

INTERNATIONAL MICROCOMPUTER SOFTWARE INC /CA/
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PROSPECTUS

The information in this prospectus is not complete and may be changed. The selling security holders may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and neither the selling security holders nor we are soliciting offers to buy these securities in any state where the offer or sale is not permitted.

International Microcomputer Software, Inc.

4,542,440 SHARES OF COMMON STOCK

**100 Rowland Way, Suite 300
Novato, CA 94945
(415) 878-4000**

This prospectus relates to the sale by certain stockholders of **International Microcomputer Software, Inc. (IMSI)** of up to 4,542,440 shares of our common stock which they own, or which they may at a later date acquire upon the exercise of warrants to purchase shares of our common stock. We are not selling any shares of common stock in this offering and therefore will not receive any proceeds from this offering. All costs associated with this registration will be borne by IMSI.

IMSI s common stock is quoted on the OTC Bulletin Board under the symbol IMSI.OB . On September 23, 2004 the closing bid and ask prices for one share of our common stock were \$0.98 and \$1.02, respectively.

THESE SECURITIES ARE SPECULATIVE AND INVOLVE A HIGH DEGREE OF RISK. YOU SHOULD CONSIDER CAREFULLY THE RISK FACTORS BEGINNING ON PAGE 1 OF THIS PROSPECTUS BEFORE MAKING A DECISION TO PURCHASE OUR STOCK.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed upon the adequacy or accuracy of this prospectus. Any representation to the contrary is a criminal offense.

The date of this Prospectus is November 4, 2004

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PROSPECTUS SUMMARY

This summary is not complete and does not contain all the information that you should consider before investing in our common stock. This summary highlights selected information contained elsewhere in this prospectus. You should read the entire prospectus carefully, including the more detailed information regarding our company, the risks of purchasing our common stock discussed under Risk Factors, and our financial statements and the accompanying notes, before making an investment decision.

Overview

Headquartered in Novato, California, International Microcomputer Software, Inc. (IMSI or the Company) was incorporated in California in November 1982. Over the following 16 years, we grew to become a leading developer and publisher of productivity software in the precision design, graphic design, and other related business applications fields. We acquired TurboCAD, our flagship product, in 1985, and developed and acquired numerous additional products and product categories over the years. By the end of 1998, we marketed and distributed several products worldwide primarily through the retail channel.

In 1998, we acquired ArtToday.com, Inc. (ArtToday), an Internet provider of clipart, photos and other graphics content as part of our new strategy to transition from sales of boxed product through the retail channel to Internet sales and to migrate our core products and content in the design and graphics categories to the Internet. This transition proved costly and we suffered large losses that threatened our survival. Beginning in 2000, we underwent a major financial restructuring that focused on the design and graphics software categories and on expanding ArtToday.com.

In August 2001, we signed an agreement and plan of merger with Digital Creative Development Corporation, a Utah corporation ("DCDC"). The plan of merger with DCDC provided management and financial resources to IMSI to help complete our restructuring efforts and implement a new growth strategy. In 2001, we acquired Keynomics, Inc. (Keynomics), a provider of ergonomic and keyboard training for worker-enhanced safety from DCDC. In February 2002, we entered into a Mutual Termination Agreement and Release with DCDC whereby the proposed merger was terminated.

In June 2003, we sold ArtToday to Jupitermedia Corporation (Jupitermedia). The proceeds from the sale helped us restructure our balance sheet by paying off the majority of our debt and allowed us to invest in new ventures and acquisitions aimed at strengthening our core software business.

In April 2004 we acquired all of the stock of Aladdin Systems, Inc. (Aladdin), 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, Linux and Macintosh platforms. We acquired Aladdin from its parent company Aladdin Systems Holdings, Inc. (Aladdin Holdings). The acquisition has resulted in a doubling of our annual revenues on a pro forma basis. Following the acquisition, we renamed Aladdin as Allume Systems, Inc. (Allume). The consideration paid for the acquisition of Aladdin consisted of a combination of cash, convertible notes and 2,317,881 unregistered shares of IMSI common stock (which are being registered as part of this registration statement). Also included in this registration statement are 1,065,807 additional shares of IMSI common stock that we issued to Aladdin Holdings in conjunction with our mutual amendment to the stock purchase agreement.

To refine the focus of the company, in July 2004, we sold the assets and customer related liabilities of our wholly owned subsidiary Keynomics, Inc. 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.

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Our business

We develop, produce and market software and content for precision and technical design. Our products are categorized into two business segments, Precision Design Solutions and Consumer and Business Software Solutions. Our leading software products include TurboCAD, a technical and architectural design program. We also offer other software products including FloorPlan, FormTool, OrgChart Professional and TurboProject. Since our divestiture of ArtToday in June 2003, we have acquired new product lines and services to complement and expand our Precision Design Solutions segment. These acquisitions included the DesignCAD line of products and different websites that offer design related content such as CADalog, CADsymbol and CADsymbols. The latest addition to our business was the addition of a new utilities product family through the acquisition of Aladdin. The new additions to our product brands include titles in the Compression, Access and Transmission group (StuffIt); Security and Internet group (Internet Cleanup, SpamCatcher and Spring Cleaning) and Software Compilations group (Ten for X).

Our software and content are used by commercial graphic designers, architects, engineers and business people who need graphics or technical design. We distribute and support our products through retail channels, a network of value-added domestic and international resellers, as well as direct to end users and corporate users over the Internet.

We offer products under a variety of names, and we have sought and will continue to seek protection under trademark and other laws for our valuable intellectual property. A complete list of our trade and service marks is listed in Proprietary Rights and Licenses below.

The offering

By means of this prospectus, a number of our stockholders are offering to sell up to 4,044,654 shares of common stock which they own and up to 497,786 shares of common stock which they may acquire upon the exercise of warrants. In this prospectus, we refer to these persons as the selling security holders.

As of September 28, 2004, we had 27,987,956 shares of common stock issued and outstanding. The number of outstanding shares of common stock does not give effect to common stock which may be issued pursuant to the exercise of options and/or warrants previously issued by IMSI.

Apart from nominal consideration to be received upon exercise of the warrants referenced in this filing, we will not receive any proceeds from the sale of common stock by the selling security holders pursuant to this Prospectus.

The purchase of the securities offered by this prospectus involves a high degree of risk. Risk factors include the relative illiquidity of our common stock, our history of operating losses, competition from many sources, including those with significantly greater financial resources, and the need to continue to develop technology for our products. See the Risk Factors section below for additional Risk Factors.

The following table sets forth the selling security holders:

Table 1

	Number of Shares To Be Offered
<u>Outstanding unregistered common stock</u>	
Aladdin Systems Holdings Inc.	3,383,688
Ken Katuin	500,000
DevDepot LLC	87,000

Upperspace Corporation	68,966
CADalog, Inc.	5,000
Subtotal	4,044,654

Common stock to be issued upon exercise of warrants

Scott T. & Patricia D. Chronert	150,000
Brian Swift	95,286
Avztim LLC	50,000
Blue, Barry & Kimberly Charitable Trust	50,000
William Bush	40,000
Eight Family Trust, W Bilofsky Trustee	25,000
Hatem Trabelsi	25,000
Joseph W. & Patricia G. Family Trust	25,000
Litwin, Mark S. Trust	25,000
Blue, Barry Charitable Remainder Trust	12,500
Subtotal	497,786
Grand Total	4,542,440

Summary financial data

The following selected financial data should be read in conjunction with the Consolidated Financial Statements, including the related notes, and Management's Discussion and Analysis or Plan of Operations contained in this filing.

