

INTERNATIONAL MICROCOMPUTER SOFTWARE INC /CA/
Form 424B3
November 15, 2004

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Registration No. **333-119359**

PROSPECTUS SUPPLEMENT

Dated November 12, 2004

To prospectus dated November 4, 2004

International Microcomputer Software, Inc.
Up to **4,542,440** Shares of Common Stock Offered by Selling Stockholders

This prospectus supplement, together with the prospectus listed above, is to be used by certain holders of the above-referenced securities or by their transferees, pledgees, donees or their successors in connection with the offer and sale of the above referenced securities. This prospectus supplement should be read in conjunction with the prospectus dated November 4, 2004 which is to be delivered with this prospectus supplement. All capitalized terms used but not defined in the prospectus supplement shall have the meanings given them in the prospectus.

FORWARD LOOKING STATEMENTS

This prospectus supplement contains forward-looking statements within the meaning of section 27A of the Securities Act of 1933, as amended, and section 21E of the Securities Exchange Act of 1934, as amended. In addition, we may from time to time make oral forward-looking statements. These statements may generally be identified by the use of such words as expect, anticipate, believe, intend, plan, will, or shall, . These forward-looking statements are based on current expectations and entail various risks and uncertainties. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of a number of factors. When reading the sections titled Results of Operations and Financial Condition, you should also read our unaudited condensed financial statements and related notes included elsewhere herein and our Annual Report on Form 10-KSB, as amended, for the year ended June 30, 2004. We disclaim any obligation to update any forward-looking statements as a result of developments occurring after the date of this prospectus supplement.

The following information is added to the prospectus listed above:

PART I - FINANCIAL INFORMATION

Item1- Condensed Consolidated Financial Statements

INTERNATIONAL MICROCOMPUTER SOFTWARE, INC. AND SUBSIDIARIES CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except share amounts)

	September 30, 2004	June 30, 2004
	Unaudited	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 3,806	\$ 3,212
Investment in marketable securities	2,383	2,151
Receivables, less allowances for doubtful accounts, discounts and returns of \$935	2,594	2,522
Inventories, net of reserves for obsolescence of \$123	1,072	1,122
Receivables, other (related to discontinued operations)		1,000
Note receivable from related party	350	350
Other current assets	751	552
Assets related to discontinued operations	1,149	828
Total current assets	12,105	11,737
Fixed assets, net	623	637
Intangible Assets		
Capitalized software, net	2,604	2,748
Domain names, net	2,103	1,566
Trademarks	722	709
Distribution rights, net	569	594
Capitalized customer lists	1,008	843
Goodwill	8,759	7,559
Total intangible assets	15,765	14,019
Other assets:		
Prepaid expenses	86	99
Investment in securities		1,771
Total other assets	86	1,870
TOTAL ASSETS	28,579	28,263
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Short term debt	2,601	3,557
Trade accounts payable	2,145	2,375
Accrued and other liabilities	2,555	1,751
Total current liabilities	7,301	7,683
Liabilities related to discontinued operations	42	397

Long-term debt and other obligations	2,052	2,318
Total liabilities	9,395	10,398
Shareholders' Equity		
Common stock, no par value; 300,000,000 authorized; 28,011,456 issued and outstanding on September 30, 2004 and 26,261,829 issued and outstanding on June 30, 2004.	43,116	41,512
Accumulated deficit	(23,852)	(23,577)
Accumulated other comprehensive loss	(80)	(70)
Total shareholders' equity	19,184	17,865
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 28,579	\$ 28,263

See Notes to Condensed Consolidated Financial Statements

INTERNATIONAL MICROCOMPUTER SOFTWARE, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS and COMPREHENSIVE LOSS
(In thousands, except per share amounts)
(Unaudited)

