SOFTECH INC
Form 10-Q
October 15, 2008

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-Q

QUARTERLY REPORT UNDER SECTION 13 OR 15(d)

OF THE SECURITIES EXCHANGE ACT OF 1934

For the Quarter Ended	Commission File Number
August 31, 2008	0-10665

SOFTECH, INC.

State of Incorporation	IRS Employer Identification
Massachusetts	04-2453033

59 Composite Way Suite 401, Lowell, MA 01851

Telephone (978) 458-3420

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 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 S No £

The number of shares outstanding of registrant s common stock at October 1, 2008 was 12,213,236 shares.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definition of accelerated filer, large accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer £ Accelerated filer £ Non-accelerated filer £ Smaller reporting company S

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act.) Yes ¨ No x

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SOFTECH, INC.

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FINANCIAL STATEMENTS

SOFTECH, INC. AND SUBSIDIARIES

CONSOLIDATED CONDENSED BALANCE SHEETS

	(dollars in thousands)	
	(unaudited)	
	August 31, 2008	May 31, 2008
ASSETS		
Cash and cash equivalents	$ 793	$ 900
Accounts receivable, net	933	1,405
Prepaid and other assets	527	475
Total current assets	2,253	2,780
Property and equipment, net	141	157
Capitalized software costs, net	416	517
Goodwill, net	4,614	4,618
Other assets	136	137
TOTAL ASSETS	$ 7,560	$ 8,209
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Accounts payable	$ 307	$ 368
Accrued expenses	699	784
Deferred maintenance revenue	2,786	3,341
Current portion of capital lease	31	31
Current portion of long term debt	1,676	1,646
Total current liabilities	5,499	6,170
Capital lease, net of current portion	43	51
Long-term debt, net of current portion	10,660	11,091
Total long-term liabilities	10,703	11,142
Stockholders' deficit	(8,642)	(9,103)

TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT	$	7,560	$	8,209

See accompanying notes to consolidated condensed financial statements.

SOFTECH, INC. AND SUBSIDIARIES

CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS

	(in thousands, except for per share data) Three Months Ended (unaudited)	
	August 31, 2008	August 31, 2007
Revenue		
Products	$ 540	$ 477
Services	2,014	2,239
Total revenue	2,554	2,716
Cost of products sold: materials	17	14
Cost of product sold: amortization of capitalized software costs and other intangible assets	101	354
Cost of services provided	365	436
Gross margin	2,071	1,912
Research and development expenses	444	447
Selling, general and administrative	953	1,105
Income from operations	674	360
Other expense	25	-
Interest expense	230	359
Net income	$ 419	$ 1
Basic and diluted net income per common share	$ 0.03	$ 0.00
Weighted average common shares outstanding-basic	12,213	12,213
Weighted average common shares outstanding-diluted	12,225	12,245

See accompanying notes to consolidated condensed financial statements.

SOFTECH, INC. AND SUBSIDIARIES
CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS

	(dollars in thousands) Three Months Ended (unaudited)	
	August 31, 2008	August 31, 2007
Cash flows from operating activities:		
Net income	$ 419	$ 1
Adjustments to reconcile net loss to net cash used by operating activities:		
Depreciation and amortization	117	373
Provision for uncollectable accounts	25	-
Change in current assets and liabilities:		
Accounts receivable	447	142
Prepaid expenses and other assets	(52)	29
Accounts payable and accrued expenses	(146)	(186)
Deferred maintenance revenue	(555)	(311)
Total adjustments	(164)	47
Net cash provided by operating activities	255	48
Cash flows from financing activities:		
Repayments under debt agreements	(378)	(146)
Repayments under capital lease	(31)	(8)
Net cash used in financing activities	(409)	(154)
Effect of exchange rates on cash	47	(2)

Decrease in cash and cash equivalents	(107)	(108)
Cash and cash equivalents, beginning of period	900	1,048
Cash and cash equivalents, end of period	$ 793	$ 940

See accompanying notes to consolidated condensed financial statements.

SOFTECH, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(Continued)

(A)

The consolidated condensed financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission from the accounts of SofTech, Inc. and its wholly owned subsidiaries (the Company) without audit; however, in the opinion of management, the information presented reflects all adjustments which are of a normal recurring nature and elimination of intercompany transactions which are necessary to present fairly the Company s financial position and results of operations. It is recommended that these consolidated condensed financial statements be read in conjunction with the financial statements and the notes thereto included in the Company s fiscal year 2008 Annual Report on Form 10-K.

