INTERNATIONAL MICROCOMPUTER SOFTWARE INC /CA/
Form 10QSB
February 14, 2006

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington D.C. 20549

FORM 10-QSB

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended **December 31, 2005**

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from: _______ to _______

Commission File Number 0-15949

INTERNATIONAL MICROCOMPUTER SOFTWARE, INC.
(Exact name of Small business issuer in its charter)

CALIFORNIA (State or other jurisdiction of incorporation or organization)	**94-2862863** (I.R.S. Employer Identification No.)
100 ROWLAND WAY, NOVATO, CALIFORNIA (Address of principal executive offices)	**94945** (Zip code)
(415) 878-4000 Issuer's telephone number	

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES [X] NO [ ]

Indicate by check mark whether the registrant is a shell company (as defined in rule 12b-2 of the Exchange Act). YES [ ] NO [X]

As of January 31, 2006, 30,107,284 shares of Issuer’s common stock, no par value, were outstanding.

Transitional Small Business Disclosure Format: YES [ ] NO [X]

INTERNATIONAL MICROCOMPUTER SOFTWARE, INC.
AND SUBSIDIARIES

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PART I - FINANCIAL INFORMATION

Item1- Condensed Consolidated Financial Statements

INTERNATIONAL MICROCOMPUTER SOFTWARE, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands, except share amounts)

	December 31, 2005	June 30, 2005
Unaudited		
ASSETS		
Current assets:		
Cash and cash equivalents	$9,849	$4,347
Trading securities	-	714
Receivables, less allowances for doubtful accounts, discounts and returns of $551 as of December 31, 2005 and $626 as of June 30, 2005.	1,384	773
Inventories, net	873	758
Receivables, other (related to discontinued operations)	-	2,000
Receivables, other	-	30
Other current assets	1,278	530
Assets related to discontinued operations	-	12,231
Total current assets	**13,384**	**21,383**
Fixed assets, net	**340**	**377**
Intangible assets		
Capitalized software, net	322	494
Domain names and brands, net	1,960	1,574
Distribution rights and proprietary plans, net	773	170
Capitalized customer lists, agreements and relationships, net	1,327	326
Goodwill	3,678	2,090
Trademarks, net	19	1
Total intangible assets	**8,079**	**4,655**
Total assets	**$21,803**	**$26,415**
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Short-term debt	873	2,764
Trade accounts payable	1,364	2,245
Accrued and other liabilities	1,577	1,871
Deferred revenues	45	38
Liabilities related to discontinued operations	-	1,037
Total current liabilities	**3,859**	**7,955**
Long-term debt and other obligations	173	230
Total liabilities	**4,032**	**8,185**
Shareholders' equity		
	44,843	43,663

Common stock, no par value; 300,000,000 authorized; 29,845,877 issued and outstanding as of December 31, 2005 and 28,796,886 issued and outstanding as of June 30, 2005		
Accumulated deficit	(27,161)	(25,331)
Accumulated other comprehensive income (loss)	89	(102)
Total shareholders' equity	**17,771**	**18,230**
Total liabilities and shareholders' equity	**$21,803**	**$26,415**

See Notes to Condensed Consolidated Financial Statements

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

	Three months ended December 31,		Six months ended December 31,	
	2005	**2004**	**2005**	**2004**
Net revenues	$3,719	$3,478	$7,684	$6,613
Product costs	1,328	1,122	2,783	2,143
Gross margin	**2,391**	**2,356**	**4,901**	**4,470**
Costs and expenses				
Sales and marketing	1,658	1,538	3,189	2,888
General and administrative	1,329	982	2,754	1,841
Research and development	553	368	988	837
Total operating expenses	**3,540**	**2,888**	**6,931**	**5,566**
Operating loss	**(1,149)**	**(532)**	**(2,030)**	**(1,096)**
Other income (expense)				
Interest and other, net	17	33	(52)	39
Realized / unrealized gain on securities	923	471	765	422
Loss before income tax	**(209)**	**(28)**	**(1,317)**	**(635)**
Income tax provision	(39)	(2)	(39)	(8)
Loss from continuing operations	**(248)**	**(30)**	**(1,356)**	**(643)**
Income from discontinued operations, net of income tax	-	159	-	444
Gain (loss) from the sale of discontinued operations, net of income tax	369	-	(474)	53
Net income (loss)	**$121**	**$129**	**($1,830)**	**($146)**
Other comprehensive income (loss)				
Unrealized loss on restricted securities	(478)	-	-	-
Foreign currency translation adjustments	2	(24)	191	(34)
Comprehensive income (loss)	**($355)**	**$105**	**($1,639)**	**($180)**
Basic earnings (loss) per share:				
Loss from continuing operations	($0.01)	$0.00	($0.05)	($0.02)
Income from discontinued operations, net of income tax	$0.00	$0.01	$0.00	$0.02
Gain (loss) from the sale of discontinued operations, net of income tax	$0.01	$0.00	($0.02)	$0.00
Net income (loss)	$0.00	$0.00	($0.06)	($0.01)

Diluted earnings (loss) per share:				
Loss from continuing operations	($0.01)	$0.00	($0.05)	($0.02)
Income from discontinued operations, net of income tax	$0.00	$0.01	$0.00	$0.02
Gain (loss) from the sale of discontinued operations, net of income tax	$0.01	$0.00	($0.02)	$0.00
Net income (loss)	$0.00	$0.00	($0.06)	($0.01)
Shares used in computing basic earnings (loss) per share	29,821	27,196	29,755	27,605
Shares used in computing diluted earnings (loss) per share	31,831	29,885	29,755	27,605

See Notes to Condensed Consolidated Financial Statements

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INTERNATIONAL MICROCOMPUTER SOFTWARE, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
Six months ended December 31, 2005
(In thousands, except share amounts)
(Unaudited)

