INTERNATIONAL MICROCOMPUTER SOFTWARE INC /CA/
Form 8-K/A
June 16, 2004

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON D.C. 20549

FORM 8-K/A

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Date of Report (Date of earliest event reported) April 19, 2004

Commission File Number 0-15949

INTERNATIONAL MICROCOMPUTER SOFTWARE, INC.
(Exact name of registrant as specified in its charter)

California	94-2862863
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer identification No.)

100 ROWLAND WAY, NOVATO, CA 94945
(Address of principal executive offices) (Zip code)

(415) 878-4000 (Registrant's telephone number including area code)

ITEM 2 - ACQUISITION OR DISPOSITION OF ASSETS

On April 19, 2004 (the "Closing Date"), International Microcomputer Software, Inc. ("IMSI") consummated the acquisition (the "Acquisition") of all the stock of Aladdin Systems, Inc. ("Aladdin"), pursuant to a Stock Purchase Agreement (the "Stock Purchase Agreement"), dated January 20, 2004, between Aladdin Systems Holdings, Inc, the parent company of Aladdin, and IMSI.

The consideration paid in the Acquisition (which was determined as a result of arms'-length negotiations and which was based upon an in-depth analysis of Aladdin's current and projected business activity in addition to comparable companies and transactions) consisted of a combination of cash in the amount of $1,500,000, subject to a 10% escrow, 2,317,881 unregistered shares of IMSI common stock (which are required to be registered within 90 days of the close of the transaction) and two three-year convertible notes in the aggregate amount of $3,000,000.Additional cash earn-out payments may be earned, up to an aggregate of $2,000,000, based on net revenues derived from Aladdin for the three consecutive twelve-month periods following the Closing Date.

Eligible employees of Aladdin were given the opportunity to convert their existing Aladdin Systems Holdings Inc. common stock options into IMSI common stock options priced at market as of the date of the closing. The newly granted options are subject to vesting as set forth in our 2004 Incentive Stock Option Plan. The conversion ratio was calculated using the Black-Scholes valuation methodology and resulted in the issuance of 638,000 IMSI common stock options with an aggregate value of $1.1 million which was included in the calculation of the aggregate consideration paid for the acquisition.

Aladdin is a developer and publisher of utility software solutions in the areas of information access, removal, recovery, security and distribution of information and data for the Windows(R), Linux and Macintosh(R) platforms.

IMSI relied on its available cash balances to make the payment related to the cash component of this transaction.

ITEM 7 - FINANCIAL STATEMENTS AND EXHIBITS

(a) FINANCIAL STATEMENTS OF BUSINESS ACQUIRED:

The financial statements of Aladdin Systems, Inc. and the report of Grant Thornton, LLP, the independent public accountants relating to such financial statements, are attached hereto.

(b) PRO FORMA FINANCIAL INFORMATION:

The unaudited pro forma condensed combined consolidated financial statements of IMSI attached hereto are not necessarily indicative of the results that actually would have been attained if the acquisition had been in effect on the dates indicated or which may be attained in the future. Such statements should be read in conjunction with the historical financial statements of IMSI and Aladdin Systems, Inc.

(c) EXHIBITS:

NUMBER	EXHIBIT DESCRIPTION
2.1	Aladdin Stock Purchase Agreement, dated January 20, 2004, between Aladdin Systems Holdings, Inc. and International Microcomputer Software, Inc. (1) (2)
99.1	Press Release, dated April 20, 2004 of International Microcomputer Software, Inc. announcing the closing of the Aladdin Systems, Inc acquisition. (1)

(1) Previously filed in the Current Report on Form 8-K filed by the registrant on April 20, 2004.

(2) The exhibits to the Stock Purchase Agreement have not been filed with the Stock Purchase Agreement. The Stock Purchase Agreement previously filed as an exhibit to the Current Report on Form 8-K filed by the registrant on April 20, 2004 briefly describes the contents of each exhibit to the Stock Purchase Agreement. The Registrant undertakes to furnish supplementally a copy of any omitted exhibit to the Commission upon request. Set forth below is a list of the omitted exhibits:

A. Form of Promissory Note B. Form of Promissory Note C. Form of Pledge Agreement D. Form of Earn-Out Report E. Form of Escrow Agreement

F. Form of Registration Rights Agreement G. Form of Executive Employment Agreement- Jonathan Kahn H. Form of Executive Employment Agreement- Darryl Lovato I. Form of Purchaser's Counsel Opinion J. Form of Seller's Counsel Opinion

3

4

FINANCIAL STATEMENTS OF BUSINESS ACQUIRED:

ALADDIN SYSTEMS, INC.