(B)

SIGNIFICANT ACCOUNTING POLICIES

REVENUE RECOGNITION

The Company follows the provisions of Statement of Position No. 97-2, "Software Revenue Recognition" (SOP 97-2) as amended by SOP No. 98-9, "Modification of SOP 97-2, Software Revenue Recognition with Respect to Certain Transactions" (SOP 98-9) in recognizing revenue from software transactions. Revenue from software license sales is recognized when persuasive evidence of an arrangement exists, delivery of the product has been made, and a fixed fee and collectability has been determined. The Company does not provide for a right of return. For multiple element arrangements, total fees are allocated to each of the elements using the residual method set forth in SOP 98-9. Revenue from customer maintenance support agreements is deferred and recognized ratably over the term of the agreements, typically one year. Revenue from engineering, consulting and training services, primarily performed on a time and material basis, is recognized as those services are rendered.

CAPITALIZED SOFTWARE COSTS AND RESEARCH AND DEVELOPMENT

The Company capitalizes certain costs incurred to internally develop and/or purchase software that is licensed to customers. Capitalization of internally developed software begins upon the establishment of technological feasibility. Costs incurred prior to the establishment of technological feasibility are expensed as incurred. Purchased software is recorded at cost. The Company evaluates the realizability of capitalized costs and the related periods of amortization on a regular basis. Such costs are amortized over estimated useful lives ranging from three to ten years. The Company did not capitalize any internally developed software during the three month periods ended August 31, 2008 and 2007. Substantially all of the recorded balance in Capitalized Software Costs, net, represents software acquired from third parties. Amortization expenses related to capitalized software costs for the three month periods ended August 31, 2008 and 2007 were $101,000 and $354,000, respectively. This decrease in amortization of capitalized software is due to a component of the Cadra software being fully amortized during the quarter ended May 31, 2008.

ACCOUNTING FOR GOODWILL

Effective June 1, 2002, the Company adopted the provisions of SFAS No. 142, Goodwill and Other Intangible Assets . This statement requires that goodwill existing at the date of adoption be reviewed for possible impairment and that impairment tests be periodically repeated, with impaired assets written down to fair value. Additionally, existing goodwill and intangible assets must be assessed and classified within the statement's criteria. Intangible assets with finite useful lives will continue to be amortized over such useful lives. Amortization of goodwill ceased as of June 1, 2002.

As of May 31, 2008, the Company conducted its annual impairment test of goodwill by comparing fair value to the carrying amount of its underlying assets and liabilities. The Company determined that the fair value exceeded the carrying amount of the assets and liabilities, therefore no impairment existed as of the testing date.

SOFTECH, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(Continued)

LONG-LIVED ASSETS:

The Company periodically reviews the carrying value of all intangible assets with a finite life (primarily capitalized software costs) and other long-lived assets. If indicators of impairment exist, the Company compares the discounted cash flows estimated to be generated by those assets over their estimated economic life to the related carrying value of those assets to determine if the assets are impaired. If the carrying value of the asset is greater than the estimated undiscounted cash flows, the carrying value of the assets would be decreased to their fair value through a charge to operations. The Company does not have any long-lived assets it considers to be impaired.

STOCK BASED COMPENSATION

Effective June 1, 2006, the Company adopted the provisions of Statement of Financial Accounting Standards (SFAS) No. 123 (Revised 2004), Share-Based Payment (SFAS 123R), which requires all share-base payments to employees, including grants of employee stock options, to be recorded as expense in the statement of operations based on their fair value.

To adopt SFAS 123(R), we selected the modified prospective transition method. This method requires recording compensation expense prospectively over the remaining vesting period of the stock options on a straight-line basis using the fair value of the options on the date of the grant. It does not require restatement of financial results for the prior period expense related to stock option awards that were outstanding prior to adoption. The expense recorded in the current quarter was nominal. No stock options were granted during the three month period ended August 31, 2008.

The Company s 1994 Stock Option Plan provided for the granting of stock options at an exercise price not less than fair market value of the stock on the date of the grant and with vesting schedules as determined by the Board of Directors. No new options could be granted under the Plan after fiscal 2004 but options granted prior to that time continue to vest.