Table 2-a

(in \$000)	Audited As of June 30, 2004
Balance Sheet Data:	
Current Assets	\$11,737
Total Assets	28,263
Current Liabilities	7,683
Total Liabilities	10,398
Shareholders' Equity	\$17,865

Table 2-b

(in \$000)	Audited Fiscal Year ended June 30,	
	2004	2003
Statements of Operations Data:		
Net Revenues	\$11,985	\$8,095
Operating Loss	(3,771)	(2,734)
Net Income	\$646	\$10,668

The selected unaudited pro forma condensed financial information is based on the historical financial statements of IMSI and Aladdin 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. Prior to the acquisition, Aladdin reported 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 financial statements of Aladdin for the twelve months ended June 30, 2003 and 2004. The pro forma statements of operations give effect to the acquisition of Aladdin as if it occurred on July 1, 2002.

Table 2-c

	Unaudited Fiscal year ended June 30,	
	2004	2003
Net Revenues	\$19,076	\$15,990
Loss from continuing operations	(987)	(2,493)
Net income	770	11,045
Shares used in computing earnings per share	26,759,793	25,118,676
Basic and diluted earnings per share	\$0.03	\$0.44

RISK FACTORS

AN INVESTMENT IN OUR COMMON STOCK INVOLVES A HIGH DEGREE OF RISK. IN ADDITION TO THE OTHER INFORMATION IN THIS PROSPECTUS, YOU SHOULD CAREFULLY CONSIDER THE FOLLOWING RISK FACTORS BEFORE DECIDING TO INVEST IN SHARES OF OUR COMMON STOCK. IF ANY OF THE FOLLOWING RISKS ACTUALLY OCCURS, IT IS LIKELY THAT OUR BUSINESS, FINANCIAL CONDITION AND OPERATING RESULTS WOULD BE HARMED. AS A RESULT, THE TRADING PRICE OF OUR COMMON STOCK COULD DECLINE, AND YOU COULD LOSE PART OR ALL OF YOUR INVESTMENT.

Our operating results are improving but we continue to show losses. We strive to reduce operating expenses and increase revenues to return to operating profitably. We have emerged from a period of major reorganization with a strategy to become a leader in our target market of precision design products, and we are currently incurring significant marketing and development expenses in order to increase brand recognition and product penetration within that market. We also incur relatively high fixed costs and other expenses related to our reorganization and the integration of newly acquired technology and personnel as a result of our acquisition strategy. We believe that our strategy will allow us to become profitable in the future, but if we are incorrect or our strategy is unsuccessful, the market price of our common stock may be materially adversely affected.

The computer software business is highly technical and our failure to offer new products to the market may harm our business. We operate in a highly technical industry, which is characterized by frequent introductions of new products and services into the market. Our relatively small size in an intensely competitive, rapidly changing marketplace and our less recognized brand compared to larger and better known competitors creates the risk that we may not be able to compete successfully in the future. Our success will depend, in part, on our ability to offer new software products and to provide necessary support to customers.

Our strategy is based on developing new product lines, continually releasing upgraded versions of existing products, and providing add-ons to existing products sold by us as well as other companies. If we are unsuccessful in anticipating consumer demands in any of these areas, our sales and operating results may suffer.

Our common stock price is highly volatile and is subject to wide fluctuations and market risk. The market price of our common stock is highly volatile. Our stock is subject to wide fluctuations in response to factors such as:

- Actual or anticipated variations in operating results,
 - Announcements of technological innovations,
- New products or services introduced by IMSI or its competitors,
 - Changes in financial estimates by securities analysts,
 - Conditions and trends in the software market,
 - General market conditions, and
- Other factors, such as recessions, interest rates or international currency fluctuations.

Historically, the trading volume of our common stock has been very small. The market for our common stock has been materially less liquid than that of most other publicly traded companies. Small trading volume and a less liquid market may amplify price changes in our stock. If a significant amount of our common stock is sold, then our stock price could decline significantly.

The stock market experiences extreme price and volume fluctuations that have particularly affected the market prices for stock in technology companies. Price fluctuations in technology stock prices are often unrelated or disproportionate to the operating performance of technology companies. The market price of our common stock may

be adversely affected by these broad market factors.

Our stock trades on the OTC Bulletin Board. As a result, investors could find it more difficult to trade, or to obtain accurate quotations of the market value of, the stock as compared to securities that are traded on the NASDAQ trading market or on an exchange.

The selling stockholders intend to sell their shares of common stock in the market, which sales may cause our stock price to decline. We are seeking to register for sale 4,044,654 shares of our currently issued and outstanding common stock, along with 497,786 shares of additional common stock that may be issued upon exercise of outstanding warrants. Our selling shareholders have not engaged an underwriter in connection with this registration, and have indicated that they do not intend to do so. The three-month average daily volume of our stock is approximately 53,000 shares. The number of our shares available for resale in the public market as a result of this registration may therefore exceed the number of shares that purchasers wish to buy. This potential increase in the number of shares that may be available for public trading may dramatically reduce the price of our common stock on the basis of supply and demand alone.

Our intellectual property may be vulnerable to unauthorized use, and the risks of infringement or lawsuits. Our ability to compete effectively depends in part on our ability to develop and maintain proprietary aspects of our technology. To protect our technology, we rely on a combination of patents, copyrights, trademarks, trade secret laws, restrictions on disclosure and transferring title, and other methods.

Despite precautions, it may be possible for a third party to copy or otherwise obtain and use our products or technologies without authorization, or to develop similar technologies independently.

We do not hold any patents on technology related to our products. Our future patents, if any, may be successfully challenged and may not provide us with any competitive advantages. We may not develop proprietary products or technologies that are patentable and other parties may have prior claims.

In selling our products, we rely primarily on shrink-wrap licenses that are not signed by licensees, and, therefore, such licenses may be unenforceable under the laws of some jurisdictions. In addition, existing copyright laws afford limited practical protection and effective copyright, trademark and trade secret protection may be unavailable or limited in foreign countries. Although we hold one patent, patent protection is not a significant component of our intellectual property strategy.

The global nature of the Internet makes it virtually impossible to control the ultimate destination of our products. There can be no assurance that the steps we take will prevent misappropriation or infringement of our technology. Litigation may be necessary to protect our trade secrets or to determine the validity and scope of the proprietary rights of others. Such litigation could result in substantial costs and diversion of resources that could have a material adverse effect on our business, operating results and financial condition.

Trade secrets are difficult to protect. Our competitors may independently develop proprietary information and techniques that are substantially equivalent to ours or otherwise gain access to our trade secrets, such as through unauthorized or inadvertent disclosure of our trade secrets.