INDEX TO AUDITED FINANCIAL STATEMENTS

5

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Directors and Stockholders

Aladdin Systems, Inc.

We have audited the accompanying balance sheets of Aladdin Systems, Inc. (the "Company") as of December 31, 2003 and 2002 and the related statements of operations, stockholders' equity and cash flows for each of the two years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2003 and 2002, and the results of its operations and its cash flows for each of the two years then ended, in conformity with accounting principles generally accepted in the United States of America.

Grant Thornton, LLP
San Francisco, California

APRIL 7, 2004 (except for Note 8 as to which the date is April 19, 2004)

6

ALADDIN SYSTEMS, INC

BALANCE SHEETS AS OF DECEMBER 31, 2002 AND DECEMBER 31, 2003

	20
ASSETS	
CURRENT ASSETS:	
Cash	$ 46
Accounts receivable (net of allowance of $181,648 and $125,267, respectively)	99
Inventories	12
Prepaid expenses and other current assets	22
TOTAL CURRENT ASSETS	1,81
Capitalized software, net	71
Property and equipment, net	25
TOTAL ASSETS	2,77
LIABILITIES AND STOCKHOLDERS' EQUITY	
CURRENT LIABILITIES:	
Accounts payable	$ 56
Accrued expenses and other liabilities	44
Current maturities of long-term debt	33
TOTAL CURRENT LIABILITIES	1,35
Long-term debt	
TOTAL LIABILITIES	1,35
STOCKHOLDERS' EQUITY:	
Common stock, $0.01 par value: 20,000,000 shares authorized; 4,709,086 share issued and outstanding	4
Additional paid in capital	43

Retained earnings	93
Total stockholders' equity	1,42
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 2,77

See accompanying notes to financial statements.

ALADDIN SYSTEMS, INC

STATEMENTS OF OPERATIONS FOR THE YEARS ENDED DECEMBER 31, 2002 AND DECEMBER 31, 2003

	2003	2002
Sales	$ 8,425,915	$ 7,457,245
Cost of sales	1,100,400	745,519
GROSS PROFIT	7,325,515	6,711,726
OPERATING EXPENSES:		
Marketing, sales and support	3,448,853	3,044,918
Research and development	2,132,267	1,858,893
General and administrative	1,113,009	912,379
Total operating expenses	6,694,129	5,816,190
INCOME FROM OPERATIONS	631,386	895,536
Other income (expense):		
Interest expense	(18,365)	(25,442)
Other	29,785	2,216
INCOME BEFORE INCOME TAXES	642,806	872,310
Income taxes	--	--
NET INCOME	$ 642,806	$ 872,310
INCOME PER SHARE - BASIC AND DILUTED	$ 0.14	$ 0.19
Shares used in computing basic and diluted income per share	4,709,086	4,709,086

See accompanying notes to financial statements.

ALADDIN SYSTEMS, INC

STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY FOR THE YEARS ENDED DECEMBER 31, 2002 AND DECEMBER 31, 2003

	COMMON STOCK SHARES	COMMON STOCK AMOUNT	ADDITIONAL PAID -IN CAPITAL	RETAINED EARNINGS (DEFICIT
BALANCE AT JANUARY 1, 2002	4,709,086	$ 47,091	$ 883,959	$ (581,07
Net investment by parent			447,936	
Net income				872,31
BALANCE AT DECEMBER 31, 2002	4,709,086	47,091	1,331,895	291,23
Net distribution to parent			(892,903)	
Net income				642,80
BALANCE AT DECEMBER 31, 2003	4,709,086	$ 47,091	$ 438,992	$ 934,03

See accompanying notes to financial statements.