The following table summarizes information for stock options outstanding and exercisable at August 31, 2008:

	Number of Options	Weighted Average Exercise Price Per Share	Weighted Average Remaining Contractual Life in Years	Aggregate Intrinsic Value
Outstanding at May 31, 2008	229,000	$ .28	3.73	$10,860
Granted	-	-	-	-
Exercised	-	-	-	-
Forfeited or expired	-	-	-	-
Outstanding at August 31, 2008	229,000	$.28	3.50	-
Exercisable at August 31, 2008	226,600	$.28	3.48	-

SOFTECH, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(Continued)

The following table summarizes the information related to non-vested stock option awards outstanding as of August 31, 2008:

	Number of Options	**Weighted Average Grant Date Fair Value Per Share**
Non-vested at May 31, 2008	2,400	$ .04
Granted	-	-
Vested	-	-
Forfeited	-	-
Non-vested at August 31, 2008	2,400	$ .04

As of August 31, 2008, the remaining prospective pre-tax cost of non-vested stock option employee compensation is nominal and will be expensed on a pro rata basis going forward.

FOREIGN CURRENCY TRANSLATION:

The functional currency of the Company's foreign operations (France, Germany and Italy) is the Euro. As a result, assets and liabilities are translated at period-end exchange rates and revenues and expenses are translated at the average exchange rates. Adjustments resulting from translation of such financial accounts are classified in accumulated other comprehensive income (loss). Foreign currency gains and losses arising from transactions are included in the statement of operations. The Company recorded foreign currency transaction losses of approximately $25,000 during the quarter ending August 31, 2008.

USE OF ESTIMATES:

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The most significant estimates included in the financial statements are the valuation of long term assets, including intangibles (goodwill, capitalized software and other intangible assets), deferred tax assets and the allowance for doubtful accounts. Actual results could differ from those estimates.

INCOME TAXES:

The provision for income taxes is based on the earnings or losses reported in the consolidated financial statements. The Company recognizes deferred tax liabilities and assets for the expected future tax consequences of events that have been recognized in the Company's financial statements or tax returns. Deferred tax liabilities and assets are determined based on the difference between the financial statement carrying amounts and tax bases of assets and liabilities using enacted tax rates in effect in the years in which the differences are expected to reverse. The Company provides a valuation allowance against deferred tax assets if it is more likely than not that some or all of the deferred tax assets will not be realized.

SOFTECH, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(Continued)

In June 2006, the Financial Accounting Standards Board ("FASB") issued Interpretation No. 48, "Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement 109" ("FIN 48"). This statement clarifies the criteria that an individual tax position must satisfy for some or all of the benefits of that position to be recognized in a company's financial statements. FIN 48 prescribes a recognition threshold of more likely-than-not, and a measurement attribute for all tax positions taken or expected to be taken on a tax return, in order for those tax positions to be recognized in the financial statements. Effective June 1, 2007, the Company adopted the provisions of FIN 48. The Company believes that there are no uncertain tax positions, or liabilities for interest and penalties associated with uncertain tax positions as of June 1, 2007 and May 31, 2008. The Company accounts for interest and penalties related to uncertain tax positions as part of its provision for federal and state income taxes. The Company does not expect that the amounts of unrecognized tax benefits will change significantly within the next 12 months. The Company is currently subject to audit by the Internal Revenue Service and various states for the calendar years ended 2003 to 2007.

NEW ACCOUNTING PRONOUNCEMENTS:

In September 2006, the Financial Accounting Standards Board issued SFAS No. 157, Fair Value Measurements . This Statement defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. This Statement establishes a fair value hierarchy about the assumptions used to measure fair value and clarifies assumptions about risk and the effect of a restriction on the sale or use of an asset. On February 12, 2008, the FASB issued FSP No. FAS 157-2, Effective Date of FASB Statement No. 157 , which delays the effective date of SFAS No. 157 for all nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value in the financial statements on at least an annual basis; the statement is effective for fiscal years beginning after December 31, 2008. The Company adopted the provisions of SFAS No. 157 for financial assets and liabilities as of June 1, 2008 and the adoption did not have a material impact on the Company s results of operations or financial position.

In December 2007, the FASB issued SFAS No. 141(R) (SFAS No. 141(R)), Business Combinations, which replaces SFAS No. 141 and issued SFAS No. 160 (SFAS No.160), Noncontrolling Interests in Consolidated Financial Statements, an amendment of ARB No. 51. These two new standards will change the accounting for and the reporting of business combination transactions and noncontrolling (minority) interests in the consolidated financial statements, respectively. SFAS No. 141(R) will change how business acquisitions are accounted for and will impact financial statements both on the acquisition date and in subsequent periods. SFAS No. 160 will change the accounting and reporting for minority interests, which will be recharacterized as noncontrolling interests and classified as a component of equity. These two standards will be effective for the Company in the first quarter of fiscal year 2010. SFAS No. 141(R) will be applied prospectively. SFAS No. 160 requires retrospective application of most of the classification and presentation provisions. All other requirements of SFAS No. 160 shall be applied prospectively. Early adoption is prohibited for both standards. The impact of adoption of this statement on the Company s

Consolidated Financial Statements is dependent on the nature and volume of future acquisitions, if any, and therefore cannot be determined at this time.