	Three months ended	
	September 30,	
	2004	2003
Net revenues	\$ 5,694	\$ 1,621
Product costs	1,514	574
Gross margin	4,180	1,047
Costs and expenses:		
Sales and marketing	2,293	598
General and administrative	1,134	657
Research and development	1,039	408
Total operating expenses	4,466	1,663
Operating loss	(286)	(616)
Other income and expense:		
Interest and other, net	18	82
Realized / unrealized gain (loss) on marketable securities	(50)	130
Gain on extinguishment of debt	--	81
Loss before income tax	(318)	(323)
Income tax (expense) benefit	(5)	4
Loss from Continuing Operations	(323)	(319)
Loss from discontinued operations, net of income tax	(5)	(81)
Gain from the sale of discontinued operations, net of income tax	53	--
Net Loss	(\$ 275)	(\$ 400)
Other comprehensive loss		
Foreign currency translation adjustments	(10)	(4)
Comprehensive loss	(\$ 285)	(\$ 404)
Basic and diluted loss per share		
Loss from continuing operations	(\$ 0.01)	(\$ 0.02)
Loss from discontinued operations, net of income tax	(\$ 0.00)	(\$ 0.00)
Gain from the sale of discontinued operations, net of income tax	\$ 0.00	--
Net loss	(\$ 0.01)	(\$ 0.02)
Shares used in computing basic and diluted loss per share information	26,462	22,934

See Notes to Condensed Consolidated Financial Statements

INTERNATIONAL MICROCOMPUTER SOFTWARE, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

Three Months ended September 30, 2004

(In thousands)

(Unaudited)

	Common Stock		Accumulated Deficit	Accumulated Other Comprehensive Loss	Total
	Shares	Amount			
Balance at June 30, 2004	26,261,829	\$41,512	(\$23,577)	(\$70)	\$17,865
Issuance of common stock related to:					
Warrants exercised	73,070	14			14
Stock options exercised	110,750	51			51
Acquisitions	1,565,807	1,537			1,537
Issuance of warrants related to:					
Consulting services rendered		7			7
Issuance of stock options related to:					
Consulting services rendered		1			1
Variable accounting adjustment related to stock options previously issued		(6)			(6)
Net loss			(275)		(275)
Foreign currency translation adjustment				(10)	(10)
Balance at September 30, 2004	28,011,456	\$43,116	(\$23,852)	(\$80)	\$19,184

See Notes to Condensed Consolidated Financial Statements

INTERNATIONAL MICROCOMPUTER SOFTWARE, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

	Three months ended September 30,	
	2004	2003
Cash flows from operating activities:		
Net cash generated (used) by operating activities	\$ 163	(\$ 2,024)
Cash flows from investing activities:		
Proceeds from sale of marketable securities	1,480	--
Proceeds from sale of product line	250	--
Cash transferred to escrow	(499)	--
Purchase of trade names, software and domain names	(121)	--
Acquisition of business	(30)	--
Purchase of equipment and furniture	(42)	(82)
Acquisition of product line	--	(950)
Loan to related party	--	(350)
Investment in marketable securities	--	(160)
Cash used by discontinued operations in investing activities	--	(2)
Net cash generated (used) by investing activities	1,036	(1,544)
Cash flows from financing activities:		
Settlement of note payable (Imageline)	--	(160)
Proceeds from short-term borrowings	400	--
Repayments of notes	(1,060)	--
Warrants exercised	14	65
Options exercised	51	61
Cash used by discontinued operations in financing activities	(2)	(64)
Net cash used by financing activities	(595)	(98)
Effect of exchange rate change on cash and cash equivalents	(10)	(4)
Net increase (decrease) in cash and cash equivalents	594	(3,670)
Cash and cash equivalents at beginning of period	3,212	10,399
Cash and cash equivalents at end of the period	\$ 3,806	\$ 6,729

See Notes to Condensed Consolidated Financial Statements

(In thousands)

	Three months ended September 30,	
	2004	2003
<u>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</u>		
Interest paid	\$ 57	\$ 0

SUPPLEMENTAL DISCLOSURE OF NON-CASH FINANCING ACTIVITIES

Notes payable incurred in conjunction with acquisitions	300	345
Capital stock issued in conjunction with acquisitions	\$ 1,537	\$ 0

See Notes to Condensed Consolidated Financial Statements

INTERNATIONAL MICROCOMPUTER SOFTWARE, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of Presentation