9

ALADDIN SYSTEMS, INC

STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2002 AND DECEMBER 31, 2003

	2003
CASH FLOWS FROM OPERATING ACTIVITIES:	
Net income	$ 642,806
Adjustments to reconcile net income to net cash provided by operating activities:	
Depreciation and amortization	365,174
Loss on disposal of property and equipment	--
Changes in operating assets and liabilities:	
Accounts receivable, net	(23,675)
Inventories	(37,014)
Prepaid expenses and other current assets	(14,325)
Accounts payable	257,499
Accrued expenses and other liabilities	149,822
CASH PROVIDED BY OPERATING ACTIVITIES	1,340,287
CASH FLOWS FROM INVESTING ACTIVITIES:	
Acquisition of property and equipment	(65,241)
Proceeds from sales of property and equipment	--
Acquisition of software rights	(50,664)
CASH USED IN INVESTING ACTIVITIES	(115,905)

CASH FLOWS FROM FINANCING ACTIVITIES:	
Net payment on line of credit	--
Net distribution to parent	(892,903)
Repayment of long-term debt	(453,552)
CASH USED IN FINANCING ACTIVITIES	(1,346,455)
NET (DECREASE) INCREASE IN CASH	(122,073)
Cash at beginning of period	583,653
CASH AT END OF PERIOD	$ 461,580
Cash paid during the period for Interest:	$ 6,848

See accompanying notes to financial statements.

10

ALADDIN SYSTEMS, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE 1 -ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Aladdin Systems, Inc. (the "Company") develops, publishes, and distributes computer software for the Macintosh, Windows, Solaris, and Linux software markets. Products are marketed through independent distributors in the United States and Canada, through resellers and mail order companies in other countries, directly to corporate accounts under site licensing agreements, and directly to end-users through direct marketing and the Internet.

Basis of Presentation

The Company is a 100% owned subsidiary of Aladdin Systems Holdings, Inc. ("Holdings"). The financial statements present the stand-alone statements of the Company and accordingly may not be indicative of the financial condition and results of operations had the Company operated independent of Holdings. All intercompany transactions with Holdings have been recorded as a net investment or distribution through additional paid in capital in shareholders' equity.

Revenue Recognition

Revenues and accounts receivable are principally derived from:

- Distributors and resellers of the Company's products
- The Company's websites
- Third party products
- Licensing contracts

Sales to distributors and resellers are subject to agreements permitting rights of return for stock balancing. These revenues are recognized net of reserves for returns and rebates. Return reserves are based on actual inventory held by distributors or resellers that is in excess of levels appropriate for that channel and is likely to be returned. Based on estimated release dates for the next versions, the Company monitors the channel inventory and only ships product when the sell through to the customer will be probable. The Company recognizes revenue, net of estimated returns and rebates, upon shipment or delivery of the product, when no significant obligations remain and collectability is probable. Revenues from internet sales are recognized when the software is downloaded or shipped to the customer. Revenues from third party products make up a portion of internet sales and the Company recognizes as revenue the net fee the Company collects for facilitating the sale. Licensing fees are recognized upon delivery of the software or when the customer has committed to renew their annual fee, as the Company is not obligated to provide any other deliverables in connection with these licenses.

11

Accounts Receivable

The majority of the Aladdin Systems' accounts receivable are due from domestic and international distributors and from Digital River, the Company's Website partner. All customer orders that are placed directly on the Website are processed by Digital River. Digital River collects these revenues and forwards the funds, less appropriate fees, twice per month to Aladdin Systems. Credit is extended based on evaluation of the customers' financial condition and collateral is not required. The Company maintains allowances for estimated product returns resulting from new version releases. Management regularly evaluates the allowance for returns account. Based on historical write-off experience, the Company currently does not maintain an allowance for doubtful accounts. Therefore, the allowance listed on the balance sheet is only for expected returns of software. If the financial condition of customers were to deteriorate, resulting in an impairment of their ability to make payments, an additional allowance for doubtful accounts would be required.

Capitalized Software

Costs incurred in the initial design phase of software development are expensed as incurred as research and development. Once the point of technological feasibility is reached, direct production costs are capitalized. The Company ceases capitalizing computer software costs when the product is available for general release to customers. Costs associated with acquired completed software are capitalized. Total capitalized software development costs at December 31, 2003 were $2,949,772 less accumulated amortization of $2,232,556. The Company amortizes capitalized software development costs on a product-by-product basis. The amortization charged to operations in each period for each product is the greater of the amount computed using (a) the ratio of current gross revenues to the total of current and anticipated future gross revenues for the product or (b) 60 months. In addition, the Company evaluates the net realizable value of each software product at each balance sheet date and records write-downs to net realizable value for any products for which the carrying value is in excess of the estimated net realizable value. Total amortization expense for capitalized software was $277,663 and $183,044 in fiscal years 2003 and 2002, respectively.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates.