	Common Stock				
	Shares	**Amount**	**Accumulated deficit**	**Accumulated other comprehensive income (loss)**	**Total**
Balance at July 1, 2005	**28,796,886**	**$43,663**	**($25,331)**	**($102)**	**$18,230**
Issuance of common stock related to:					
Stock options exercised	85,291	73			73
Warrants exercised	117,117	-			-
Acquisitions	826,583	1,021			1,021
Finder's fee related to acquisition	20,000	25			25
Issuance of stock options related to:					
Consulting services rendered		21			21
Issuance of warrants related to:					
Acquisitions		6			6
Procurement of short-term debt		68			68
Accrual of stock buy-back		(30)			(30)
Issuance of stock options		2			2
Variable accounting adjustment		(6)			(6)
Net loss			(1,830)		(1,830)
Foreign currency translation adjustment				191	191
Balance at December 31, 2005	**29,845,877**	**$44,843**	**($27,161)**	**$89**	**$17,771**

See Notes to Condensed Consolidated Financial Statements

INTERNATIONAL MICROCOMPUTER SOFTWARE, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)
(Unaudited)

	Six months ended December 31,	
	2005	**2004**
Cash flows from operating activities:		
Net cash provided by (used in) operating activities	**($753)**	**$248**
Cash flows from investing activities:		
Proceeds from sale of discontinued operations	9,466	650
Proceeds from sale of product line	-	258
Acquisition of subsidiaries	(1,807)	(1,356)
Acquisition of software development, domain names and trademarks	-	(600)
Purchases of equipment and software	(29)	(163)
Transfer cash to escrow for Jupitermedia	-	(499)
Proceeds from the sale of marketable securities	1,524	1,780
Other	(8)	25
Cash provided by discontinued operations in investing activities	-	464
Net cash provided by investing activities	**9,146**	**559**
Cash flows from financing activities:		
Proceeds from borrowings	850	400
Repayments of notes	(3,802)	(1,730)
Proceeds from warrants and options exercised	73	137
Cash provided by discontinued operations in financing activities	-	12
Net cash used in financing activities	**(2,879)**	**(1,181)**
Effect of exchange rate change on cash and cash equivalents	(12)	(34)
Net increase (decrease) in cash and cash equivalents	5,502	(408)
Cash and cash equivalents at beginning of period	4,347	3,212
Cash and cash equivalents at end of the period	**$9,849**	**$2,804**

	Six months ended December 31,	
	2005	**2004**
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Interest paid	128	125
SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING AND FINANCING ACTIVITIES		
Capital stock issued in conjunction with acquisitions	1,046	1,602
Warrants issued in conjunction with acquisitions	6	-
Notes payable incurred in conjunction with acquisitions	1,000	505
Warrants issued in conjunction with short-term debt	68	-

See Notes to Condensed Consolidated Financial Statements

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

1. Basis of Presentation

The interim condensed consolidated financial statements have been prepared from the records of International Microcomputer Software, Inc., a California corporation, and Subsidiaries ("we" or the “Company”) without audit. All significant inter-company balances and transactions have been eliminated in consolidation. In the opinion of management, all adjustments, which consist of only normal recurring adjustments, to present fairly the financial position at December 31, 2005 and the results of operations and cash flows for the three and six months ended December 31, 2005 and 2004, have been made. The interim condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto contained in our Annual Report on Form 10-KSB, for the fiscal year ended June 30, 2005. The results of operations for the three and six months ended December 31, 2005 are not necessarily indicative of the results to be expected for any other interim period or for the full year.

2. Use of Estimates

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

3. Reclassifications

Reclassifications have been made to the amounts reported for the three and six months ended December 31, 2004 to conform to the current period’s presentation. The amounts reported for the three and six months ended December 31, 2004, present the assets, liabilities and results of operations for Allume Systems, Inc. (“Allume”) as discontinued operations due to the sale of Allume to Smith Micro Software Inc. (“Smith Micro”) on July 1, 2005.

Also, the amounts reported for the six months ended December 31, 2004 include the assets, liabilities and results of operations for Keynomics, Inc. (“Keynomics”) as discontinued operations due to the sale of Keynomics on July 29, 2004.

4. Discontinued Operations

Gain (loss) from the sale of discontinued operations, net of income tax

Three and six months ended December 31, 2005: Sale of Allume

On July 1, 2005, we sold all of the issued and outstanding capital stock of Allume to Smith Micro for an aggregate sales price of $12.8 million consisting of $11.0 million cash and 397,547 unregistered shares of Smith Micro’s common stock, having a market value (based on the five-trading-day average price of Smith Micro’s common stock surrounding the date the business combination was announced) of $1.8 million. At closing, a portion of the proceeds from the sale was deposited in an indemnity escrow, which included $1.25 million in cash and 170,378 shares of Smith Micro's common stock having a closing date market value of $784,000, to secure certain representations and warranties included in our stock purchase agreement with Smith Micro. In November 2005, we replaced the shares of Smith Micro common stock in escrow with cash, as permitted by the escrow agreement and sold 100% of our holdings of Smith Micro shares at a gain of $923,000. In December 2005, Smith Micro released $500,000 of the escrowed cash to us.

As a result of this sale, we have categorized the assets, liabilities and operations of Allume as discontinued operations for the three and six months ended December 31, 2004 and in the three months ended December 31, 2005 we recorded a gain on the sale of discontinued operations of $369,000 primarily representing the difference between the actual amount released from escrow and the estimated amount to be released as of September 30, 2005. The loss on the sale of Allume for the six months ended December 31, 2005 totaled $474,000. This loss calculation does not include the remaining cash held in escrow of approximately $1.2 million and is subject to change in future reporting periods depending upon the future release of cash from escrow.