In March 2008, the FASB issued Statement No. 161, *Disclosures about Derivative Instruments and Hedging Activities an amendment of FASB Statement No. 133.* This Statement establishes the disclosure requirements for derivative instruments and for hedging activities. It amends and expands the disclosure requirements of SFAS No. 133 with the intent to provide users of financial statements with an enhanced understanding of derivative instruments and hedging activities. This Statement is effective for fiscal years and interim periods beginning after November 15, 2008, with early adoption encouraged. The Company does not expect that the adoption of this standard will have a material impact on the Company s Consolidated Financial Statements.

SOFTECH, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(Continued)

In May 2008, the FASB issued Statement No. 162, *The Hierarchy of Generally Accepted Accounting Principles.* This Statement identifies the sources of accounting principles and the framework for selecting the principles used in the preparation of financial statements of nongovernmental entities that are presented in conformity with generally accepted accounting principles in the United States. It will be effective 60 days following the SEC s approval of the Public Company Accounting Oversight Board amendment to AU 411, *The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles.* The Company does not expect the implementation of this standard will have a material impact on its Consolidated Financial Statements.

(C)

BALANCE SHEET COMPONENTS

Details of certain balance sheet captions are as follows (000 s):

		August 31, 2008		May 31, 2008
Property and equipment	$	3,975	$	4,003
Accumulated depreciation				
and amortization		(3,834)		(3,846)
Property and equipment, net	$	141	$	157
Common stock, $.10 par value	$	1,221	$	1,221
Capital in excess of par value		18,037		18,037
Accumulated deficit		(27,491)		(27,909)
Accumulated other comprehensive income		(409)		(452)
Stockholders deficit	$	(8,642)	$	(9,103)

(D)

EARNINGS PER SHARE

Basic net loss per share is computed by dividing the net loss by the weighted-average number of common shares outstanding. Diluted net loss per share is computed by dividing net loss by the weighted-average number of common and equivalent dilutive common shares outstanding. Options to purchase shares of common stock have been excluded from the denominator for the computation of diluted earnings per share because their inclusion would be antidilutive. The weighted average shares outstanding are as follows (000 s):

SOFTECH, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(Continued)

The following depicts a reconciliation of earnings per share (unaudited):

	Three Month Periods Ended	
	August 31, 2008	August 31, 2007
	(Amounts in thousands, except per share amounts)	
Net income available to common shareholders	$ 419	$ 1
Weighted average number of common shares outstanding used in calculation of basic earnings per share	12,213	12,213
Incremental shares from the assumed exercise of dilutive stock options	12	32
Weighted average number of common shares outstanding used in calculating diluted earning per share	12,225	12,245
Earnings per share:		
Basic	$ 03	$ -
Diluted	$ .03	$ -

At August 31, 2008 and 2007, respectively, 52,000 and 61,000 options to purchase common shares were anti-dilutive and were excluded from the above calculation.

(E)

COMPREHENSIVE INCOME

The Company s comprehensive income includes accumulated foreign currency translation adjustments and unrealized gain (loss) on marketable securities. The comprehensive loss was as follows (000 s):

	Three Month Periods Ended			
	August 31, 2008		August 31, 2007	
Net income	$	419	$	1
Changes in:				
Foreign currency translation adjustment		43		1
Comprehensive Income	$	462	$	2

(F)

SEGMENT INFORMATION

The Company operates in one reportable segment and is engaged in the development, marketing, distribution and support of CAD/CAM and Product Data Management and Collaboration computer solutions. The Company s operations are organized geographically with foreign offices in France, Germany and Italy. Components of revenue and long-lived assets (consisting primarily of intangible assets, capitalized software and property, plant and equipment) by geographic location, are as follows (000 s):

		Three Months Ended August 31,	Three Months Ended August 31,
Revenue:		2008	2007
North America	$	1,956	2,079
Asia		238	280
Europe		632	581
Eliminations		(272)	(224)
Consolidated Total	$	2,554	2,716

		August 31,	May 31,
Long Lived Assets:		2008	2007
North America	$	5,145	5,259
Europe		162	170
Consolidated Total	$	5,307	5,429

SOFTECH, INC. AND SUBSIDIARIES

Item 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION

AND RESULTS OF OPERATIONS

This report may contain forward looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities and Exchange Act of 1934 (including any statements regarding the Company s outlook for fiscal 2009 and beyond). Any forward looking statements are subject to a number of risks and uncertainties. These include, among other risks and uncertainties, whether we will be able to generate sufficient cash flow from our operations or other sources to fund our working capital needs, maintain our existing relationship with our lender, successfully introduce and attain market acceptance of any new products, attract and retain qualified personnel both in our existing markets and in new territories in an extremely competitive environment, and aging and potential obsolescence of our technologies.