Inventories

Aladdin Systems' inventories are valued at the lower of cost or market and are accounted for on the first-in, first-out basis. Management performs periodic assessments to determine the existence of obsolete, slow moving and non-salable inventories, and records necessary provisions to reduce such inventories to net realizable value.

Property and Equipment

The Company's property and equipment are stated at cost. Capital leases are recorded at the present value of the minimum lease payments at the date of acquisition. Depreciation is computed on a straight-line basis over the estimated useful lives of the assets or lease term, whichever is shorter. RESEARCH AND DEVELOPMENT The Company's research and development costs are charged to operations when incurred.

Advertising

Aladdin Systems expenses advertising costs as they are incurred. Advertising and related promotion expenses for fiscal years 2003 and 2002 were $748,875 and $553,130 respectively.

Income Taxes

The Company is included in the consolidated tax return of Aladdin Systems Holdings, Inc. All income taxes are accounted for at the parent company level and no allocation is made to the Company. The group is in a tax loss position, with a full valuation allowance against net deferred tax assets. Accordingly, no tax is allocated to the Company.

Fair Value of Financial Instruments

The fair value of accounts receivable and accounts payable approximate carrying value due to the short-term nature of such instruments. The fair value of long-term obligations with third-parties approximates carrying value based on terms available for similar instruments.

Stock-based Compensation

The Company accounts for stock-based awards to employees using the intrinsic value method described in Accounting Principles Board Opinion (APB) No. 25, "Accounting for Stock Issued to Employees" and its related interpretations. Accordingly, no compensation expense has been recognized in the accompanying consolidated financial statements for stock-based awards to employees when the exercise price of the award is equal to or greater than the quoted market price of the stock on the date of the grant.

SFAS No. 123, "Accounting for Stock-Based Compensation" and SFAS No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure - an amendment of FASB Statement No. 123" require disclosures as if the Company had applied the fair value method to employee awards rather than the intrinsic value method. The fair value of stock-based awards to employees is calculated through the use of option pricing models, even though such models were developed to estimate the fair value of freely tradable, fully transferable options without vesting restrictions, which differ significantly from the Company's stock option awards. These models also require subjective assumptions, including future stock price volatility and expected time to exercise, which greatly affect the calculated values. The Company's fair value calculations for awards from stock option plans were made using the Black-Scholes option pricing model with the following weighted average assumptions: expected term, ten years from the date of grants in 2003 and 2002; stock price volatility, 72% in 2003 and 112% in 2002; risk free interest rate, 4.02% in 2003, and 4.0% in 2002; and no dividends during the expected term.

13

If the computed fair values of the stock-based awards had been amortized to expense over the vesting period of the awards, net income and net income per share, basic and diluted, would have been as follows:

	YEAR ENDED DECEMBER 31, 2003	2002
Net income, as reported	$ 642,806	$ 872,310
Stock based compensation, net of taxes, determined under the intrinsic value method	--	--
Stock-based compensation, net of taxes, determined under the fair value method	264,004	349,575
PRO FORMA NET INCOME	$ 378,802	$ 522,735
Basic and diluted net earnings per share		
AS REPORTED	$ 0.14	$ 0.19
PRO FORMA	$ 0.08	$ 0.11

EARNINGS PER SHARE

Basic and diluted earnings per share are computed using the weighted average number of common shares outstanding during the period. The Company does not have any potentially dilutive securities.

RECENT ACCOUNTING PRONOUNCEMENT

In March 2003, the Emerging Issues Task Force published Issue No. 00-21 "Accounting for Revenue Arrangements with Multiple Deliverables" (EITF 00-21). EITF 00-21 addresses certain aspects of the accounting by a vendor for arrangements under which it performs multiple revenue generating activities and how to determine whether such an arrangement involving multiple deliverables contains more than one unit of accounting for purposes of revenue recognition. The guidance in this Issue is effective for revenue arrangements entered in fiscal periods beginning after June 15, 2003. The adoption of EITF 00-21 on July 1, 2003 did not have any significant impact on the Company's financial statements.