There can be no assurance that our means of protecting our proprietary rights will be adequate or that our competitors will not independently develop substantially equivalent or superseding proprietary technology. Furthermore, there can be no assurance that any confidentiality agreements between us and our employees will provide meaningful protection of our proprietary information, in the event of any unauthorized use or disclosure thereof. Any legal action that we may bring to protect proprietary information could be expensive and may distract management from day-to-day operations.

We have acquired several businesses and face risks associated with integrating these businesses and potential future businesses that we may acquire. We have completed the acquisition of several technologies, companies and products, we plan to continue to review potential acquisition candidates and our business and our strategy includes building our business through acquisitions. However, acceptable acquisition candidates may not be available in the future or may not be available on terms and conditions acceptable to us.

Acquisitions involve numerous risks, including among others, difficulties and expenses incurred in the consummation of acquisitions and assimilation of the operations, personnel, services and products of the acquired companies. Additional risks associated with acquisitions include the difficulties of operating new businesses, the diversion of management's attention from other business concerns and the potential loss of key employees of the acquired company. If we do not successfully integrate the businesses we may acquire in the future, our business will suffer.

Further, in the event of any future acquisitions, we could issue stock that would dilute our current stockholders' percentage ownership; incur debt; assume liabilities; incur amortization expenses related to intangible assets; or incur large and immediate write-offs, all of which could negatively impact our operating results.

We develop a portion of our product line using third-party technology, which may not continue to suffice for our needs. While we own the technology incorporated in our principal products, our strategy also involves licensing of third-party technology to be incorporated into certain other products. There can be no assurance that such technology will continue to be available to us, or that we will be able to obtain additional third-party technology for future products on commercially reasonable terms. To the extent that we are unable to obtain such technology, our product line may diminish and/or our expenses to develop new products may be greater than anticipated.

Our dependence on third party developers could have a material adverse effect on our business, because of the risk of loss of licenses to software developed by third parties, or loss of support for those licenses. If we were to lose licenses for software developed by third parties, then we would have increased costs and lost sales. Product shipments would be delayed or reduced until equivalent software could be developed, which would have a material adverse effect on our business, operating results and financial condition.

The trend toward consolidation in our industry may impede our ability to compete effectively. As consolidation in the software industry continues, fewer companies dominate particular markets, changing the nature of the market and potentially providing consumers with fewer choices. We may not be able to compete effectively against these competitors. Furthermore, we may use strategic acquisitions, as necessary, to acquire technology, people and products (strategic assets) for our overall product strategy. We have completed a number of acquisitions and dispositions of strategic assets and may acquire and dispose of other strategic assets in the future. The trend toward consolidation in our industry may result in increased competition in acquiring these strategic assets, resulting in increased acquisition costs or the inability to acquire the desired strategic assets. Any of these changes may have a significant adverse effect on our future revenues and operating results.

Our use of development teams outside the United States involves risk, including control and coordination risks. For the past few years, we have developed most of our software products outside the United States. We use contract programmers in development centers in Russia and India, and have also used programmers in other countries. The cost of programmers outside of the United States is lower than the cost of programmers in the United States. However, relying on foreign contractors presents a number of risks. Managing, overseeing and controlling the programming process are more difficult because of the distance between our management team and the contractors. Our contractors have different cultures and languages from our managers, making coordination more difficult.

Our agreements provide that we own the source code developed by the programmers. But the location of the source code outside the United States makes it more difficult for us to ensure that access to our source code is protected. If we lose the services of these programmers, then our business, operating results and financial condition would be materially adversely affected. We probably could find other programmers in the United States or in other countries, but the costs could significantly increase our expenses.

Our Internet business and strategy creates additional costs and introduces new uncertainties with no assurance of results. A substantial portion of our revenue comes from Internet based sales. Over the past few years, we have incurred, and in the future we expect to incur, significant costs for our Internet infrastructure. These costs include additions to hardware, increases in Internet personnel, acquisitions and cross licenses to drive traffic to our websites, and a transition to an Internet sales and marketing strategy. We cannot provide any assurance that our Internet strategy will be successful, or that the costs and investments in this area will provide adequate results.

Our software products and web site may be subject to intentional disruption. While we have not been the target of software viruses or other attacks specifically designed to impede the performance of our products or disrupt our Web site, such viruses or other attacks could be created and deployed against our products or Web site in the future.

Similarly, experienced computer programmers, or hackers, may attempt to penetrate our network security or the security of our Web site from time to time. A hacker who penetrates our network or Web site could misappropriate proprietary information or cause interruptions of our services. We might be required to expend significant capital and resources to protect against, or to alleviate, problems caused by virus creators and hackers.

We bear risks associated with software development that can adversely affect financial performance. While we have successfully developed and released hundreds of software products over the last 20 years, including over 10 releases of our leading product TurboCAD, we cannot provide assurance that future products and upgrades will be released in a timely manner or that they will receive market acceptance, if and when released.

We distribute several of our products through republishers. We distribute several of our products through republishers around the world. As part of our revenue depends on a few licensees and republishers, an adverse change in these relationships could materially affect us.

We may not be able to attract and retain key personnel. Our success depends to a significant extent on the performance and continued service of our senior management and key employees. Competition for highly skilled employees with technical, Internet, management, marketing, sales, product development and other specialized training is intense. We cannot provide any assurance that we will be successful in attracting, motivating and retaining such personnel.

Talented development personnel are in high demand. We cannot provide any assurance that independent developers will be able to provide development support to us in the future. If sales of software utilizing third-party technology increase disproportionately, operating income as a percent of revenue may be below historical levels due to third-party royalty obligations.

We operate in foreign countries and are exposed to risks associated with foreign political, economic and legal environments and with foreign currency exchange rates. We derive a portion of our revenue from sales outside the United States, and we are accordingly exposed to risks, including among others, risks associated with foreign political, economic and legal environments and with foreign currency exchange rates. Our results may be adversely affected by, among other things, changes in government policies with respect to laws and regulations, anti-inflation measures, currency conversions, remittance abroad and rates and methods of taxation.

Our software may be subject to defects and product liability. Software products frequently contain errors or defects, especially when first introduced or when new versions or enhancements are released. We have not experienced any material adverse effects resulting from any of these defects or errors to date and we test our products prior to release. Nonetheless, defects and errors could be found in current versions of our products, future upgrades to current products or newly developed and released products. Software defects could result in delays in market acceptance or unexpected reprogramming costs, which could materially adversely affect our operating results. Most of our license agreements with customers contain provisions designed to limit our exposure to potential product liability claims. It is possible, however, that these provisions limiting our liability may not be valid as a result of federal, state, local or foreign laws or ordinances or unfavorable judicial decisions. A successful product liability claim could have a material adverse effect on our business, operating results and financial condition.

Exercise of the warrants described in this Prospectus will result in dilution of our existing investors. There are currently outstanding 27,987,956 shares of our common stock, and we are seeking to register an additional 497,786 shares of common stock to be issued on exercise of the warrants. To the extent that warrant holders exercise such warrants, each currently outstanding share of our common stock will be equivalent to a smaller percentage of ownership of IMSI.