In some cases, you can identify forward-looking statements by terms such as may, will, should, could, would, plans, anticipates, believes, estimates, projects, predicts, potential and similar expressions intende forward-looking statements. These statements are only predictions and involve known and unknown risks, uncertainties, and other factors that may cause our actual results, levels of activity, performance, or achievements to be materially different from any future results, levels of activity, performance, or achievements expressed or implied by such forward-looking statements. Given these uncertainties, you should not place undue reliance on these forward-looking statements. Also, these forward-looking statements represent our estimates and assumptions only as of the date of this report. Except as otherwise required by law, we expressly disclaim any obligation or undertaking to release publicly any updates or revisions to any forward-looking statement contained in this report to reflect any change in our expectations or any change in events, conditions or circumstances on which any of our forward-looking statements are based. We qualify all of our forward-looking statements by these cautionary statements.

Critical Accounting Policies and Significant Judgments and Estimates

The Securities and Exchange Commission ("SEC") issued disclosure guidance for "critical accounting policies." The SEC defines "critical accounting policies" as those that require the application of management's most difficult, subjective or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain and may change in subsequent periods.

Our significant accounting policies are described in Note B to these financial statements. We believe that the following accounting policies require the application of our most difficult, subjective or complex judgments:

Revenue Recognition

We follow the provisions of Statement of Position No. 97-2, "Software Revenue Recognition" (SOP 97-2) as amended by SOP No. 98-9, Modification of SOP 97-2, Software Revenue Recognition with Respect to Certain Transactions (SOP 98-9) in recognizing revenue from software transactions. Revenue from software license sales is recognized when persuasive evidence of an arrangement exists, delivery of the product has been made, and a fixed fee and collectability have been determined. We do not provide for a right of return. For multiple element arrangements, total fees are allocated to each of the elements using the residual method set forth in SOP 98-9. Revenue from customer maintenance support agreements is deferred and recognized ratably over the term of the agreements. Revenue from engineering, consulting and training services is recognized as those services are rendered.

Valuation of Long-lived and Intangible Assets

We periodically review the carrying value of all intangible assets (primarily capitalized software costs and other intangible assets) and other long-lived assets. If indicators of impairment exist, we compare the discounted cash flows estimated to be generated by those assets over their estimated economic life to the related carrying value of those assets to determine if the assets are impaired. If the carrying value of the asset is greater than the estimated undiscounted cash flows, the carrying value of the assets would be decreased to their fair value through a charge to operations. We do not have any long-lived or intangible assets we consider to be impaired.

Valuation of Goodwill

Effective June 1, 2002, we adopted the provisions of SFAS No. 142, Goodwill and Other Intangible Assets. This statement requires that goodwill existing at the date of adoption be reviewed for possible impairment and that impairment tests be periodically repeated, with impaired assets written down to fair value. Additionally, existing goodwill and intangible assets must be assessed and classified within the statement's criteria. Intangible assets with finite useful lives will continue to be amortized over such useful lives. Amortization of goodwill and intangible assets with indeterminable lives ceased as of June 1, 2002.

As of May 31, 2008, we conducted our annual impairment test of goodwill by comparing fair value to the carrying amount of our underlying assets and liabilities. We determined that the fair value exceeded the carrying amount of the assets and liabilities, therefore no impairment existed as of the testing date.

Estimating Allowances for Doubtful Accounts Receivable

We perform ongoing credit evaluations of our customers and adjust credit limits based upon payment history and the customer's current credit worthiness, as determined by our review of their current credit information. We continuously monitor collections and payments from our customers and maintain a provision for estimated credit losses based upon our historical experience and any specific customer collection issues that we have identified. While such credit losses have historically been within our expectations and the provisions established, we cannot guarantee that we will continue to experience the same credit loss rates that we have in the past. A significant change in the liquidity or financial position of any of our significant customers could have a material adverse effect on the collectability of our accounts receivable and our future operating results.

Valuation of Deferred Tax Assets

We regularly evaluate our ability to recover the reported amount of our deferred income taxes considering several factors, including our estimate of the likelihood of our generating sufficient taxable income in future years during the period over which temporary differences reverse. Our deferred tax assets are currently fully reserved.

