Operating loss	**(1.520)**	**(1.968)**	**(3.569)**	**(5.686)**
Other income (expense)				
Interest income	47	45	127	110
Interest expense	(346)	(31)	(921)	(183)
Other income (expense), net	363	135	773	1.056
Total other income (expense)	**64**	**149**	**(21)**	**983**
Net loss	**(1.456)**	**(1.819)**	**(3.590)**	**(4.703)**
Basic and diluted result per share	**(0,17)**	**(0,08)**	**(0,42)**	**(0,20)**
Shares used in computing:				
For basic and diluted result per share	8.517	24.005	8.517	22.993

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

	Nine Months Ended September 30, 2005	Nine Months Ended September 30, 2004 (corrected)
	€	€
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	(3.590)	(4.703)
Adjustments to reconcile net loss to cash used in operating activities		
Depreciation and amortization	529	352
Non-cash effects from deconsolidation	(748)	(679)
Costs of zero-coupon convertible bond	159	
Provision for doubtful accounts	98	(76)
(Gain) Loss on disposal of property and equipment	(31)	(24)
Changes in operating assets and liabilities		
Accounts receivable	117	1.332
Prepaid expenses and other current assets	(129)	298
Other assets	(82)	88
Accounts payable	643	792
Deferred revenue	(1.479)	(945)
Accrued restructuring costs	(292)	(597)
Accrued expenses and other liabilities	(2.052)	599
Net cash used in operating activities	**(6.857)**	**(3.563)**
CASH FLOWS FROM INVESTING ACTIVITIES:		
Restricted cash	547	(564)
Proceeds on disposal of equipment	32	(251)
Purchases of property and equipment, net of capital leases	(185)	(31)
Net cash (used in) provided by investing activities	**394**	**(846)**
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from sale of common shares	-	5.233
Proceeds from placement of zero-coupon convertible bond	11.331	
Payment for costs of the zero-coupon convertible bond	(1.353)	
Net cash provided by financing activities	**9.978**	**5.233**
Effect of change in exchange rates on cash	(110)	135
Net change in cash and cash equivalents	3.405	959
Cash and cash equivalents, beginning of period	**1.632**	**2.611**
Cash and cash equivalents, end of period	**5.037**	**3.570**

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				(8.776)			(8.776)
Foreign currency translation adjustments					(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	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)				(3.590)			(3.590)
Foreign currency translation adjustments (unaudited)					(704)		(704)
Comprehensive loss							(4.294)
Re-issuance of treasury stock (unaudited)				3		1	4
Simplified withdrawal of shares (unaudited)	(112)						-
Simplified capital decrease (unaudited)	(17.034.200)	(17.034)	(1,710)	18.744			-
Balance, September 30, 2005	**8.517.100**	**8.517**	**-**	**(12.368)**	**2.215**	**-**	**(1.636)**

Intershop Communications AG and Subsidiaries

Notes to Consolidated Financial Statements

1. Basis of Presentation

The condensed consolidated interim financial statements included 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 interim 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 interim 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. For a better comparability, all relevant numbers are adjusted to the reverse stock split from June 28/July 7, 2005.

Restatement of the consolidated financial statements as of September 30, 2004

During the preparation of the consolidated interim financial statements as of June 30, 2005, an error was discovered in the consolidated interim financial statements as of June 30, 2004 and as of September 30, 2004. The prior-year figures shown in the consolidated interim financial statements as of September 30, 2005 have therefore been restated.

In the previous year's consolidated interim financial statements, license revenue amounting to EUR 2,393 thousand (January 1 to September 30, 2004) and EUR 692 thousand (July 1 to September 30, 2004) was reported. However, in accordance with the provisions of AICPA Statement of Position 97-2, "Software Revenue Recognition", license revenue amounted to EUR 1,682 thousand (January 1 to September 30, 2004) and EUR 310 thousand (July 1 to September 30, 1004). Revenue therefore has to be corrected from EUR 4,494 thousand to EUR 4,112 thousand (July 1 to September 30, 2004) and from EUR 13,878 thousand to EUR 13,167 thousand (January 1 to September 30, 2004). The correction was already made in the consolidated financial statements as of December 31, 2004. The revenue concerned was recognized in the period from October 1, 2004 to March 31, 2005 and reported in the consolidated financial statements as of Dezember 31, 2004 and in the quarterly financial statements as of March 31, 2005.