Our Board of Directors May Issue Preferred Stock to Prevent a Takeover. The Board of Directors is authorized to issue up to 20,000,000 shares of Preferred Stock and to determine the price, rights, preferences, privileges and restrictions, including voting rights, of those shares without any further vote or action by the shareholders. The rights of the holders of common stock will be subject to, and may be adversely affected by, the rights of the holders of any Preferred Stock that may be issued in the future. The issuance of Preferred Stock, while providing desirable flexibility

in connection with possible acquisitions and other corporate purposes, could have the effect of delaying, deferring or preventing a change in control of IMSI. We have no current plans to issue shares of Preferred Stock.

Cautionary Statement Regarding Forward-Looking Statements

Some statements in this prospectus contain certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the Securities Act) and Section 21E of the Securities Exchange Act of 1934, as amended (the Exchange Act). All statements other than historical or current facts, including, without limitation, statements about our business, financial condition, business strategy, plans and objectives of management and our future prospects, are forward-looking statements. Such forward-looking statements are subject to risks and uncertainties that could cause actual results to differ materially from these expectations. Forward-looking statements may be identified by the use of forward-looking terminology, such as may, shall, could, expect, estimate, anticipate, predict, probable, possible, should, continue, or similar terms, variations of those terms or the negative of those terms. The forward-looking statements specified in the following information have been compiled by our management on the basis of assumptions made by management and considered by management to be reasonable. Our future operating results, however, are impossible to predict and no representation, guarantee, or warranty is to be inferred from those forward-looking statements.

The assumptions used for purposes of the forward-looking statements specified in the following information represent estimates of future events and are subject to uncertainty as to possible changes in economic, legislative, industry, and other circumstances. As a result, the identification and interpretation of data and other information and their use in developing and selecting assumptions from and among reasonable alternatives require the exercise of judgment. To the extent that the assumed events do not occur, the outcome may vary substantially from anticipated or projected results, and, accordingly, no opinion is expressed on the achievability of those forward-looking statements. We cannot guarantee that any of the assumptions relating to the forward-looking statements specified in the following information are accurate, and we assume no obligation to update any such forward-looking statements.

USE OF PROCEEDS

Apart from nominal consideration to be received upon exercise of the warrants referenced in this filing, we will not receive any proceeds from the sale of common stock by the selling security holders pursuant to this Prospectus. The proceeds, aggregating up to \$268,804 from the exercise of the warrants described herein, will be used for general working capital purposes.

DETERMINATION OF OFFERING PRICE

The price at which the shares may actually be sold will be determined by the market price of the common stock as of the date of each sale by the selling shareholders. IMSI's common stock is quoted on the OTC Bulletin Board under the symbol IMSI.OB. On September 23, 2004, the closing bid and ask prices for one share of our common stock were \$0.98 and \$1.02, respectively.

DILUTION

We are not selling any common stock in this offering. Certain of the selling security holders are selling shares they currently own in IMSI. As such, there is no dilution resulting from the common stock to be sold in this offering by those shareholders.

This prospectus also covers up to 497,786 shares of common stock which may be acquired upon the exercise of warrants held by certain selling shareholders. The issuance of our common stock upon the exercise of such warrants will have a dilutive effect, although those shares have been included in our calculation of our fully diluted earnings per share, such that there will be no dilutive effect. The average per share exercise price of the warrants is \$0.54 and assuming that warrants are exercised to purchase all 497,786 shares referenced herein, IMSI will receive proceeds from such exercise equal to \$268,804. The number of shares of IMSI's outstanding stock will then increase from 27,987,956 to 28,485,742 shares.

SELLING SECURITY HOLDERS

The securities are being offered by certain selling security holders. The selling security holders may from time to time offer and sell pursuant to this prospectus up to an aggregate of 4,044,654 shares of our common shares now owned by them, and up to 497,786 shares issuable to them upon the exercise of warrants that they hold. The selling security holders may, from time to time, offer and sell any or all of the shares that are registered under this prospectus.

Aladdin Holdings, the former parent company of Aladdin, received the shares offered hereby as part of the total consideration of the Aladdin acquisition. In connection with the Aladdin acquisition, we have agreed to prepare and file at our expense, a registration statement with the Securities and Exchange Commission covering the resale of the shares received in the transaction by Aladdin Holdings.

Per the agreement, which has been amended twice since initially entered in April 2004, we must file the registration statement no later than September 30, 2004. This registration statement must further be declared effective by the Securities and Exchange Commission no later than March 31, 2005. If we are not able to timely file this registration statement or if it does not become effective by the date prescribed, IMSI could be subject to liquidated damage penalties equal to 5% of the value of the common stock which was delivered as part of the original agreement payable during each month in which the registration statement is delinquent.

Certain other persons named below received shares of IMSI's common stock, or warrants to purchase shares of IMSI's common stock, in connection with acquisitions described under the caption "Prospectus Summary Our Business." Also named as selling security holders are certain participants in private placement financing transactions completed by us in the last two years, each of whom received warrants to purchase IMSI common stock pursuant to such transactions. We are not under any obligation to prepare and file a registration statement with the Securities and Exchange Commission covering the resale of the shares of common stock issuable upon exercise of the warrants issued in the private placement.

The following table sets forth, with respect to the selling security holders: (i) the number of shares of common stock beneficially owned as of September 28, 2004 and prior to the offering contemplated hereby, (ii) the number of shares of common stock eligible for resale (to be offered) by each selling security holder pursuant to this Prospectus, (iii) the number of shares owned by each selling security holder after the offering contemplated hereby assuming that all shares eligible for resale pursuant to this Prospectus actually are sold; and (iv) the percentage of shares of common stock beneficially owned by each selling security holder after the offering contemplated hereby.

Table 3

Selling Security holders	Number of Securities Owned Before Offering	Number of Securities To Be Offered	Number of Securities Owned After Offering	Percentage of Securities Owned After Offering	Notes
Outstanding unregistered common stock					
Aladdin Systems Holdings Inc.	3,383,688	3,383,688	0	0.00%	(1)(5)
Ken Katuin	500,000	500,000	0	0.00%	(1)
DevDepot LLC	112,000	87,000	25,000	0.09%	(1)(6)
Upperspace Corporation	68,966	68,966	0	0.00%	(1)(7)
CADalog, Inc	5,000	5,000	0	0.00%	(1)(8)
Subtotal	4,069,654	4,044,654	25,000		
Common stock to be issued upon exercise of warrants					
Scott T. & Patricia D. Chronert	150,000	150,000	0	0.00%	(2)
Brian Swift	280,480	95,286	185,194	0.66%	(3)(4)
Avztim LLC	300,000	50,000	250,000	0.89%	(2)(9)
Barry & Kimberly Blue Charitable Trust -Barry Blue, Trustee	50,000	50,000	0	0.00%	(2)
William Bush	327,426	40,000	287,426	1.02%	(2)(10)
Eight Family Trust - Walter Bilofsky, Trustee	169,250	25,000	144,250	0.52%	(2)
Hatem Trabelsi	133,000	25,000	108,000	0.38%	(2)(11)
Joseph W. & Patricia G. Family Trust - Joseph Abrams, Trustee	996,726	25,000	971,726	3.43%	(2)
Mark S. Litwin Trust - Mark S. Litwin Trustee	25,000	25,000	0	0.00%	(2)
Barry Blue Charitable Remainder Trust - Barry Blue Trustee	12,500	12,500	0	0.00%	(2)