Six months ended December 31, 2004: Sale of Keynomics

In July 2004, we sold the assets and customer related liabilities of our wholly owned subsidiary Keynomics. We evaluated the Keynomics business segment and its long-term prospects during the quarter ended June 30, 2004 and with our focus on direct marketing and the on-line distribution of utilities and precision design content, we determined that Keynomics no longer represented a strategic fit for our Company. The $53,000 gain from the sale of discontinued operations for the six months ended December 31, 2004 relates to the sale of Keynomics and represents the excess of the total consideration received over its net carrying value.

Income from discontinued operations, net of income tax

Income from discontinued operations totaling $159,000 for the three months ended December 31, 2004 represents the pre-tax net income from Allume. Allume's net revenues were $2.6 million for the three months ended December 31, 2004.

Income from discontinued operations totaling $444,000 for the six months ended December 31, 2004 represents the pre-tax net income of Allume of $449,000 offset by the net loss of Keynomics of $5,000. Allume's net revenues were $5.1 million and Keynomics net revenues were $68,000 for the six months ended December 31, 2004.

5. <u>Acquisition of Weinmaster Homes, Ltd.</u>

On July, 1, 2005, Houseplans, Inc. ("Houseplans"), our wholly owned subsidiary, consummated the acquisition of all of the issued and outstanding stock of Weinmaster Homes, Ltd. ("WHL"), pursuant to a Stock Purchase Agreement, between WHL, Bruce and Janice Weinmaster and Houseplans.

The preliminary purchase price of approximately $4.2 million was comprised as follows:

(In millions)

Description	Amount
Fair value of 826,583 shares of our common stock	$ 1.0
Cash	2.0
Promissory note	1.0
Costs incurred to consummate the acquisition	0.2
Total	**$ 4.2**

The fair value of our common stock was determined based on 826,583 shares issued to Bruce Weinmaster and priced based on the five-trading-day average price of our common stock surrounding the date the business combination was announced. The preliminary purchase price may increase if we incur additional costs related to this acquisition in future periods. The first $250,000 installment to pay down the promissory note was made on July 1, 2005 reducing our outstanding debt related to this acquisition as of December 31, 2005 to $750,000 plus accrued interest. Subsequent to quarter-end, the outstanding debt related to this acquisition was paid in full. Costs incurred to consummate the acquisition include legal and accounting fees and finder's fees paid in cash and through the issuance of 20,000 shares of our common stock.

The allocation of the preliminary purchase price to the assets acquired and liabilities assumed based on their preliminary estimated fair values was as follows:

(In millions)

Description	Amounts (unaudited)
Cash acquired	$0.3
Other tangible assets acquired	0.1
Amortizable intangible assets:	
Domain names	0.6
Designer agreements / relationships	0.8
Broker agreements / relationships	0.3
Proprietary plans	0.6
Customer lists	0.1
Goodwill	1.5
Liabilities assumed	(0.1)
Total	**$4.2**

The allocation of the purchase price was determined based on a valuation of assets acquired and liabilities assumed determined with the assistance of an independent appraisal. This allocation was based on the estimated fair value of these assets determined by management using information from the independent appraisal. The fair values and the allocation may change as we gather information on the fair value of acquired assets and liabilities and its tax effect.

The assets will be amortized or depreciated over a period of years shown on the following table:

Description	Estimated remaining life (years)
Tangible assets:	
Office equipment	3 - 5
Computer equipment	3
Amortizable intangible assets:	
Domain names	5
Designer agreements / relationships	5
Broker agreements / relationships	5
Proprietary plans	15
Customer lists	3

Goodwill in the amount of $1.5 million represents the excess of the purchase price over the fair value of the net tangible and intangible assets acquired, and is not deductible for tax purposes. Goodwill will not be amortized and will be tested for impairment at least annually.

This transaction was not deemed to be a material business combination; therefore, no pro forma results are required under the Statement of Financial Accounting Standards No. 141.

The following attributes of the combination of the WHL and Houseplans businesses were considered significant factors to the establishment of the purchase price, resulting in the recognition of goodwill:

WHL is the operator of the #2 Google ranked globalHouseplans.com website as well as the Canadian focused Weinmaster.com. WHL, one of the leading marketers of stock house plans in Canada, has operated its plans business in the United States and Canada for more than twenty-five years, and is one of the leading innovators in the market. In addition to more than 14,800 plans available to customers, which includes over 500 proprietary Weinmaster plans, WHL has an impressive array of content and tools to help homeowners and their builders economically build their dream homes. Potential operating synergies are anticipated to arise and are likely to include sales growth from joint marketing programs, utilization of best practices developed in each organization, shared content and reduced common product development costs and limited reductions in administrative costs.

6. <u>Plan of merger with AccessMedia</u>

On December 16, 2005, AccessMedia Networks, Inc. ("AccessMedia"), a Delaware corporation, AccessMedia's stockholders, ACCM Acquisition Corp., a Delaware corporation and our wholly owned subsidiary ("Merger Sub") and we, entered into an agreement and plan of merger ("Agreement"), under which Merger Sub will be merged with and into AccessMedia, with AccessMedia continuing after the merger as the surviving corporation and our wholly-owned subsidiary.

Under the Agreement, we will issue 29 million shares of our common stock to AccessMedia's stockholders at the closing of this transaction, representing approximately 49% of our outstanding stock at such time. Following the closing, we may issue up to 35 million additional shares of our common stock to AccessMedia's stockholders if AccessMedia achieves certain revenue goals prior to December 31, 2008 (subject to certain extensions as provided in the Agreement). The closing of the transaction is anticipated to occur in the first calendar quarter of 2006. Prior to the closing, we intend to change our name to Broadcaster, Inc. and reincorporate in the state of Delaware.

The Agreement has been approved by both AccessMedia's and our Boards of Directors, and the transactions contemplated thereby are subject to customary closing conditions.

Concurrently with the execution of the Agreement, we entered into a joint operating agreement, under which we agreed to loan AccessMedia up to $3.0 million prior to the closing of the merger pursuant to a joint operating plan and an operating budget to be delivered to a joint operating committee comprised of representatives of AccessMedia and our Company. In addition, we agreed to fund up to $7.0 million of net working capital needs of the surviving entity if certain operating milestones are achieved, as outlined in the joint operating agreement. AccessMedia has not yet requested funding under this arrangement.