NOTE 2 - PROPERTY AND EQUIPMENT

Property and equipment at December 31, consist of:

	USEFUL LIVES (YEARS)	2003	2002
Computer equipment	5	$ 949,035	$ 889,625
Office equipment	5	183,336	182,368
Furniture and fixtures	5	306,250	306,250
Displays	5 to 7	126,166	121,302
		1,564,787	1,499,545
Less accumulated depreciation		(1,314,704)	(1,227,193)
		$ 250,083	$ 272,352

14

NOTE 3 - LONG-TERM DEBT AND RELATED PARTY NOTES

Long-term debt at December 31, consists of:

	2003	2002
Capital lease obligations	$ 13,704	$ 77,256
Software related payable	330,000	720,000
	343,704	797,256
Less current portion	336,204	457,552
	$ 7,500	$ 339,704

Software related payable is the amount to be paid to Vcommunications, Inc. for the acquisition of Easy Uninstall, Internet Cleanup and ZipMagic products. The total purchase price was $800,000 of which $155,000 was paid in 2002 and $315,000 in 2003. The balance of $330,000 is due in quarterly installments to be completed by October 2004. Per the agreement, Vcommunications has been assigned a continued interest in all of the Company's rights and title to the products to secure the Company's obligation to pay the full amount due. Fixed installments due on debt principal are as follows:

Year ending December 31,

2004	$ 336,204
2005	7,500
	$ 343,704

NOTE 4 - MAJOR CUSTOMERS

Aladdin Systems has one major customer that accounted for $2,170,803 or 26% and

$1,736,101 or 23% of revenues in 2003 and 2002, respectively.

NOTE 5 - RETIREMENT PLAN

The Company has established a 401(k) retirement plan for all employees. Employees may elect to contribute a portion of their gross salary not to exceed federal tax law limitations. The Company may elect to match a portion of the employee contributions. No matching contributions were made for the years ended December 31, 2003 and 2002.

NOTE 6 - COMMITMENTS AND CONTINGENCIES

Leases

The Company conducts its operations from one facility that is leased under an operating lease expiring October 2010. Rent expense was $282,624 and $277,735 in 2003 and 2002, respectively.

The Company also has furniture and equipment under capital leases. The cost of assets acquired under capital leases is $500,070. Accumulated amortization on these assets at December 31, 2003 was $440,014.

Future minimum commitments under capital leases and non-cancelable operating leases as of December 31, 2003 are as follows:

	CAPITAL LEASES	OPERATING LEASES
Year ending December 31,		
2004	$ 13,704	$ 289,363
2005	--	293,124
2006	--	296,935
2007	--	300,795
2008	--	304,705
Thereafter	--	609,411
Total minimum lease payment	13,704	2,094,333
Less amount representing interest	980	--
	$ 12,724	$ 2,094,333

NOTE 7 - STOCKHOLDERS' EQUITY

Stock Options

The Aladdin Systems Holdings, Inc. 1999 Stock Option Plan allows for the issuance of incentive stock options and non-qualified stock options to purchase shares of the Holding's common stock. The option plan has authorized 3,000,000 shares of which 167,969 remain available for granting at December 31, 2003. Under the option plan, incentive stock options may be granted to employees, directors, and officers of the Company and non-qualified stock options may be granted to consultants, employees, directors, and officers of the Company. Options granted under the option plan are for periods not to exceed ten years, and must be issued at prices not less than 100% of the fair market value of the stock on the date of grant. Options granted to shareholders who own greater than 10% of the outstanding stock are for periods not to exceed five years and must be issued at prices not less than 110% of the fair market value of the stock on the date of grant. Options granted under the option plan generally vest within 4 years.

Stock option activity, at the parent company level, is summarized as follows:

	SHARES	WEIGHTED AVERAGE EXERCISE PRICE
BALANCE AT JANUARY 1, 2002	2,473,528	$ 1.48
Granted	868,444	0.73
Cancelled	(457,750)	1.12
BALANCE AT DECEMBER 31, 2002	2,884,222	1.31
Granted	274,260	0.29
Cancelled	(326,451)	1.22
BALANCE AT DECEMBER 31, 2003	2,832,031	$ 1.22

The following table summarizes information about stock options outstanding as of December 31, 2003:

RANGE OF EXERCISE PRICE	NUMBER OUTSTANDING	WEIGHTED AVERAGE EXERCISE PRICE	AVERAGE REMAINING CONTRACTUAL TERM (YEARS)	NUMBER EXERCISABLE	WEIGHTED AVERAGE EXERCISE PRICE
$0.20 - $0.63	857,302	$ 0.43	7.59	521,185	$ 0.46
$0.65 - $1.07	956,532	$ 0.90	4.26	875,282	$ 0.93
$1.15 - $1.85	616,468	$ 1.38	5.27	591,267	$ 1.37
$3.00 - $4.87	401,729	$ 3.44	2.80	393,911	$ 3.44
	2,832,031	$ 1.22		2,381,645	$ 1.35

The weighted average fair value of options granted to employees was $0.19 and $0.13 for 2003 and 2002, respectively.