The effects of making this correction on the consolidated balance sheets and consolidated statements of operations as of September 30, 2004 are shown below:

three months ended September 30, 2004 (in thousands €)	released figures	adjustment Q2 2004	adjustment Q3 2004	revised figures
Consolidated Balance Sheets				
Accumulated deficit	(21.237)	(329)	(382)	(21.948)
deferred revenue	3.292	329	382	4.003
Consolidated Statements of Operations				
revenues	4.494		(382)	4.112
Gross profit	2.211		(382)	1.829
Operating loss	(1.586)		(382)	(1.968)
Net loss	(1.437)		(382)	(1.819)
Basic and diluted result per share	(0,06)		(0,02)	(0,08)

nine months ended September 30, 2004 (in thousands €)	released figures	adjustment Q2 2004	adjustment Q3 2004	revised figures
Consolidated Balance Sheets				
Accumulated deficit	(21.237)	(329)	(382)	(21.948)
deferred revenue	3.292	329	382	4.003
Consolidated Statements of Operations				
revenues	13.878	(329)	(382)	13.167
Gross profit	6.859	(329)	(382)	6.148
Operating loss	(4.975)	(329)	(382)	(5.686)
Net loss	(3.992)	(329)	(382)	(4.703)
Basic and diluted result per share	(0,17)	(0,01)	(0,02)	(0,20)

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		Nine months ended	
	September 30, 2004	September 30, 2005	September 30, 2004	September 30, 2005
Net loss attributable to common shareholders				
As reported	(1.819)	(1.456)	(4.703)	(3.590)
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(2)	(1)	(5)	(3)
Pro forma	(1.821)	(1.457)	(4.708)	(3.593)
Basic and diluted loss per share				
As reported	(0,08)	(0,17)	(0,20)	(0,42)
Pro forma	(0,08)	(0,17)	(0,20)	(0,42)

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%	95,25%
Expected option lives (in years)	3.51	3.25

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 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		Nine months ended	
	September, 30 2004	September, 30 2005	September, 30 2004	September, 30 2005
Net loss	(1.819)	(1.456)	(4.703)	(3.590)
Foreign Currency translation gains (losses)	(2)	(434)	(81)	(704)
Total comprehensive income (loss)	(1.821)	(1.890)	(4.784)	(4.294)

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		Nine months ended	
	September, 30 2004	September, 30 2005	September, 30 2004	September, 30 2005
Net loss attributable to common shareholders	(1.819)	(1.456)	(4.703)	(3.590)
Basic and diluted net loss per share:				
Total weighted average common shares	24.005	8.517	22.993	8.517
Basic and diluted net loss per share	(0,08)	(0,17)	(0,20)	(0,42)

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:

Nine Months ended September 30,	**2004**	**2004**	**2005**	**2005**
	Number of shares outstanding (in thousands)	Weighted-average exercise price (€)	Number of shares outstanding (in thousands)	Weighted-average exercise price (€)
Outstanding at beginning of period	685	109.50	523	120.60
Granted	5	7.23	39	2.31
Exercised	(3)	4.86	-	-
Forfeited	(163)	37.98	(65)	525.49
Outstanding at end of period	524	120.45	497	39.02
Exercisable options at end of period	149	198.63	318	56.49
Weighted average fair market value of options granted during the year (€)	5	4.68	39	1.55

The following table summarizes information with respect to the stock options outstanding on September 30, 2005:

Range of Exercise Price	Number of options outstanding (000s)	Weighted-average remaining contractual life (in years)	Weighted-average exercise price (€)	Number exercisable on 09/30/05 (000s)	Weighted -average exercise price (€)
0.01 – 17.99	296	6.4	6.47	137	7.96
18.00 – 20.99	45	5.8	18.11	38	18.11
21.00 – 50.99	90	4.6	23.93	79	23.93
51.00 – 149.99	55	1.3	64.33	53	64.42
150.00 – 2,274.12	11	0.6	1,029.93	11	1,029.12
	497	**5.3**	**39.02**	**318**	**56.49**

6. Recent Accounting Pronouncements

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 September 30, 2005 (in thousands of €):

	Germany	United States	United Kingdom	Asia Pacific	Other	Total
Revenues						
Licenses	503	35	-	-	-	538
Services, maintenance and other	2,980	402	-	-	-	3,382
Total Revenues	**3,483**	**437**	**-**	**-**	**-**	**3,920**
Gross profit						
Licenses	448	35	-	-	-	483
Services, maintenance and other	953	279	-	-	-	1,232
Total gross profit (loss)	**1,401**	**314**	**-**	**-**	**-**	**1,715**
Total Operating expenses	4,880	308	242	4	6	5,440
Operating income (loss)	**(1,397)**	**129**	**(242)**	**(4)**	**(6)**	**(1,520)**
Other income (expense) net						64
Net loss						**(1,456)**
Long lived assets	545	14	-	-	-	559

Three months ended September 30, 2004 (in thousands of €):

	Germany	United States	United Kingdom	Asia Pacific	Other	Total
Revenues						
Licenses	173	117	20	-	-	310
Services, maintenance and other	2,967	688	147	-	-	3,802
Total Revenues	**3,140**	**805**	**167**	**-**	**-**	**4,112**
Gross profit						
Licenses	60	114	20	-	-	194
Services, maintenance and other	936	552	147	-	-	1,635
Total gross profit (loss)	**996**	**666**	**167**	**-**	**-**	**1,829**
Total Operating expenses	5,160	663	251	-	5	6,079
Operating income (loss)	**(2,020)**	**142**	**(84)**	**-**	**-5**	**(1,967)**
Other income (expense) net						148
Net loss						**(1,819)**
Long lived assets	752	29	278	-	7	1,066