Results of Operations

Our quarterly results may fluctuate. Our quarterly revenue and operating results are difficult to predict and may fluctuate significantly from quarter to quarter. Our quarterly revenue may fluctuate significantly for several reasons, including: the timing and success of introductions of any new products or product enhancements or those of our competitors; uncertainty created by changes in the market; difficulty in predicting the size and timing of individual orders; competition and pricing; and customer order deferrals as a result of general economic decline. Furthermore, we have often recognized a substantial portion of our product revenues in the last month of a quarter, with these revenues frequently concentrated in the last weeks or days of a quarter. As a result, product revenues in any quarter are substantially dependent on orders booked and shipped in the latter part of that quarter and revenues from any future quarter are not predictable with any significant degree of accuracy. We typically do not experience order backlog. For these reasons, we believe that period-to-period comparisons of our results of operations should not be relied upon as indications of future performance.

Total Revenue for the quarter ended August 31, 2008 was approximately $2.5 million, compared to approximately $2.7 million for the comparable prior period. Thus, total revenues for the quarter ended August 31, 2008 decreased 6.0% when compared to the same period in fiscal 2008. As explained below, the decline in total revenue was attributable to declines in service revenue.

Product revenue for the quarter ended August 31, 2008 was approximately $540,000, compared to $477,000 for the comparable prior period (an increase of 13.2%). The increase in product revenue for the quarter ended August 31, 2008, as compared to the same period in fiscal 2008, was primarily attributable to an increase in sales of the ProductCenter product line.

Product Line	Q1 2009	Q1 2008	Q1 2007
ProductCenter	$ 192	$ 134	$ 66
Cadra	285	281	292
AMT	63	62	30
Total	540	477	388

Service revenue for each product line consists of consulting revenue and maintenance revenue. Service revenue for the quarter ended August 31, 2008 was approximately $2.0 million, compared to approximately $2.2 million for the comparable prior period (a decrease of 10.0%). The decrease in total service revenue for the quarter ended August 31, 2008 was mainly attributable to a $147,000 (or 38%) decrease in ProductCenter consulting revenue. Our ProductCenter consulting revenue was unusually high during the first quarter of fiscal year 2008 because we were engaged in a sizable one time project for a single customer. Overall, maintenance revenue decreased $67,000 (or 4%) in the current quarter, compared to the prior quarter. This decrease was primarily attributable to the timing of incoming maintenance renewals.

Product Line	Q1 2009	Q1 2008	Q1 2007
ProductCenter	$ 1,070	$ 1,252	$ 1,117
Cadra	801	824	812
AMT	143	163	179
Total	2,014	2,239	2,108

Revenue generated in the U.S. accounted for 77% of total revenue for the quarter ended August 31, 2008 and 2007. Revenue generated in Europe for the quarter ended August 31, 2008 was 25% of total revenue, as compared to 21% of total revenue for the comparable prior period. Revenue generated in Asia for the quarter ended August 31, 2008 was 9% of total revenue, as compared to 10% of total revenue for the comparable prior period. During the quarter ended August 31, 2008, revenue from the U.S. decreased by approximately 6%, revenue from Europe increased by approximately 9%, and revenue from Asia decreased by approximately 15%, in each case, compared to same quarter in fiscal 2008. The decreased revenue from the Asian and U.S. markets was primarily a result of timing of incoming maintenance renewals.

Gross margin as a percentage of revenue was 81% for the three month period ended August 31, 2008, as compared to 70% for the comparable prior period. The increase in gross margin percentage was primarily due to an approximate $250,000 decrease in amortization of capitalized software costs, resulting from a component of one of our assets being fully amortized, partially offset by a 10% decrease in service revenue. Total revenue for the quarter ended August 31, 2008 decreased by 6%, compared to the same period in 2008, as discussed above.

Research and development expenses (R&D) were essentially unchanged ($444,000 for the three month period ended August 31, 2008, as compared to $447,000 in the comparable prior period). We remain committed to improving our technologies and ensuring their compatibility with current operating systems.

Selling, general and administrative (SG&A) expenses were $953,000 for the three month period ended August 31, 2008, as compared to $1.1 million for the comparable prior period (a decrease of approximately $152,000 or 13.7%). The decrease is due primarily to the reduction in rent expense arising from our relocation in November 2007 to new appropriately sized corporate headquarters and the suspension of the monthly management fee of $44,000, as explained below.