NOTE 8 - SUBSEQUENT EVENTS

On January 21, 2004, Holdings and International Microcomputer Software, Inc. ("IMSI") entered into Stock Purchase Agreement for the sale of the Company to

International Microcomputer Software, Inc. The final stock purchase agreement was signed on April 19, 2004.

UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL INFORMATION:

The following selected Unaudited Pro Forma Condensed Financial Information is based on the historical financial statements of IMSI and Aladdin Systems, Inc. and has been prepared to illustrate the effect of IMSI's acquisition of Aladdin. The Unaudited Pro Forma Condensed Financial Information has been prepared using the purchase method of accounting. Aladdin reports its financial results on a fiscal year ending December 31. The financial statements of Aladdin included in the following unaudited pro forma condensed financial information are based on the unaudited statements of Aladdin for the twelve months ended June 30, 2003 and the nine months ended March 31, 2004 that have been derived primarily from the audited financial statements of Aladdin included in this report. The pro forma statements of operations give effect to the acquisition of Aladdin as if it occurred on July 1, 2002.

Because the selected unaudited pro forma condensed combined financial information is based upon Aladdin's financial position and operating results during periods when Aladdin was not under the control, influence or management of IMSI, the information presented may not be indicative of the results that would have actually occurred had the transaction been completed as of July 1, 2002 or March 31, 2004, as appropriate, nor is it indicative of future financial or operating results of the combined entity.

ALADDIN SYSTEMS, INC.

INDEX TO UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL STATEMENTS

INTERNATIONAL MICROCOMPUTER SOFTWARE, INC.
UNAUDITED PRO FORMA CONDENSED COMBINED BALANCE SHEET AS OF MARCH 31, 2004

	IMSI Consolidated Historical	Aladdin Historical	Pro Forma Adjustments
ASSETS			
Current Assets:			
Cash and Cash Equivalents	$ 4,904,989	$ 477,480	$(1,500,000)
Investment in Marketable Securities	1,752,462	--	--
			--
Accounts Receivable, less allowances	1,186,714	967,107	
Inventories	451,202	145,067	--
Other Current Assets	623,551	154,977	(51,000)
Total Current Assets	8,918,918	1,744,631	(1,551,000)
Fixed Assets, net	412,238	230,590	642,828
Intangible Assets			
Capitalized Software, net	933,632	645,925	2,933,632
Capitalized Domain Names, net	1,643,060	--	--
Capitalized Customer Names, net	262,222	--	590,000
Capitalized Trademarks	--	--	700,000
Capitalized Distributor Agreements	--	--	400,000
Goodwill	611,404	--	4,519,685
Total Intangible Assets	3,450,318	645,925	7,563,760
Other Assets			
Investment in Securities	1,436,250	--	--
Receivable Long-Term	1,650,000	--	--
Total Other Assets	--	--	3,086,250
Total Assets	15,867,724	2,621,146	6,012,760
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current Liabilities			
Short-term Debt	986,286	257,018	1,000,000
Trade Accounts Payable	1,051,278	303,077	24,000
Accrued and Other Liabilities	633,608	490,427	--
Deferred Revenue	268,012		--
Total Current Liabilities	2,939,184	1,050,522	1,024,000
Long-term debt and other obligations	470,846	--	2,000,000
Liabilities related to discontinued operations	84,230	--	--
Total Liabilities	3,494,260	1,050,522	3,024,000
Stockholders' Equity			
Common Stock	36,147,924	492,199	4,067,185
	(23,672,800)	1,078,425	(1,078,425)
Accumulated Deficit	1,078,425		
Accumulated other loss	(101,660)	--	--
Total Shareholders' Equity	12,373,464	1,570,624	2,988,760
Total Liabilities and SH Deficit	$15,867,724	$ 2,621,146	$ 6,012,760

20

INTERNATIONAL MICROCOMPUTER SOFTWARE, INC.

NOTES TO UNAUDITED PRO FORMA CONDENSED COMBINED BALANCE SHEET

The unaudited pro forma condensed balance sheet gives effect to the following unaudited pro forma adjustments:

1. Adjustment reflects the acquisition entry of Aladdin in accordance with the purchase method of accounting.

21

INTERNATIONAL MICROCOMPUTER SOFTWARE, INC.