7. <u>Fair Value of Financial Instruments</u>

The fair value of cash and cash equivalents, trade receivables, trade payables and debt approximates carrying value due to the short maturity of such instruments.

As discussed in note 4 above, we currently have approximately $1.2 million of cash in escrow. Our cash and cash equivalents do not reflect the cash that remain in escrow.

As of June 30, 2005 we had $0.7 million classified as trading securities on our condensed consolidated balance sheets representing the market value of our investment portfolio. The fair value of trading securities is based upon quoted market prices.

8. <u>Intangible Assets</u>

Software Development Costs and License Fees

Costs incurred in the initial design phase of software development are expensed as incurred in research and development. Once the point of technological feasibility is reached, direct production costs are capitalized in compliance with Statement of Financial Accounting Standards ("SFAS") No. 86, *Accounting for the Costs of Computer Software to be Sold, Leased or Otherwise Marketed.* We cease capitalizing computer software costs when the product is available for general release to customers. Costs associated with acquired completed software are capitalized.

We amortize capitalized software development costs and visual content license fees on a product-by-product basis. The amortization 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) 18, 36, or 60 months, depending on the product. We evaluate the net realizable value of each software product at each balance sheet date and record write-downs to net realizable value for any products for which the carrying value is in excess of the estimated net realizable value.

Other Intangible Assets

Other intangible assets other than goodwill represent Internet domain names, acquired customer lists and contracts, distribution rights and relationships, proprietary plans, trade names and trademarks. These assets are amortized using the straight-line method over the estimated useful lives, generally five to fifteen years.

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Impairment of Long Lived Assets

We review long-lived assets and identifiable intangible assets for impairment whenever events or changes in circumstances indicate that the carrying amount of these assets may not be recoverable. We assess these assets for impairment based on estimated undiscounted future cash flows from these assets. If the carrying value of the assets exceeds the estimated future undiscounted cash flows, a loss is recorded for the excess of the asset's carrying value over the fair value. We did not recognize any impairment loss for long-lived assets for the three and six months ended December 31, 2005 and 2004.

Goodwill

In accordance with SFAS No. 142, *Goodwill and Intangible Assets,* goodwill is assessed for impairment annually (in our first fiscal quarter) or more frequently if circumstances indicate impairment. We had goodwill in the amount of $3.7 million and $2.1 million as of December 31, 2005 and June 30, 2005, respectively, mainly related to the acquisitions we made during the quarter ended September 30, 2005 and during the last two fiscal years ended June 30, 2005 and 2004. We have not recognized any impairment related to goodwill for the three and six months ended December 31, 2005 and 2004.

9. Debt

The following table details our outstanding debt as of December 31, 2005:

(In thousands)

	As of December 31, 2005
Short-term	
Acquisition related obligations Weinmaster	$ 750
Cardiff Consultants, Ltd.	120
Other obligations	3
Subtotal short-term	**873**
Long-term	
Acquisition related obligations	
ULTRYX	168
Other obligations	5
Subtotal long-term	**173**
Grand total	**$1,046**

As discussed above in note 5, the purchase of WHL was financed by a $1.0 million promissory note of which $750,000 remains outstanding as of December 31, 2005. Cardiff Consultants, Ltd. was owed non-interest bearing amounts with the final payment due September 2006, with $120,000 fair value classified as short-term debt.

ULTRYX, Inc. was owed non-interest bearing amounts with the final payment due February 2012, shown as $168,000 in long-term debt.

As of June 30, 2005, we owed $2.0 million on a 4% secured promissory note to Monterey Bay Tech., Inc. ("MBYI") with the final payment during May 2007. This note arose in connection with the acquisition of Allume from MBYI in April 2004. Also in connection with this transaction, MBYI also was owed $667,000, non-interest bearing and due in August 2005. Following the sale of Allume to Smith Micro in July 2005, we repaid the MYBI obligations. As of June 30, 2005, we recorded $94,000 and $61,000 in short-term and long-term debt, respectively, payable to Cardiff Consultants, Ltd. (which includes the payment of $35,000 of principal during the six months ended December 31, 2005), $168,000 in long-term debt to ULTRYX and $3,000 and $1,000 in long-term and short-term debt for other obligations.

10. Gain / (loss) on Marketable Securities

The following table details the realized and unrealized net loss on marketable securities that we recognized on our condensed consolidated statements of operations and comprehensive income/(loss) for the three and six months ended December 31, 2005 and 2004, respectively:

(In thousands)

	Gain (loss) on marketable securities for the three months ended December 31, 2005				
	Realized		**Unrealized**		**Total**
Description		Reversal of unrealized gain / (loss) recognized in prior periods	Unrealized gain / (loss) for the three months ended December 31, 2005	Sub total Unrealized gain / (loss)	
Smith Micro common stock	$923	-	-	-	$923
Total	**$923**	**-**	**-**	**-**	**$923**

	Gain (loss) on marketable securities for the three months ended December 31, 2004				
	Realized		**Unrealized**		**Total**
Description		Reversal of unrealized gain / (loss) recognized in prior periods	Unrealized gain / (loss) for the three months ended December 31, 2004	Sub total Unrealized gain / (loss)	
Jupitermedia common stock	$1,050	($1,050)	$-	($1,050)	$-
Other stock in investment portfolio	111	9	351	360	471
Total	**$1,161**	**($1,041)**	**$351**	**($690)**	**$471**

	Gain (loss) on marketable securities for the six months ended December 31, 2005				
	Realized		**Unrealized**		**Total**
Description		Reversal of unrealized gain / (loss) recognized in prior periods	Unrealized gain / (loss) for the six months ended December 31, 2005	Sub total Unrealized gain / (loss)	
Smith Micro common stock	$923				$923
Other stock in investment portfolio	($234)	$90	($14)	$76	($158)