Subtotal	2,444,382	497,786	1,946,596
Total	6,514,036	4,542,440	1,971,596

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- (1) The shares were issued pursuant to transactions which are more fully described in Note 3 - Product Line and Other Acquisitions to the consolidated financial statements as at June 30, 2004 and in the sections of the prospectus labeled Description of Business and Management's Discussion and Analysis or Plan of Operation .
- (2) These warrants were issued pursuant to a financing transaction more fully described in Note 13 - Related Party Transactions - Five-year, 15% secured promissory notes with warrants attached, to the IMSI consolidated financial statements as at June 30, 2004 and in the section of the prospectus labeled Management's Discussion and Analysis or Plan of Operation -- Liquidity and Capital Resources .
- (3) These warrants were issued pursuant to a financing transaction concluded in May 2002 whereby we raised approximately \$1 million and issued 1,428,572 shares of our common stock. The offer and sale of the shares was exempt from registration under Rule 506 of Regulation D there under and exempt from the qualification requirements of state securities laws under corresponding rules and regulations of the states in which the shares were offered and sold. Mr. Swift participated in that offering with the purchase of 165,429 common shares for \$115,800. He also acted as the broker in the private placement and was awarded the 95,286 warrants as compensation.
- (4) Mr. Swift is an affiliate of Security Research Associates, Inc, a registered broker dealer. The warrants acquired by Mr. Swift were issued pursuant to a financing transaction in May 2002 and were issued in the ordinary course of business and there were no other agreements or understandings, directly or indirectly, with any person to distribute securities at the time of purchase.
- (5) Aladdin Systems Holdings, Inc is a Nevada Corporation. It is controlled by Mr. Jonathan Kahn (IMSI employee and President of Allume Systems, Inc.), Mr. Darryl Lovato Kahn (IMSI employee and Chief Technology Officer of Allume Systems, Inc.) and Mrs. Benna Lovato.
- (6) DevDepot LLC is a limited liability company organized under the laws of California and is controlled by Mr. Neil Ticktin and Ms. Andrea Sniderman.
- (7) Upperspace Corporation is a corporation organized under the laws of Oklahoma and is controlled by Messrs. Mike and Bob Webster.
- (8) CADalog Inc. is a corporation organized under the laws of Washington and is controlled by Mr. David Wayne.
- (9) Avztim LLC is a limited liability company organized under the laws of California and is controlled by Mr. Elisha Gilboa.
- (10) Mr. Bush is our Chief Financial Officer and was issued these warrants in association with our debt offering which we initiated in March 2003. As part of that transaction whereby he lent the Company \$80,000, Mr. Bush was granted 40,000 common stock warrants with a strike price of \$0.45 and was paid a total of \$1,795 in interest and \$1,600 in early payment penalties.
- (11) Employee of IMSI.

PLAN OF DISTRIBUTION

The selling stockholders and any of their respective pledgees, donees, assignees and other successors-in-interest may, from time to time, sell any or all of their shares of common stock on any stock exchange, market or trading facility on which the shares are traded or in private transactions. These sales may be at fixed or negotiated prices. The selling stockholders may use any one or more of the following methods when selling shares:

- ordinary brokerage transactions and transactions in which the broker-dealer solicits the purchaser;
- block trades in which the broker-dealer will attempt to sell the shares as agent but may position and resell a portion of the block as principal to facilitate the transaction;
 - purchases by a broker-dealer as principal and resale by the broker-dealer for its account;
 - an exchange distribution in accordance with the rules of the applicable exchange;
 - privately-negotiated transactions;
 - short sales;
-

broker-dealers may agree with the selling stockholders to sell a specified number of such shares at a stipulated price per share;

- writing of options on the shares;
- a combination of any such methods of sale; and
- any other method permitted pursuant to applicable law.

The selling stockholders may pledge their shares to their brokers under the margin provisions of customer agreements. If a selling stockholder defaults on a margin loan, the broker may, from time to time, offer and sell the pledged shares.

The selling stockholders may also engage in short sales against the box, puts and calls and other transactions in our securities or derivatives of our securities and may sell or deliver shares in connection with these trades.

The selling stockholders or their respective pledgees, donees, transferees or other successors in interest may also sell the shares directly to market makers acting as principals and/or broker-dealers acting as agents for themselves or their customers. Such broker-dealers may receive compensation in the form of discounts, concessions or commissions from the selling stockholders and/or the purchasers of shares for whom such broker-dealers may act as agents or to whom they sell as principal or both, which compensation as to a particular broker-dealer might be in excess of customary commissions. Market makers and block purchasers purchasing the shares will do so for their own account and at their own risk. It is possible that a selling stockholder will attempt to sell shares of common stock in block transactions to market makers or other purchasers at a price per share which may be below the then market price. The selling stockholders cannot assure that all or any of the shares offered in this prospectus will be issued to, or sold by, the selling stockholders. The selling stockholders and any brokers, dealers or agents, upon effecting the sale of any of the shares offered in this prospectus, may be deemed to be "underwriters" as that term is defined under the Securities Act or the Exchange Act or the rules and regulations under such acts. In such event, any commissions received by such broker-dealers or agents and any profit on the resale of the shares purchased by them may be deemed to be underwriting commissions or discounts under the Securities Act.

We are required to pay all fees and expenses incident to the registration of the shares, excluding fees and disbursements of counsel to the selling stockholders, brokerage commissions and underwriter discounts.

The selling stockholders, alternatively, may sell all or any part of the shares offered in this prospectus through an underwriter. No selling stockholder has entered into any agreement with a prospective underwriter and the selling stockholders have advised us that they have no plans to enter into any such agreement.

The selling stockholders and any other persons participating in the sale or distribution of the shares will be subject to applicable provisions of the Exchange Act and the rules and regulations under such act, including, without limitation, Regulation M. These provisions may restrict certain activities of, and limit the timing of purchases and sales of any of the shares by, the selling stockholders or any other such person. Furthermore, under Regulation M, persons engaged in a distribution of securities are prohibited from simultaneously engaging in market making and certain other activities with respect to such securities for a specified period of time prior to the commencement of such distributions, subject to specified exceptions or exemptions. All of these limitations may affect the marketability of the shares.

We have agreed to indemnify the selling stockholders, or their transferees or assignees, against certain liabilities, including liabilities under the Securities Act or to contribute to payments the selling stockholders or their respective pledgees, donees, transferees or other successors in interest, may be required to make in respect of such liabilities.