The interim condensed consolidated financial statements have been prepared from the records of International Microcomputer Software, Inc. and Subsidiaries ("IMSI") without audit. All significant inter-company balances and transactions have been eliminated in consolidation. In the opinion of management, all adjustments, which consist of only normal recurring adjustments, to present fairly the financial position at September 30, 2004 and the results of operations and cash flows for the three months ended September 30, 2004 and 2003, have been made. The interim condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto contained in our Annual Report on Form 10-KSB as amended for the fiscal year ended June 30, 2004. The results of operations for the three months ended September 30, 2004 are not necessarily indicative of the results to be expected for any other interim period or for the full year.

2. Use of Estimates

Our consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States (GAAP). These accounting principles require us to make certain estimates, judgments and assumptions. We believe that the estimates, judgments and assumptions upon which we rely are reasonable based upon information available to us at the time that these estimates, judgments and assumptions are made. These estimates, judgments and assumptions can affect the reported amounts of assets and liabilities as of the date of the financial statements as well as the reported amounts of revenues and expenses during the periods presented. Our financial statements would be affected to the extent there are material differences between these estimates and actual results. In many cases, the accounting treatment of a particular transaction is specifically dictated by GAAP and does not require management's judgment in its application. There are also areas in which management's judgment in selecting any available alternative would not produce a materially different result.

3. Discontinued Operations

As previously disclosed in our annual report on Form 10-KSB for the fiscal year ended June 30, 2004, we sold the assets and customer related liabilities of our wholly owned subsidiary Keynomics, Inc. in July 2004. The acquiring entity (Keynomics, L.L.C.) will continue to provide ergonomic and keyboard training using the KeySoft Performance System for worker-related safety, productivity, and ergonomic compliance improvements. As part of the consideration, which consisted mainly of cash, with the potential for additional cash consideration based on the achievement of certain revenue targets, we acquired a ten percent (10%) ownership interest in Keynomics, L.L.C. Under GAAP, Keynomics' operating results for the period ended September 30, 2004, have been accounted for as discontinued operations.

We recorded, during the quarter ended September 30, 2004, a gain of \$53,000 from the sale of Keynomics representing the excess of the total consideration received over its net carrying value.

In the fourth quarter of fiscal 2004, we evaluated the Keynomics business segment and its long term prospects. As a result of that analysis and given our focus on direct marketing and the on-line distribution of precision design content, we determined that Keynomics no longer represented a strategic fit for our company and began the process of divesting it. That process concluded with the sale of the segment in July 2004.

The amounts reported for the first quarter of fiscal 2005 and 2004 as discontinued operations represent the pre-tax results of operations for Keynomics. This segment had pre-tax net losses of \$5,000 and \$81,000 for the first quarter of fiscal 2005 and 2004 respectively. These losses were derived from net revenues of \$68,000 and \$159,000 for the first quarter of fiscal 2005 and 2004 respectively.

4. Reclassifications

Effective for the quarter ended December 31, 2003, we revised our accounting treatment with regard to fees paid to our third party E-commerce solution provider, whereby we now record them as sales and marketing expenses as compared to our prior treatment of them as an offset to revenue. In order to conform our prior year's results to this revised presentation for the three months ended September 30, 2003, we have increased revenues and sales and marketing expense by \$49,000.

5. Acquisitions

The table below details the consideration paid for acquisitions completed in the first quarter of fiscal 2005 and the allocation of that consideration to the tangible and intangible assets acquired.

Table I-1-5

	Precision Design Solutions Segment Aggregated Non Material Transactions	Estimated Useful Life
Consideration		
Cash	\$ 1,275,000	
Escrowed cash	75,000	
Notes	300,000	
Stock	503,333	
Less: Cash on hand	(67,087)	
Legal fees	29,993	
Broker Fees (cash & warrants)	43,144	
Total Consideration	\$ 2,159,383	
Purchase Price Allocation		
Assumed liabilities	(6,548)	
Tangible Assets		
Inventory	1,106	