Total	**$689**	**$90**	**($14)**	**$76**	**$765**

	Gain (loss) on marketable securities for the six months ended December 31, 2004				
	Realized	**Unrealized**			**Total**
Description		Reversal of unrealized gain / (loss) recognized in prior periods	Unrealized gain / (loss) for the six months ended December 31, 2004	Sub total Unrealized gain / (loss)	
Jupitermedia common stock	$2,094	($2,097)	$163	($1,934)	$160
Other stock in investment portfolio	64	92	106	198	262
Total	**$2,158**	**($2,005)**	**$269**	**($1,736)**	**$422**

During the three months ended December 31, 2005, we recognized an unrealized loss of $478,000 on our holdings of restricted common stock of Smith Micro as a reversal of a previously recorded unrealized gain on our condensed consolidated balance sheet as other comprehensive income (loss). The Smith Micro shares were registered and sold by us in November 2005 resulting in a realized gain on our condensed consolidated statement of operations of $923,000 for the three months ended December 31, 2005.

11. <u>Marketable Securities Activity</u>

(In thousands)

	Six Months Ended December 31 2005	2004
Beginning balance of marketable securities July 1	$714	$2,151
Net cash transferred in (out) of marketable securities account	(2,755)	16
Securities received from sale of subsidiary	1,832	-
Purchases of marketable securities	-	(2,435)
Realized gain	780	2,162
Unrealized loss	(15)	(1,765)
Borrowings from (repayment of) margin account	(558)	2,435
Interest and dividends earned	2	-
Margin interest paid	-	(16)
Wire fees	-	
Net change in marketable securities	(714)	397
Ending balance of marketable securities December 31	$0	$2,548

12. <u>Segment Information</u>

We have two reportable operating segments which are based on our product families that generate revenues and incur expenses related to the sale of our software and Internet content. All inter-company amounts are eliminated through consolidation. Certain general and administrative expenses are allocated among our different segments.

(In thousands)

	Three months ended December 31, 2005			Three months ended December 31, 2004		
	Software Segment	**Internet Content Segment**	**Total**	**Software Segment**	**Internet Content Segment**	**Total**
Net revenues	$2,203	$1,516	**$3,719**	$2,580	$898	**$3,478**
Gross margin	1,423	968	**2,391**	1,873	483	**2,356**
Operating loss	(946)	(203)	**(1,149)**	(363)	(169)	**(532)**
Total assets	9,557	12,246	**21,803**	23,627	3,460	**27,087**

	Six months ended December 31 2005			Six months ended December 31 2004		
	Software Segment	**Internet Content Segment**	**Total**	**Software Segment**	**Internet Content Segment**	**Total**
Net revenues	$4,451	$3,233	**$7,684**	$5,109	$1,504	**$6,613**
Gross margin	2,891	2,010	**4,901**	3,664	806	**4,470**
Operating loss	(1,430)	(600)	**(2,030)**	(819)	(277)	**(1,096)**
Total assets	9,557	12,246	**21,803**	23,627	3,460	**27,087**

The following table details the breakdown of our net revenues and total assets by geographical location. The International column includes revenues relating to our Canadian, German and Australian wholly-owned subsidiaries, WHL, IMSI GmbH and IMSI Australia PTY Ltd, and sales derived from international distribution and republishing agreements we have in Europe (France, England), Asia (Japan and China) and Australia. The International column also includes the total assets held by our Canadian, German and Australian wholly-owned subsidiaries.

(In thousands)

	Three months ended December 31, 2005			**Three months ended December 31, 2004**		
	Domestic	**International**	**Total**	**Domestic**	**International**	**Total**
Net revenues	$2,742	$977	**$3,719**	$2,816	$662	**$3,478**
Total assets	16,518	5,285	**21,803**	26,420	667	**27,087**
	Six months ended December 31, 2005			**Six months ended December 31, 2004**		
	Domestic	**International**	**Total**	**Domestic**	**International**	**Total**
Net revenues	$5,579	$2,105	**$7,684**	$5,445	$1,168	**$6,613**
Total assets	16,518	5,285	**21,803**	26,420	667	**27,087**

13. Earnings per Share - Potentially Dilutive Securities

Basic earnings per share are computed using the weighted average number of common shares outstanding during the period. Diluted earnings per share are computed using the weighted average number of common and potentially dilutive securities outstanding during the period. Potentially dilutive securities consist of the incremental common shares issuable upon on exercise of stock options and warrants (using the treasury stock method). Potentially dilutive securities are excluded from the computation if their effect is anti-dilutive. The following table summarizes the weighted average shares outstanding:

(In thousands)

	Three months ended December 31, 2005	**2004**
Basic weighted average shares outstanding	**29,821**	**27,917**
Total stock options outstanding	4,565	3,248
Less: anti dilutive stock options	(4,189)	(2,766)
Total warrants outstanding	6,324	6,633
Less: anti dilutive warrants	(4,690)	(5,147)
Diluted weighted average shares outstanding	**31,831**	**29,885**

	Six months ended December 31, 2005	**2004**
Basic weighted average shares outstanding	**29,755**	**27,605**
Total stock options outstanding	4,565	3,248
Less: anti dilutive stock options due to loss	(4,565)	(3,248)

Total warrants outstanding	6,324	6,633
Less: anti dilutive warrants due to loss	(6,324)	(6,633)
Diluted weighted average shares outstanding	**29,755**	**27,605**

14. Stock Based Awards

SFAS No. 148, *Accounting for Stock-Based Compensation-Transition and Disclosure, an Amendment of FASB Statement No. 123,* amends the disclosure requirements of SFAS No. 123, *Accounting for Stock-Based Compensation* ("SFAS 123"), to require more prominent disclosures in both annual and interim financial statements regarding the method of accounting for stock-based employee compensation and the effect of the method used on reported results.