If the selling stockholders notify us that they have a material arrangement with a broker-dealer for the resale of the common stock, then we would be required to amend the registration statement of which this prospectus is a part, and file a prospectus supplement to describe the agreements between the selling stockholders and the broker-dealer.

LEGAL PROCEEDINGS

From time to time, we may be involved in litigation relating to claims arising out of our operations in the normal course of business. We know of no material, existing or pending legal proceedings against us, nor are we involved as a plaintiff in any material proceeding or pending litigation. There are no proceedings in which any of our directors, officers or affiliates, or any registered or beneficial shareholder, is an adverse party or has a material interest to our interest.

DIRECTORS, EXECUTIVE OFFICERS, SIGNIFICANT CONTRIBUTORS AND CONTROL PERSONS

Directors

The names of all members of the Board of Directors of IMSI, and information about them as of September 15, 2004 are set forth below:

Table 4

NAME	AGE	POSITION	DIRECTOR SINCE
Bruce Galloway	46	Chairman of the Board of Directors	2001
Martin Wade, III	55	Chief Executive Officer	2001
Evan Binn	65	Director	2001
Donald Perlyn	61	Director	2001
Robert Mayer	50	Executive Vice President	2000
Robert S. Falcone	57	Director	2002
Richard J. Berman	62	Director	2002

Bruce R. Galloway, age 46. Mr. Galloway became Chairman of IMSI in August 2001, pursuant to the proposed merger agreement between IMSI and DCDC signed on August 31, 2001. Mr. Galloway is currently a managing director of Burnham Securities Inc., an NASD Broker/Dealer an investment bank based in New York and is the President and Founder of Galloway Capital Management. Prior to joining Burnham, from 1991 to 1993, Mr. Galloway was a senior vice president at Oppenheimer & Company, an investment bank and NASD Broker/Dealer based in New York. Mr. Galloway holds a B.A. degree in Economics from Hobart College and an M.B.A. in Finance from New York University's Stern Graduate School of Business. He is currently the Chairman of Datametrics Corporation as well as a director of Forward Industries, Inc., Waiter.com, Inc. and GVI Security Solutions, Inc.

Martin Wade III, age 55. Mr. Wade became a director and CEO of IMSI in August 2001. He brings to the Company a proven track record in mergers and acquisitions and investment banking. Prior to joining IMSI, he served in several

executive positions, including CEO, with DCDC between 2000 and 2002. Mr. Wade served from 1998 to 2000 as an M&A banker at Prudential Securities and from 1996 to 1998 as a managing director in M&A at Salomon Brothers. From 1991 to 1996, Mr. Wade was National Head of Investment Banking at Price Waterhouse, LLC. Mr. Wade also spent six years in the M&A department at Bankers Trust and eight years at Lehman Brothers Kuhn Loeb. Mr. Wade is credited with participating in over 200 M&A transactions involving various clients such as, Nike, Cornerstone National Gas Company, Landmark Graphics and Redken Laboratories, Inc. He is also a member of the Board of Directors for DiMon, NexMed, Energy Transfer Group of Dallas, Texas and Command Security Corp.

Donald Perlyn, age 61. Mr. Perlyn became a director of IMSI in August 2001. Mr. Perlyn serves as Executive Vice President of Nathan's Famous, Inc. and President of its subsidiary Miami Subs Corporation. He was hired by Miami Subs in May 1989 and became its President in July of 1998. In October 1999 Miami Subs was acquired by Nathan's Famous Inc., itself a DCDC subsidiary. Mr. Perlyn is also a member of the Board of Directors of Nathan's Famous, Inc. Mr. Perlyn is an attorney and a 32-year veteran of the restaurant industry.

Evan Binn, age 65. Mr. Binn became a director of IMSI in August 2001. Mr. Binn received his bachelor's degree from the University of California at Los Angeles and is a certified public accountant in California. He is a member of the California Society of Certified Public Accountants and has maintained a practice in Los Angeles, California for thirty-seven years.

Robert Mayer, Founder & Executive Vice President of Precision Design, age 50. Mr. Mayer became a director in February 2000. Mr. Mayer served as the Company's Vice President of Sales from 1990 until 1995 and then as Executive Vice President of Worldwide Sales until March 2000 when he left the Company to serve as a Vice President at Adventa.com, Inc. Mr. Mayer rejoined the IMSI team in November 2000 as Executive Vice President. Mr. Mayer also served as a director from 1985 until May 1999. Mr. Mayer received a Bachelor of Arts degree from the University of California at Berkeley, and Masters of Science degree from the University of Washington.

Robert S. Falcone, age 57. Mr. Falcone became a director in February 2002 and has over 32 years of financial management and Board experience. Mr. Falcone has served since 2003 as the Executive Vice President and Chief Financial Officer of Bearing Point, Inc. an international consulting firm serving Global 2000 companies, medium-sized businesses, government agencies and other organizations. From 2000 to 2002, he was chief financial officer for 800.com, a pioneer in consumer electronics Internet retailing. He began his career at Price Waterhouse, LLP where he spent 21 years, eight as an audit partner. He served as senior vice president and chief financial officer for Nike, Inc. from 1992 to 1998, a time when the company grew annual sales to nearly \$10 billion. A graduate of Villanova University and a certified public accountant, Mr. Falcone serves on the boards of directors for RadioShack Corporation and The Nautilus Group.

Richard J. Berman, age 62. Mr. Berman became a director in February 2002 and his business career spans 35 years of venture capital, management and mergers and acquisitions experience. In the last five years, Mr. Berman was Chairman and CEO of Internet Commerce Corporation, an Internet supply chain company. He is Chairman of KnowledgeCube, an early stage technology fund and Candidate Resources, Inc., the leading manager of human resource websites. Mr. Berman serves as a Director of NexMed, a life sciences company, Stonehedge Partners, a family of hedge funds, MediaBay, the leading distributor of audio books, GVI Security Solution, Inc. and Internet Commerce Corporation. Previously, Mr. Berman worked at Goldman Sachs; was Senior Vice President of Bankers Trust Company where he started the M&A and Leveraged Buyout departments; created the largest battery company in the world by merging Prestolite, General Battery and Exide to form Exide; and advised on over \$4 billion of M&A transactions. He is a past Director of the Stern School of Business of NYU where he obtained a B.S. and an MBA. Mr. Berman holds US and foreign law degrees from Boston College and The Hague Academy of International Law, respectively.

Executive officers

Martin Wade III, CEO. See above.

Gordon Landies, President, age 48. Mr. Landies joined IMSI on September 1, 2001 as President subsequent to the merger agreement between IMSI and DCDC. He brings to the Company 17 years of experience in management of software companies. Before joining IMSI Mr. Landies was a consultant and managing partner in GL Ventures, LLC providing services to software publishing and media companies. In 1999, Mr. Landies was the General Manager of the

Home and Game division of Mattel Interactive. From 1994 to 1998 Mr. Landies held positions of Senior Vice President of Sales and Executive Vice President for Mindscape, a \$100+ million consumer software company. From 1990 to 1994 he was Vice President of Sales for The Software Toolworks. Mr. Landies previously served on the Board of Directors of IMSI from 1995 to 1998 as well as on the Boards of Directors of Mindscape, Inc., Entertainment Universe, Inc. and several other private organizations. Mr. Landies graduated in 1981 from Northern Illinois University with a Masters of Business Administration and holds a B.S. in economics from Elmhurst College.