Under an agreement with Greenleaf Capital, among other obligations, we were required to pay an annual management fee of approximately $500,000 (for management advisory services and available debt facilities). In March, 2007 we amended the agreement. Under the terms of the amendment, Greenleaf agreed to waive the monthly management fee (approximately $44,000) for a three month period, effective January 1, 2008, with such waiver to renew automatically for additional three month periods, unless Greenleaf notifies us in writing at least thirty days prior to expiration of a three month period that it is terminating its waiver. As of this date, we have received no such notice of termination from Greenleaf. Notwithstanding the amendment, we intend to continue to pay Greenleaf $44,000 per month (the amount that was otherwise payable under the Agreement) which will be applied as additional principal payments towards the principal amount owing to Greenleaf Capital pursuant to a certain promissory note previously issued by us to Greenleaf. Thus, while these payments will reduce the amounts owing under our debt facilities, suspension of the management fee will not improve our overall cash flow. In addition, if Greenleaf terminates its waiver of the management fee, our operating expenses will increase by approximately $132,000 per quarter.

Amortization of capitalized software and other intangible assets (non-cash expenses) were $101,000 for the quarter ended August 31, 2008 as compared to $354,000 for the comparable prior period (a decrease of $253,000 or 71%). This decrease in amortization of capitalized software is due to a component of the Cadra software being fully amortized during the quarter ended May 31, 2008.

Interest expense for the quarter ended August 31, 2008 was approximately $230,000, as compared to $359,000 for the comparable prior period (a decrease of $129,000 or 36%). The decrease in interest expense is primarily attributable to a decrease in the average amount outstanding under our debt facilities and a decrease in the applicable interest rates. Average borrowings decreased to approximately $12.5 million during the current quarter, as compared to $13.6 million for the comparable prior period, and the interest rate on those borrowings decreased to about 7.25% in the current quarter from 10% for the comparable prior period. The change in the interest rate on our borrowing in fiscal year 2009 as compared to 2008 is due to a decrease in the prime rate.

Net income for the quarter ended August 31, 2008 was $419,000, as compared to $1,000 for the comparable prior period. The income per share for the quarters ended August 31, 2008 and 2007 was $.03 and $.00, respectively.

Changes in Financial Condition

Accounts receivable decreased $472,000 (34%) from $1.4 million at May 31, 2008 to $933,000 at August 31, 2008. Deferred maintenance revenue (a current liability) decreased $555,000 (17%) from $3.34 million at May 31, 2008 to $2.79 million at August 31, 2008. This decrease in accounts receivable and deferred maintenance was primarily attributable to early renewals of maintenance contracts during the quarter ended August 31, 2007.

Liquidity and Capital Resources

As of August 31, 2008 we had cash on hand of $793,000, a decrease of $107,000 from May 31, 2008. Operating activities generated $255,000 of cash during the first quarter of fiscal year 2009, compared with generating $48,000 in cash during the comparable prior period. The $207,000 increase in cash generated by operating activities was primarily attributable to a $418,000 increase in net income, a $305,000 increase in the change (decrease) in accounts receivable, partially offset by a $256,000 decrease in amortization and depreciation expenses and a $244,000 increase in the change (increase) in deferred revenue. During the quarter ended August 31, 2008, our financing activities used net cash of $409,000, compared to using net cash of approximately $154,000 during the comparable prior period. The increase in cash used by financing activities was primarily attributable to higher repayments of principal. At August 31, 2008, we had an approximate working capital deficit of $3.3 million, compared to a working capital deficit of $3.4 million at May 31, 2008. The approximate $144,000 decrease in our working capital deficit was primarily attributable to a $555,000 decrease in deferred revenue and a $146,000 decrease in accounts payable and accrued expenses, partially offset by a $107,000 decrease in cash and a $472,000 decrease in accounts receivable.

We currently fund our operations through a combination of cash flow from operations and our debt facilities with Greenleaf Capital. We have a $3.0 million Line of Credit with Greenleaf Capital which expires annually in June subject to extension. As of August 31, 2008, approximately $579,000 was available under this facility which has been extended to September 10, 2009. At August 31, 2008, we had total long-term debt of approximately $10.7 million and current debt of $1.7 million (for total debt of $12.4 million), consisting of $9.92 million under a promissory note and $–––2.42 million under our revolving credit facility with Greenleaf. We are dependent on availability under our debt facilities and cash flow from operations to meet our near term working capital needs and to make debt service payments.