We account for stock-based compensation plans in accordance with Accounting Principles Board ("APB") Opinion No. 25, *Accounting for Stock Issued to Employees*, under which no compensation cost is recognized in the financial statements for employee stock arrangements when grants are made at fair market value. The Company has adopted the disclosure only provisions of SFAS 123.

Beginning on July 1, 2006, we will adopt the accounting treatment required by SFAS 123 (revised 2004) which will require us to measure all employee stock-based compensation awards using a fair value method and record such expense in our consolidated financial statements.

Under variable plan accounting, we recognize a charge equal to the per share change in the share value until the underlying options expire or are exercised. During the three months ended December 31, 2005 and 2004, we recognized a benefit of ($4,000) and an expense of $2,000 respectively related to variable awards. During the six months ended December 31, 2005 and 2004, we recognized a benefit of ($6,000) and ($5,000) respectively related to variable awards.

Had compensation cost for the stock-based compensation plans been determined based upon the fair value at grant dates for awards under those plans consistent with the method prescribed by SFAS 123, net income and net loss would have been decreased and increased, respectively, to the pro forma amounts indicated below. The pro forma consolidated financial information should be read in conjunction with the related historical information and is not necessarily indicative of actual results.

(In thousands, except per share amounts)

	Three months ended December 31,	
	2005	**2004**
Net income, as reported	**$121**	**$129**
Intrinsic compensation charge recorded under APB 25	18	7
Pro forma compensation charge under SFAS 123, net of tax	(83)	(205)
Pro forma net income (loss)	**$56**	**($69)**
Earnings (loss) per share:		
Basic—as reported	($0.00)	$0.00
Basic—pro forma	($0.00)	$0.00
Diluted—as reported	($0.00)	$0.00
Diluted—pro forma	($0.00)	$0.00

	Six months ended December 31,	
	2005	**2004**
Net loss, as reported	**($1,830)**	**($146)**

Intrinsic compensation charge recorded under APB 25	18	15
Pro forma compensation charge under SFAS 123, net of tax	(159)	(417)
Pro forma net loss	**($1,971)**	**($548)**
Loss per share:		
Basic—as reported	($0.07)	($0.01)
Basic—pro forma	($0.07)	($0.02)
Diluted—as reported	($0.07)	($0.01)
Diluted—pro forma	($0.07)	($0.02)

The fair value of each option granted was estimated on the date of the grant using the Black-Scholes option-pricing model using the following weighted average assumptions:

	Three months ended December 31,	
	2005	**2004**
Risk-free interest rates	4.3%	4.2%
Expected dividend yields	-	-
Expected volatility	72%	62%
Expected option life (in years)	10	10

	Three months ended September 30,	
	2005	**2004**
Risk-free interest rates	4.2%	4.1%
Expected dividend yields	-	-
Expected volatility	75%	55%
Expected option life (in years)	10	10

The weighted average fair values as of the grant date for grants made during the three and six months ended December 31, 2005 were $0.71 and $0.92, respectively.

The weighted average fair values per option as of the grant date for grants made during the three and six months ended December 31, 2004 were $0.68 and $0.74, respectively.

Item 2- Management's Discussion and Analysis of Financial Condition and Results of Operations

Overview

The following Management’s Discussion and Analysis of Financial Condition and Results of Operations (“MD&A”) is intended to provide readers with an understanding of the Company. The following are included in our MD&A:

- Overview;
- Significant Trends and Developments in Our Business;
- How We Generate Revenue;
- Recent Events;
- Forward Looking Statements;
- Results of Operations;
- Liquidity and Capital Resources;
- Critical Accounting Policies; and
- Factors That May Impact Future Operating Results.

We are a leading provider of stock house plans over the Internet with the largest selection of plans for consumers and builders. We also sell a variety of related content and services over the Internet. In addition, we are a developer and publisher of software solutions which we market and sell to individuals and small business users through an array of distribution channels. We are committed to being a leading provider of these applications and services to businesses and consumers.

Significant Trends and Developments in Our Business

Since the beginning of July 2004, we have acquired two house plans businesses: Abbisoft House Plans Inc. (“Abbisoft”) and Weinmaster Homes Ltd. (“WHL”) to add to Houseplans. We sold subsidiaries Keynomics and Allume, which are software and productivity enhancement businesses now shown as discontinued operations. We show stronger growth, both organic and acquired, in the Houseplans business line. Our software businesses present a higher gross margin but show slower growth and negative growth comparisons in some periods. Both businesses have seasonality. Software is affected by the annual release cycle and Houseplans is correlated with the building season. We expect growth trends to continue, with the impact of any housing slowdown cushioned by our consumer-friendly business model. Expense levels are expected to continue near current dollar levels and increasing at less than the rate of revenue growth. Additional cost savings are expected to be implemented by management as opportunities arise.

As combined, the businesses have not yet achieved breakeven with economies of scale. In order to achieve profitability, we will need to generate significantly higher revenue and continue to manage our expenses. Our ability to generate higher revenues and achieve profitability depends on many factors, including the demand for our products and services, the level of product and price competition, market acceptance of our new products, general economic conditions and the successful integration of Abbisoft and WHL. In this regard, we continue to invest in areas that we believe can accelerate revenue growth and to manage expenses to align our operations and cost structure with market conditions.

Over the past twelve months we have completed several acquisitions aimed at growing our revenues and strengthening our financial results. Management believes that good value target companies, presenting a strategic fit with our current operations, are still present in the marketplace and that potential business combinations with these entities, such as our planned merger with AccessMedia, would help us increase shareholder value. If the AccessMedia transaction were not to occur, significant non-contingent transaction costs would appear as general and administrative expense in the period.