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Robert Mayer, Executive Vice President of Precision Design. See above.

William J. Bush, CFO, age 39. Mr. Bush joined our executive team in September 2002. As the former Director of Business Development for Buzzsaw.com and former Corporate Controller and Finance Manager for the AutoCAD Product Division at Autodesk, Inc., the fourth largest software applications company in the world, he brings over 15 years of experience in accounting, financial support and business development to IMSI. Prior to joining IMSI, Mr. Bush was one of the founding members of Buzzsaw.com, a privately held company spun off from Autodesk in 1999, focusing on online collaboration, printing and procurement applications. At Buzzsaw.com, Mr. Bush was responsible for establishing the company's finance and accounting infrastructure as well as leading its acquisition and financing efforts. From 1997 to 1999, Mr. Bush was the Corporate Controller at Autodesk, where his responsibilities included financial planning and analysis, general accounting, and SEC and management reporting. Mr. Bush began his career in public accounting with Ernst & Young, and later with Price Waterhouse in Munich, Germany. He received a B.S. in Business Administration from U.C. Berkeley and is a Certified Public Accountant.

Jonathan Kahn, President Allume Systems, age 46. Mr. Kahn joined the management of IMSI with the acquisition of Allume Systems in April 2004. Mr. Kahn is one of the original founders of Allume Systems and has served as a Director since 1988. Prior to becoming CEO in 1998, he served as President, and Vice President of Sales. Mr. Kahn has extensive expertise in software industry sales, marketing, business development and licensing arrangements. Mr. Kahn is a graduate of the University of Rhode Island with a B.A. in Economics.

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth, as of September 28, 2004 the beneficial ownership of the Company's Common Stock by:

- Each person who is known by the Company to own of record or beneficially more than five percent (5%) of the Company's Common Stock
 - Each director or nominee
 - Each other executive officer named in the Summary Compensation Table, and
- All directors and executive officers as a group. Except as otherwise indicated, the shareholders listed in the table have sole voting and dispositive power with respect to the shares indicated, subject to community property laws where applicable.

The table below includes shares as to which the holders are eligible to acquire beneficial ownership within 60 days

Table 5

Name	Total	
	Number	Percent
Digital Creative Development Corp	7,685,758	27.46%
Aladdin Systems Holdings, Inc.	3,383,688	12.09%
Capital Ventures, Inc.	2,553,791	9.08%
Gordon Landies	1,778,664	6.12%
Geoffrey Koblick	1,022,600	3.60%
Robert Mayer	867,086	3.06%
Bruce Galloway	657,500	2.31%
William Bush	327,426	1.16%
Robert Falcone	265,000	0.94%
Richard Berman	250,000	0.89%
Evan Binn	60,000	0.21%

Donald Perlyn	50,000	0.18%
Martin Wade	46,667	0.17%
All directors and executive officers as a Group	5,324,943	16.97%

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DESCRIPTION OF SECURITIES

Common Stock. Pursuant to our Articles of Incorporation, as amended, we are authorized to issue 300,000,000 shares of common stock, no par value per share. The following is a description of our common stock, shares of which are being offered in this prospectus:

Holders of the common stock are entitled to one vote for each share held by them of record on the books of IMSI in all matters to be voted on by the stockholders. Holders of common stock are entitled to receive such dividends as may be declared from time to time by the board of directors out of funds legally available, and in the event of liquidation, dissolution or winding up of IMSI to share ratably in all assets remaining after payment of liabilities. Declaration of dividends on common stock is subject to the discretion of the board of directors and will depend upon a number of factors, including the future earnings, capital requirements and financial condition of IMSI. IMSI has not declared dividends on its common stock in the past and management currently anticipates that retained earnings, if any, in the future will be applied to the expansion and development of IMSI rather than the payment of dividends.

The holders of common stock have no preemptive or conversion rights and are not subject to further calls or assessments by IMSI. There are no redemption or sinking fund provisions applicable to the common stock. The Articles of Incorporation require the approval of the holders of a majority of IMSI's common stock for the election of directors and for certain fundamental corporate actions, such as mergers and sales of substantial assets, or for an amendment to the Articles of Incorporation, other than an amendment to designate one or more series of preferred stock, as described below. There exists no provision in the Articles of Incorporation or IMSI's Bylaws that would delay, defer or prevent a change in control of IMSI.

Preferred Stock. Our Articles of Incorporation further authorize our board of directors, subject to any limitations prescribed by law and without further stockholder approval, to issue from time to time up to 20,000,000 shares of preferred stock in one or more series. Our charter also authorizes our board of directors, subject to the limitations prescribed by California law, to establish the number of shares to be included in each series and to fix the voting powers, preferences, qualifications and special or relative rights or privileges of each series; and to issue preferred stock with voting, conversion and other rights and preferences that could adversely affect the voting power or other rights of the holders of common stock.

The purpose of authorizing our board of directors to issue preferred stock and determine its rights and preferences is to eliminate delays associated with a stockholder vote on specific issuances. The issuance of preferred stock or of rights to purchase preferred stock, however, could have the effect of making it more difficult for a third party to acquire, or of discouraging a third party from attempting to acquire, a majority of our outstanding common stock.

As of the date hereof, there were no series of preferred stock designated, and we have no current plans to issue any preferred stock.

American Stock Transfer and Trust acts as our transfer agent and registrar.

INTEREST OF NAMED EXPERTS AND COUNSEL

Grant Thornton LLP, independent auditors, has audited the financial statements of IMSI as of June 30, 2004 and for each of the two years in the period ended June 30, 2004, as set forth in their report. The financial statements are included in reliance on such reports given upon the authority of Grant Thornton LLP as experts in accounting and auditing. Grant Thornton LLP does not have any ownership interest in us.

The validity of the issuance of the shares of common stock offered hereby and certain other legal matters in connection herewith have been passed upon for us by Niesar & Diamond LLP. Niesar & Diamond LLP does not have any ownership interest in us.

DISCLOSURE OF COMMISSION POSITION OF INDEMNIFICATION FOR SECURITIES ACT LIABILITIES

Indemnification. Our bylaws and Section 317 of the California Corporations Code allow, and in some cases require, the indemnification of directors and officers to the fullest extent permitted by law for all expenses relating to civil, criminal, administrative or investigative procedures to which they are a party (i) by reason of the fact that they are or were directors or officers of IMSI or (ii) by reason of the fact that, while they are or were directors or officers of IMSI, they are or were serving at the request of IMSI as a director, officer or employee of another enterprise.

SEC Position on Securities Act Liabilities. Insofar as indemnification for liabilities arising under the Securities Act of 1933 (the "Securities Act") may be permitted to directors, officers or persons controlling us pursuant to the foregoing provisions, or otherwise, we have been advised that in the opinion of the Securities and Exchange Commission, such indemnification is against public policy as expressed in the Act and is, therefore, unenforceable.