The monthly principal and interest payments are approximately $210,000 on these borrowings (including the additional $44,000 disclosed above). Of the $12.4 million, $1.7 million is payable by August 31, 2009 and the remaining $10.7 million is payable by September 10, 2009. As noted above, our line of credit with Greenleaf expires and is due in June of each year. Historically, Greenleaf has on a quarterly basis extended our line of credit for an additional year. If Greenleaf did not extend the terms of our debt, we would be obligated to pay Greenleaf $12.4 on September 10, 2009, which funds we do not currently have. While we do not believe Greenleaf would decline extending the term of our borrowings, if they were do so, we would have to seek capital from third parties in order to pay the balance of the borrowings. In the event we were unable to secure the necessary funds or if the terms and conditions were onerous, there would be a material adverse effect on our financial condition and results of operations.

During the remainder of fiscal 2009, we anticipate that we will incur capital expenditures of approximately $100,000 in order to keep our computer systems and peripheral equipment current and compatible with the latest operating systems.

We anticipate that our operating activities will generate positive net cash flow during the second quarter of fiscal 2009. However, we cannot ensure that our operating activities will generate positive net cash flow in the future. We believe that the cash on hand together with cash flow from operations and available borrowings under our credit facility will be sufficient for meeting our liquidity and capital resource needs for the next year.

We believe that the cash on hand together with cash flow from operations and available borrowings under our credit facility will be sufficient for meeting our liquidity and capital resource needs for the next year.

We are dependent on our lender, Greenleaf Capital, for its continued support. We have a strong relationship with Greenleaf, which currently represents our sole source of external financing. Greenleaf is also our largest shareholder, owning approximately 44.6% of our issued and outstanding common stock, and it has been our sole debt provider since 1996.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

This Item is not applicable because we are a smaller reporting company, as defined by applicable SEC regulation.

Item 4T. Controls and Procedures

Management s Report on Disclosure Controls and Procedures. We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our Securities Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the SEC s rules and forms, and that such information is accumulated and communicated to our management, including our President and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, we recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, as ours are designed to do, and we necessarily were required to apply our judgment in evaluating the cost-benefit relationship of possible changes or additions to our controls and procedures.

As of August 31, 2008, we carried out an evaluation, under the supervision and with the participation of our management, including our President and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934. Based upon that evaluation, our President and Chief Financial Officer concluded that our disclosure controls and procedures are effective in enabling us to record, process, summarize and report information required to be included in our periodic SEC filings within the required time period.

Changes in Internal control Over Financial Reporting. There have been no changes in our internal control over financial reporting that occurred during the period covered by this report that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

None

Item 1A. Risk Factors

This Item is not applicable because we are a smaller reporting company, as defined by applicable SEC regulation.

Item 2. Unregistered Sales of Equity Securities and Use of proceeds

None

Item 3. Defaults on Senior Securities

None

Item 4. Submission of Matters to a Vote of Security Holders

None

Item 5. Other Information

Not Applicable

Item 6. Exhibits

(3)(i)

Articles of Organization and Amendments, filed as Exhibit 3.1 to Form 10Q for the quarter ended February 29, 2008 and incorporated by reference.

(3)(ii)

By-laws of the Company, filed as Exhibit 3.2 to Form 10Q for the quarter ended February 29, 2008 and incorporated by reference.

(4)

Form of common stock certificate, filed as Exhibit 4(A), to Registration statement number 2-73261, filed with the Securities and Exchange Commission and incorporated by reference.

(10)(i)

Greenleaf Capital $11.0 million Promissory Note, filed as the same Exhibit number to the Company s Form 10K for the year ended May 31, 2008 .

(10)(ii)

Greenleaf Capital $3.0 million Revolving Line of Credit, filed as the same Exhibit number to the Company s Form 10K for the year ended May 31, 2008.

(10)(iii)

Amendment to Promissory Note dated November 8, 2002, filed as the same Exhibit number to the Company s Form 10K for the year ended May 31, 2008.

(10.1)

Amendment of Agreement with Greenleaf Capital, filed as Exhibit 10.1 to Form 10Q for the quarter ended February 29, 2008.

(14)

Code of Ethics for Officers, filed as Exhibit 14 to the Form 10-KSB for the year ended May 31, 2004, is incorporated by reference.

(21)

Subsidiaries of the Registrant, filed as the same Exhibit number to the Company s Form 10K for the year ended May 31, 2008.

(31.1)

Certification of the Principal Executive Officer pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934, as amended.

(31.2)

Certification of the Principal Financial Officer pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934, as amended.

(32.1)

Certification of the Principal Executive Officer pursuant to U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

(32.2)

Certification of the Principal Financial Officer pursuant to U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrants have duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

SOFTECH, INC.

Date: October 14, 2008	*/s/ Amy E. McGuire*
	Amy E. McGuire
	Chief Financial Officer
Date: October 14, 2008	*/s/ Jean J. Croteau*
	Jean J. Croteau
	President

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