How We Generate Revenue

We lead the market for house plans sold over the Internet with the largest selection of plans for consumers and builders. We also sell a variety of related content and services over the Internet. Additionally, we develop, publish, market and sell a variety of software titles and services that are targeted to a wide array of users primarily for individuals and small businesses. To efficiently serve our customers and maximize our revenue opportunities, we have aligned our business along two segments as described below:

Business Segment	Product Family	Product Group	Selected Product Brand
Software	Precision Design Software	Professional CAD Solutions	*TurboCAD Professional*
			TurboCADCAM
			CADsymbols
		Consumer CAD Solutions	*TurboCAD Deluxe*
			DesignCAD
			Instant Series
			FloorPlan
	Business Applications and Other Software	Business Solutions	*FlowCharts & More*
			FormTool
			QuickStart
			TurboProject
		Graphics Solutions	*Animations & More*
			ClipArt & More
			HiJaak
		Consumer Solutions	*EazyLanguage*
			Legacy Family Tree
			TurboTyping
Internet Content	Home Design	Houseplans	*Houseplans.com*
			Houseplanguys.com
			Homeplanfinder.com
			Globalhouseplans.com

Our ability to develop and distribute products and services and determine the optimum distribution channel for their maximum exposure is a competitive advantage that differentiates us from other players in the industry.

Our market-leading house plans are physically delivered either by our organization or by our designer partners.

Our software products are sold either as electronic software download (“ESD”) or as physical products. Our physical distribution network includes leading distributors and retailers in North America and worldwide.

Our distribution methods are comprised of the following three major channels:

Direct Marketing:

We conduct postal and email direct mail campaigns to businesses and end users for our existing and new products in addition to upgrades of existing products, as well as third-party offers. These mailings generally offer a specially priced product, as well as complementary or enhanced products for additional fees. We also maintain e-commerce websites and employ a sales force internally and through strategic partnerships.

Retail / Distribution:

We are present in the retail software market through selected distributors and partners for a number of our products in order to reach a wider range of end users. Intense price competition along with the intermittent unfavorable retail conditions, including erosion of margins from competitive marketing and high rates of product returns, make this distribution channel increasingly challenging.

Republishing / Original Equipment Manufacturers (“OEM”):

We have republishing agreements domestically and internationally which typically include minimum guaranteed royalty payments.

Recent Events

The Weinmaster Homes, Ltd. ("WHL") Acquisition

On July 1, 2005, Houseplans, Inc, our wholly owned subsidiary, consummated the acquisition of all the stock of WHL, pursuant to a stock purchase agreement between WHL, Bruce and Janice Weinmaster and Houseplans, Inc. The purchase price of approximately $4.2 million consisted of $2.0 million in cash, $1.0 million in a promissory note, transaction costs of $0.2 million and $1.0 million (based on the five-trading-day average price of our common stock surrounding the date the business combination was announced) in our unregistered common stock, which we have committed to register with the SEC within sixty days of the completion of the AccessMedia transaction pursuant to an amended registration rights agreement dated October 28, 2005.

The Sale of Allume

On July 1, 2005, we sold all of the issued and outstanding capital stock of Allume to Smith Micro for an aggregate sales price of $12.8 million consisting of $11.0 million cash and 397,547 unregistered shares of Smith Micro's common stock, having a market value (based on the five-trading-day average price of Smith Micro's common stock surrounding the date the business combination was announced) of $1.8 million. At closing, a portion of the proceeds from the sale was deposited in an indemnity escrow, which included $1.25 million in cash and 170,378 shares of Smith Micro's common stock having a closing date market value of $784,000, to secure certain representations and warranties included in our stock purchase agreement with Smith Micro. In November 2005, we replaced the shares of Smith Micro common stock in escrow with cash, as permitted by the escrow agreement and sold 100% of our holdings of Smith Micro shares at a gain of $923,000. In December 2005, Smith Micro released $500,000 of the escrowed cash to us.

As a result of this sale, we have categorized the assets, liabilities and operations of Allume as discontinued operations for the three and six months ended December 31, 2004 and in the three months ended December 31, 2005 we recorded a gain on the sale of discontinued operations of $369,000 primarily representing the difference between the actual amount released from escrow and the estimated amount to be released as of September 30, 2005. The loss on the sale of Allume for the six months ended December 31, 2005 totaled $474,000. This loss calculation does not include the remaining cash held in escrow of approximately $1.2 million and is subject to change in future reporting periods depending upon the future release of cash from escrow.

Plan of Merger with AccessMedia

On December 16, 2005, AccessMedia Networks, Inc. ("AccessMedia"), a Delaware corporation and the stockholders of AccessMedia, ACCM Acquisition Corp., a Delaware corporation and our wholly owned subsidiary (also referred to as Merger Sub), and we entered into an Agreement and Plan of Merger ("Agreement"), under which Merger Sub will be merged with and into AccessMedia, with AccessMedia continuing after the merger as the surviving corporation and our wholly-owned subsidiary.

Under the agreement, we will issue 29 million shares of our common stock to AccessMedia's stockholders at the closing, representing approximately 49% of our outstanding stock at such time. Following the closing, we may issue up to 35 million additional shares to AccessMedia's stockholders if AccessMedia achieves certain revenue goals prior to December 31, 2008 (subject to certain extensions as provided in the Agreement). The closing of the transaction is anticipated to occur in the first calendar quarter of 2006. Concurrent with the closing, we intend to change our name to Broadcaster, Inc. and reincorporate in the state of Delaware.

The Agreement has been approved by the both AccessMedia's and our Boards of Directors, and the transactions contemplated thereby are subject to customary closing conditions.

Concurrently with the execution of the Agreement, we entered into a joint operating agreement, under which we agreed to loan AccessMedia up to $3.0 million prior to the closing of the merger pursuant to a joint operating plan and an operating budget to be delivered to a joint operating committee comprised of representatives of our Company and AccessMedia. In addition, we agreed to fund up to $7.0 million of net working needs of the surviving entity if certain operating milestones are achieved. AccessMedia has not yet requested funding under this arrangement.