DESCRIPTION OF BUSINESS

Headquartered in Novato, California, IMSI was incorporated in California in November 1982. During our first 16 years in business, we grew to become a leading developer and publisher of productivity software in the precision design, graphic design, and other related business applications fields. We acquired TurboCAD, our flagship product, in 1985, and developed and acquired numerous additional products and product categories over the years. By the end of 1998, we marketed and distributed several products worldwide primarily through the retail channel.

In 1998, we acquired ArtToday, an Internet provider of clipart, photos and other graphics content as part of our new strategy to transition from sales of boxed product through the retail channel to Internet sales and to migrate our core products and content in the design and graphics categories to the Internet. This transition proved costly and we suffered large losses that threatened our survival. Beginning in 2000, we underwent a major financial restructuring that focused on the design and graphics software categories and on expanding ArtToday.com.

In August 2001, DCDC entered into a merger agreement with IMSI. Upon signing of the merger agreement, Mr. Martin Wade III, a director and CEO of DCDC, became CEO of IMSI, four of our five directors resigned and the entire board of directors of DCDC was appointed to the IMSI board of directors.

In November 2001, we acquired Keynomics from DCDC, which focused on productivity enhancement software. Keynomics provides productivity and ergonomic compliance improvements thru its proprietary software system, The KeySoft Performance System. Keynomics mission is to reduce corporate keyboarding costs and risks and provide significant long-term savings through ergonomic and productivity training and awareness.

In February 2002, we entered into a Mutual Termination Agreement and Release with DCDC whereby the proposed merger was terminated and each company was released from all duties, rights, claims, obligations and liabilities arising from, in connection with, or relating to, the merger.

In June 2003, we sold ArtToday, our wholly owned subsidiary based in Arizona, to Jupitermedia Corporation for a combination of cash, restricted stock and two-year earn-outs.

In July 2004, we sold the assets and customer related liabilities of our wholly owned subsidiary Keynomics, Inc. 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, we acquired a ten (10%) ownership interest in Keynomics, L.L.C.

The sale of ArtToday to Jupitermedia provided the Company with significant capital allowing us to refine and accelerate the implementation of our strategy of strengthening and expanding our core businesses of precision design and consumer software. Our focus is to acquire and develop businesses and product lines which have significant revenue and cost synergies with our existing product lines as well as which utilize the internet as a primary means of distribution. To that end we have completed several acquisitions aimed at growing our revenues and strengthening our financial results. The following is a description of the key transactions, in chronological order of closing, which were integral to this strategy that we completed subsequent to our divestiture of ArtToday:

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Abbisoft House Plans, Inc. On September 28, 2004 we completed, through our wholly owned subsidiary Houseplans, Inc, a stock purchase agreement whereby we acquired all the outstanding stock of Abbisoft House Plans, Inc. (Abbisoft), an on-line provider of stock house plans. Abbisoft operates the Homeplanfinder.com website. This acquisition will allow us to strengthen our position and increase our market share in the market for the sale of stock house plans via the internet.

The consideration for the acquisition was paid in a combination of cash, notes payable and 500,000 unregistered IMSI common shares issued pursuant to a transaction exempt from registration under Section 4(2) of the Securities Act. All of the shares issued as part of this transaction are being registered as part of this registration statement.

DevDepot On May 11, 2004 we entered into an asset purchase agreement with DevDepot, LLC, whereby we acquired certain assets of DevDepot. The assets included inventories, customers profiles, rights to all contracts and license agreements in addition to certain interests in intellectual properties related to the business. DevDepot is a highly focused on-line marketer of utilities and hardware and software add-ons primarily for the Macintosh market. It operates www.devdepot.com and www.radgad.com as well as being active in the sale of products at well known industry trade shows. With its long standing direct marketing model and extensive Macintosh user base, DevDepot is well suited to create revenue synergies with Allume.

The consideration for the acquisition was paid in a combination of cash and 112,000 unregistered common shares issued pursuant to a transaction exempt from registration under Section 4(2) of the Securities Act, a portion of which are subject to an escrow period. Eighty-seven thousand of the total shares tendered to DevDepot as part of the consideration are being registered as part of this registration statement.

Aladdin. On April 19, 2004 we completed the acquisition of all the outstanding stock of Aladdin, 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, Linux and Macintosh platforms. We purchased Aladdin for a combination of cash, stock and notes from its parent company, Aladdin Systems Holdings, Inc. and subsequently changed the company's name to Allume Systems, Inc. With over 50% of its sales being generated via the internet, Allume has broadened our reach into this key distribution channel. With its strengths in product development and direct marketing as demonstrated by the award winning StuffIt product line, Allume has significantly improved the depth and breadth of our product offerings. Reflecting its development and marketing strengths, Allume is the number #1 developer of utilities for Macintosh as well as the #1 reseller of 3rd party products in the Digital River's network.

The consideration paid to Aladdin Systems Holdings, Inc. for the acquisition 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 (all of which are being registered as part of this registration statement) issued pursuant to a transaction exempt from registration under Section 4(2) of the Securities Act and two three-year convertible notes in the aggregate amount of \$3,000,000. These notes are secured by the Allume common stock. Under the terms of the original purchase agreement, additional cash earn-out payments could have been 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.

In early September 2004, IMSI and Aladdin Holdings amended the portion of the agreement which called for earn-outs to be paid based on the achievement of certain revenue targets. The payments were converted from contingent obligations to contractual obligations as follows:

- The first earn out payment of \$666,667 which could have been due on April 19, 2005 became fully earned as of the amendment date and will be payable on June 2, 2005.
- The second and third earn-out payments were terminated in consideration of the issuance of shares of the common stock of IMSI priced as of the closing bid price on the date of the amendment. As a result, we will issue an

additional 1,065,807 shares of our common stock issued pursuant to a transaction exempt from registration under Section 4(2) of the Securities Act to Aladdin Holdings. These shares are being registered as part of this registration statement on Form SB-2 pursuant to the Registration Rights Agreement between Aladdin Holdings and IMSI.

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As part of the same agreement, Aladdin Holdings agreed to modify the date by which IMSI was required to file this registration statement on Form SB-2 of the common stock that Aladdin Holdings received from IMSI as part of the original agreement from ninety (90) days from the closing date to September 30, 2004. Additionally, Aladdin Holdings agreed to modify the date by which this registration statement was required to become effective by the Securities and Exchange Commission from one hundred and eighty (180) days from the closing date to March 31, 2005. If we are not able to timely file this registration statement or if it does not become effective by the date prescribed, IMSI could be subject to liquidated damage penalties equal to 5% of the value of the common stock which was delivered as part of the original agreement payable during each month in which the registration statement is delinquent.

The unaudited pro forma information below presents results of operations as if the Allume acquisition had occurred as of July 1, 2002. The unaudited pro forma information is not necessarily indicative of the results of operations of the combined companies had these events occurred at the beginning of the year presented nor is it indicative of future results (in thousands, except per share amounts):

Table 6

**Unaudited
Fiscal year ended June 30,**