UNAUDITED PRO FORMA CONDENSED COMBINED STATEMENTS OF OPERATIONS FOR THE TWELVE MONTHS ENDED JUNE 30, 2003

	IMSI (HISTORICAL)	ALADDIN (HISTORICAL)	PRO FOR
			Amortizat Intangi (1)
Net Revenues	$ 8,932,377	$ 8,204,885	$
Product Costs	3,989,390	979,269	4
Gross Margin	4,942,987	7,225,616	(4
Costs and Expenses:			
Sales and Marketing	2,956,792	3,199,067	
General and Administrative	3,082,110	2,000,237	1
Research and Development	1,513,611	937,765	
Total Operating Expenses	7,552,513	6,137,069	1
Operating Income (Loss)	(2,609,526)	1,088,547	(5
Other Income and (Expense):			
Interest and Other, Net	(890,686)	(6,617)	
Loss on sale of assets	(40,503)	--	
Gain from Extinguishment of Debt	768,614	--	
Income (Loss) Before Income Tax	(2,772,101)	1,081,930	(5
Income Tax Provision	7,446		
Net Income (Loss) From Continuing Operations	(2,779,547)	1,081,930	(5
Income from discontinued operations, net of tax	1,210,924		

Gain from the sale of discontinued operations	12,236,538		
Net Income	$ 10,667,915	$ 1,081,930	$ (5
Basic and diluted earnings (loss) per share			
Loss per share from continuing operations	($0.12)		
Income per share from discontinued operations	$0.05		
Gain per share from the sale of discontinued operations	$0.54		
Net income per share	$0.47		
Shares used in computing earnings (loss) per share	22,800,795		

22

INTERNATIONAL MICROCOMPUTER SOFTWARE, INC.

UNAUDITED PRO FORMA CONDENSED COMBINED STATEMENTS OF OPERATIONS FOR THE NINE MONTHS ENDED MARCH 31, 2004

	IMSI (HISTORICAL)	ALADDIN (HISTORICAL)	P Amor of In
Net Revenues	$ 7,239,029	$ 6,858,028	
Product Costs	2,416,554	804,951	
Gross Margin	4,822,475	6,053,077	(
Costs and Expenses:			
Sales and Marketing	3,270,091	2,777,039	
General and Administrative	2,537,474	1,667,002	
Research and Development	1,654,971	975,967	
Total Operating Expenses	7,462,536	5,420,008	
Operating Income (Loss)	(2,640,061)	633,069	(4
Other Income and (Expense):			
Interest and Other, Net	197,885	26,781	
Realized Gain on Marketable Securities	75,997	-	
Unrealized Gain on Marketable Securities	1,864,527	-	
Gain from Extinguishment of Debt	76,110	-	
Income (Loss) Before Income Tax	(425,542)	659,850	(4

Income Tax Provision	24,540		
Net Income (Loss) From Continuing Operations	(450,082)	659,850	(4
Gain from the sale of discontinued operations	1,000,000	-	
Net Income	$ 549,918	$ 659,850	$ (4

Basic and diluted earnings (loss) per share	
Income/(Loss) per share from continuing operations	($0.02)
Gain per share from the sale of discontinued operations	$0.04
Net income per share	$0.02
Shares used in computing earnings (loss) per share	23,331,526

23

INTERNATIONAL MICROCOMPUTER SOFTWARE, INC.

NOTES TO UNAUDITED PRO FORMA CONDENSED COMBINED STATEMENTS OF OPERATIONS FOR THE TWELVE MONTHS ENDED JUNE 30, 2003 AND FOR THE NINE MONTHS ENDED MARCH 31, 2004

The unaudited pro forma condensed statements of operations give effect to the following unaudited pro forma adjustments:

1 Adjustment reflects the acquisition entry of Aladdin in accordance with the purchase method of accounting.

(1) To reflect the amortization of capitalized software, distribution agreements and customer names acquired in the acquisition of Aladdin.

The amortization perods for these identifiable intangibles are as follows

- Capitalized software 5 years
- Distribution Agreements 6 years
- Customer Names 5 years

(2) To reflect the interest expense associated with the notes payable used to partially fund the acquisition of Aladdin.

24

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

INTERNATIONAL MICROCOMPUTER SOFTWARE, INC.

DATED: JUNE 16, 2004

By: /s/ Martin Wade, III

MARTIN WADE, III

Director & Chief Executive Officer

25