Nine months ended September 30, 2005 (in thousands of €):

	Germany	United States	United Kingdom	Asia Pacific	Other	Total
Revenues						
Licenses	1,180	1,090	-	-	-	2,270
Services, maintenance and other	8,710	1,461	-	43	-	10,214
Total Revenues	**9,890**	**2,551**	**-**	**43**	**-**	**12,484**
Gross profit						
Licenses	1,019	1,087	-	-	-	2,106
Services, maintenance and other	2,557	1,072	-	43	-	3,672
Total gross profit (loss)	**3,576**	**2,159**	**-**	**43**	**-**	**5,778**
Total Operating expenses	14,491	1,265	242	64	-9	16,038
Operating income (loss)	**(4,601)**	**1,286**	**(242)**	**(21)**	**9**	**(3,569)**
Other income (expense) net						(21)
Net loss						**(3,590)**
Long lived assets	545	14	-	-	-	559

Nine months ended September 30, 2004 (in thousands of €):

	Germany	United States	United Kingdom	Asia Pacific	Other	Total
Revenues						
Licenses	1,113	477	24	68	-	1,682
Services, maintenance and other	8,917	1,893	588	87	-	11,485
Total Revenues	**10,030**	**2,370**	**612**	**155**	**-**	**13,167**
Gross profit						
Licenses	877	452	24	68	-	1,421
Services, maintenance and other	2,591	1,462	588	87	-	4,728
Total gross profit (loss)	**3,468**	**1,914**	**612**	**155**	**-**	**6,149**
Total Operating expenses	15,118	2,166	834	730	-	18,853
Operating income (loss)	**(5,088)**	**204**	**(222)**	**(575)**	**-**	**(5,686)**
Other income (expense) net						983
Net loss						**(4,703)**
Long lived assets	752	29	278	-	7	1,066

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

The following tables summarize the restructuring charges recorded during the quarters ended September 30, 2005 and 2004 respectively (in thousands €):

	Three months ended		Nine months ended	
	September 30, 2004	September 30, 2005	September 30, 2004	September 30, 2005
Employee Related Charges	4	(152)	64	(146)
Facility Related Charges	229	-	325	-
Other	0	-	(8)	-
Total restructuring charges	**233**	**(152)**	**381**	**(146)**

	Employee related charges	Facility related charges	Total
Accrued restructuring costs at December 31, 2004	195	1,583	1,778
Currency Adjustments	13	43	56
Restructuring charges from January 1, 2005 through September 30, 2005	(146)	-	(146)
Cash Payments	(62)	(140)	(202)
Accrued restructuring costs at September 30, 2005	**0**	**1,486**	**1,486**

The above costs are broken down as follows:

<u>Employee Related Charges</u>
As of September 30, 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.

<u>Facility Related Charges</u>
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 September 30, 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 nine months of 2005, the Company incurred research and development costs of approximately €2.1 million compared with €3.1 million in the first nine months 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 nine months ended September 30, 2005 and 2004 (in thousands €):

	September 30, 2004	September 30, 2005
Net loss	(4,703)	(3,590)
Foreign Currency translation gains (losses)	(80)	(704)
Cash received for unregistered stock	3,758	4
Opening Shareholders’ equity	7,838	2,654
Closing Shareholders’ equity	**6,813**	**(1,636)**

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 submitted these details in the meantime. Intershop is of the opinion that the other software company has no basis for asserting any further claims due to the provided details.

In 2004, 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 September 30, 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
Hans W. Gutsch	Chairman of the Supervisory Board	2,028	-	152,990
Peter Mark Droste	Member of the Supervisory Board	-	-	100,000
Wolfgang Meyer	Member of the Supervisory Board	-	-	-
Dr. Jürgen Schöttler	Chairman of the Management Board, Chief Executive Officer, Chief Financial Officer	-	53,333	111,519
Ralf Männlein	Member of the Management Board responsible for Sales and Marketing	-	23,333	50,000

* All information post one-for-five reverse stock split and one-for-three 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.
At the Stockholders' Meeting on April 26, 2005, a further reduction of the company's capital was agreed. As a result of the reverse stock split, three old Intershop common bearer shares were exchanged for one new Intershop common bearer share. The reverse split was implemented after the close of trading on July 7, 2005. Following the stock split, the International Securities Identification Number (ISIN) of Intershop Communications AG's common bearer shares changed from ISIN DE 0007472920 to ISIN DE 000A0EPUH1. The new shares began trading on a consolidated basis on July 8, 2005.

** 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 €12.48 per share, and Ralf Männlein's stock options have an exercise price of €5.67 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 nine months 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	23,333*	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	5,027*	11,519
		Bond	Purchase	111,519	111,519
Ralf Männlein	January 26, 2005	Bond	Purchase	50,000	50,000

*reverse stock split adjusted

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