Forward Looking Statements

The following information should be read in conjunction with our consolidated financial statements and the notes thereto and in conjunction with “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in our June 30, 2005 Annual Report on Form 10-KSB, as amended. This quarterly report on Form 10-QSB, and in particular this “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” may contain forward-looking statements regarding future events or our future performance. These future events and future performance involve certain risks and uncertainties including those discussed in the “Factors That May Impact Future Operating Results” section of this Form 10-QSB, as well as in our Fiscal 2005 Form 10-KSB, as amended, as filed with the U.S. Securities and Exchange Commission (SEC). Actual events or our actual future results may differ materially from any forward-looking statements due to such risks and uncertainties. We assume no obligation to update these forward-looking statements to reflect actual results or changes in factors or assumptions affecting such forward-looking statements. This analysis is not intended to serve as a basis for projection of future events.

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

Results of Operations

The following tables sets forth our results of operations for the three and six months ended December 31, 2005 and 2004 in absolute dollars and as a percentage of net revenues. It also details the changes from the prior fiscal year in absolute dollars and in percentages.

(In Thousands)

	Three months ended December 31,					
	2005		2004		$ Change from previous year	
	$	As % of sales	$	As % of sales	Variance	%
Net revenues	$3,719	100%	$3,478	100%	$241	7%
Product cost	1,328	36%	1,122	32%	206	18%
Gross margin	**2,391**	**64%**	**2,356**	**68%**	**35**	**1%**
Operating expenses						
Sales and marketing	1,658	45%	1,538	44%	120	8%
General and administrative	1,329	36%	982	28%	347	35%
Research and development	553	15%	368	11%	185	50%
Total operating expenses	**3,540**	**95%**	**2,888**	**83%**	**652**	**23%**
Operating loss	**(1,149)**	**-31%**	**(532)**	**-15%**	**(617)**	**116%**
Other income (expenses)						
Interest expense	(21)	-1%	(55)	-2%	34	-62%
Interest income	57	2%	10	0%	47	N/A
Gain (loss) on sale of product line	(1)	0%	33	1%	(34)	-103%
Realized gain (loss) - securities	923	25%	1,161	33%	(238)	-20%
Unrealized loss- securities	-	0%	(690)	-19%	690	100%
Foreign exchange gain (loss)	(18)	0%	45	1%	(63)	-140%
Total other income	**940**	**25%**	**504**	**15%**	**436**	**86%**
Income (loss) before income tax	**(209)**	**-6%**	**(28)**	**-1%**	**(181)**	**N/A**
Income tax provision	(39)	-1%	(2)	0%	(37)	N/A
Loss from continuing operations	**(248)**	**-7%**	**(30)**	**-1%**	**(218)**	**N/A**

Income from discontinued operations, net of income tax	-	0%	159	5%	(159)	-100%
Gain from the sale of discontinued operations, net of income tax	369	10%	-	0%	369	N/A
Net income	**$121**	**3%**	**$129**	**4%**	**($8)**	**-6%**

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(In Thousands)

	Six months ended December 31,					
	2005		2004		$ Change from previous year	
	$	As % of sales	$	As % of sales	Variance	%
Net revenues	$7,684	100%	$6,613	100%	$1,071	16%
Product cost	2,783	36%	2,143	32%	640	30%
Gross margin	**4,901**	**64%**	**4,470**	**68%**	**431**	**10%**
Operating expenses						
Sales and marketing	3,189	42%	2,888	44%	301	10%
General and administrative	2,754	36%	1,841	28%	913	50%
Research and development	988	13%	837	13%	151	18%
Total operating expenses	**6,931**	**90%**	**5,566**	**84%**	**1,365**	**25%**
Operating loss	**(2,030)**	**-26%**	**(1,096)**	**-17%**	**(934)**	**85%**
Other income (expenses)						
Interest expense	(144)	-2%	(125)	-2%	(19)	15%
Interest income	105	1%	69	1%	36	52%
Gain (loss) on sale of product line	(1)	0%	33	0%	(34)	-103%
Realized gain- securities	689	9%	2,140	32%	(1,451)	-68%
Unrealized gain (loss) - securities	76	1%	(1,718)	-26%	1,794	104%
Foreign exchange gain (loss)	(12)	0%	62	1%	(74)	-119%
Total other income	**713**	**9%**	**461**	**7%**	**252**	**55%**
Loss before income tax	**(1,317)**	**-17%**	**(635)**	**-10%**	**(682)**	**107%**
Income tax provision	(39)	-1%	(8)	0%	(31)	388%
Loss from continuing operations	**(1,356)**	**-18%**	**(643)**	**-10%**	**(713)**	**111%**
Income from discontinued operations, net of income tax	-	0%	444	7%	(444)	-100%
Gain (loss) from the sale of discontinued operations, net of income tax	(474)	-6%	53	1%	(527)	N/A
Net Loss	**($1,830)**	**-24%**	**($146)**	**-2%**	**($1,684)**	**N/A**

Net Revenues

The following illustrations of our net revenue reflect the allocation of our products across our business segments and across the distribution channels as well as the breakdown of our net sales domestically and internationally for the three and six months ended December 31, 2005 and 2004.

(In thousands)

	Three months ended December 31, 2005			**Six months ended December 31, 2005**		
	Software Segment	**Internet Content Segment**	**Total**	**Software Segment**	**Internet Content Segment**	**Total**
Net revenues	$2,203	$1,516	**$3,719**	$4,451	$3,233	**$7,684**
Channel revenues						
Direct marketing	$920	$1,516	**$2,436**	$1,912	$3,233	**$5,145**
Retail / distribution	951	-	**951**	1,873	-	**1,873**
Republishing / OEM	332	-	**332**	666	-	**666**
Total	**$2,203**	**$1,516**	**$3,719**	**$4,451**	**$3,233**	**$7,684**
Domestic revenues	$1,654					