SOFTECH INC
Form 10-Q
April 10, 2009

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
February 28, 2009	0-10665

SOFTECH, INC.

State of Incorporation	IRS Employer Identification
Massachusetts	04-2453033

59 Composite Way Suite 401, Lowell, MA 01851

Telephone (978) 513-2700

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 **X** . No .

The number of shares outstanding of registrant s common stock at April 2, 2009 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 **X** .

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

SOFTECH, INC.

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FINANCIAL STATEMENTS

SOFTECH, INC. AND SUBSIDIARIES

CONSOLIDATED CONDENSED BALANCE SHEETS

	(dollars in thousands)	
	(unaudited)	
	February 28, 2009	May 31, 2008
ASSETS		
Cash and cash equivalents	$ 785	$ 900
Accounts receivable	1,236	1,405
Prepaid and other assets	546	475
Total current assets	2,567	2,780
Property and equipment, net	139	157
Capitalized software costs, net	215	517
Goodwill	4,603	4,618
Other assets	136	137
TOTAL ASSETS	$ 7,660	$ 8,209
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Accounts payable	$ 363	$ 368
Accrued expenses	730	784
Deferred maintenance revenue	3,100	3,341
Current portion of capital lease	31	31
Current portion of long term debt	1,889	1,646
Total current liabilities	6,053	6,170
Capital lease, net of current portion	28	51
Long-term debt, net of current portion	9,596	11,091
Total long-term liabilities	9,684	11,142
Stockholders' deficit	(8,077)	(9,103)

TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT	$	7,660	$	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)	
	February 28, 2009	February 29, 2008
Revenue		
Products	$ 437	$ 577
Services	1,793	1,868
Total revenue	2,230	2,445
Cost of products sold: materials	6	29
Cost of product sold: amortization of capitalized software costs and other intangible assets	101	354
Cost of services provided	390	420
Gross margin	1,733	1,642
Research and development expenses	478	455
Selling, general and administrative	868	996
Income from operations	387	191
Other expense	4	-
Interest expense	178	324
Net income (loss)	$ 205	$ (133)
Basic and diluted net income (loss) per common share	$ 0.02	$ (0.01)
Weighted average common shares outstanding-basic	12,213	12,213
Weighted average common shares outstanding-diluted	12,213	12,213

See accompanying notes to consolidated condensed financial statements.

SOFTECH, INC. AND SUBSIDIARIES

CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS

	(in thousands, except for per share data) Nine Months Ended (unaudited)			
		February 28, 2009		February 29, 2008
Revenue				
Products	$	1,527	$	1,525
Services		5,730		6,129
Total revenue		7,257		7,654
Cost of products sold: materials		36		61
Cost of product sold: amortization of capitalized software costs and other intangible assets		304		1,062
Cost of services provided		1,125		1,271
Gross margin		5,792		5,260
Research and development expenses		1,382		1,362
Selling, general and administrative		2,724		3,220
Income from operations		1,686		678
Other expense		83		-
Interest expense		631		1,028
Net income (loss)	$	972	$	(350)
Basic and diluted net income (loss) per common share	$	0.08	$	(0.03)
Weighted average common shares outstanding-basic		12,213		12,213
Weighted average common shares outstanding-diluted		12,213		12,213

See accompanying notes to consolidated condensed financial statements.

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

	(dollars in thousands) Nine Months Ended (unaudited)	
	February 28, 2009	February 29, 2008
Cash flows from operating activities:		
Net income (loss)	$ 972	$ (350)
Adjustments to reconcile net income (loss) to		
net cash used by operating activities:		
Depreciation and amortization	352	1,112
Provision for uncollectable accounts	25	-
Change in current assets and liabilities:		
Accounts receivable	144	(507)
Prepaid expenses and other assets	(70)	(117)
Accounts payable and accrued expenses	(59)	130
Deferred maintenance revenue	(241)	(329)
Total adjustments	(151)	289
Net cash provided by (used in) operating activities	1,148	(61)
Cash flows from investing activities:		
Capital expenditures	(34)	(6)
Net cash used in investing activities	(34)	(6)
Cash flows from financing activities:		
Borrowing under debt agreements	-	150
Repayments under debt agreements	(1,252)	(575)
Repayments under capital lease	(23)	(23)
Net cash used in financing activities	(1,275)	(448)
Effect of exchange rates on cash	71	(62)
Decrease in cash and cash equivalents	(115)	(577)
Cash and cash equivalents, beginning of period	900	1,048
Cash and cash equivalents, end of period	$ 785	$ 471

Supplemental disclosures of cash flow information:

Interest paid	631	1,028
Income taxes paid	-	-

See accompanying notes to consolidated condensed financial statements.

SOFTECH, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED 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, as amended.

(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 February 28, 2009 and February 29, 2008. 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 months ended February 28, 2009 was $101,000 and February 29, 2008 was $354,000.

ACCOUNTING FOR GOODWILL

The Company follows the provisions of SFAS No. 142, Goodwill and Other Intangible Assets , which 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 are amortized over such useful lives.

SOFTECH, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(Continued)

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 of the reporting unit exceeded the carrying amount of the assets and liabilities, therefore no impairment existed as of the testing date.

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 undiscounted 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

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 February 28, 2009:

	Number of Options	**Weighted Average Exercise Price**	**Weighted Average Remaining Contractual**	**Aggregate Intrinsic Value**

		Per Share	Life in Years	
Outstanding at May 31, 2008	229,000	$ .28	3.73	$10,860
Granted	-	-	-	-
Exercised	-	-	-	-
Forfeited or expired	-	-	-	-
Outstanding at February 28, 2009	229,000	$.28	3.01	-
Exercisable at February 28, 2009	226,600	$.28	2.99	-

SOFTECH, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(Continued)

The following table summarizes the information related to non-vested stock option awards outstanding as of February 28, 2009:

	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 February 28, 2009	2,400	$ .04

As of February 28, 2009, 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 related to foreign operations are translated at period-end exchange rates and related 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 $4,000 during the quarter ending February 28, 2009, which is included in other expense in the Company   s consolidated condensed statement of operations.

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.

SOFTECH, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(Continued)

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.

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 February 28, 2009. The Company accounts for interest and penalties related to uncertain tax positions as part of its provision for federal and state income taxes. In accordance with the applicable statute of limitations, the Company s tax returns could be audited by the Internal Revenue Service and various states for the fiscal years ended 2003 to 2008.

NEW ACCOUNTING PRONOUNCEMENTS:

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. The adoption of this standard did not have a material impact on the Company s Consolidated Financial Statements.

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 to have a material impact on its Consolidated Financial Statements.

SOFTECH, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(Continued)

(C)

BALANCE SHEET COMPONENTS

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

		February 28, 2009		May 31, 2008
Property and equipment	$	3,943	$	4,003
Accumulated depreciation				
and amortization		(3,804)		(3,846)
Property and equipment, net	$	139	$	157
Common stock, $.10 par value	$	1,221	$	1,221
Capital in excess of par value		18,037		18,037
Accumulated deficit		(26,942)		(27,909)
Accumulated other comprehensive income		(393)		(452)
Stockholders deficit	$	(8,077)	$	(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.

SOFTECH, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(Continued)

The following depicts a reconciliation of earnings per share and weighted average shares outstanding:

	Three Month Periods Ended			
	February 28, 2009		February 29, 2008	
	(Amounts in thousands, except per share amounts)			
Net income (loss) available to common shareholders	$	205	$	(133)
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		-		-
Weighted average number of common shares outstanding used in calculating diluted earnings per share		12,213		12,213
Earnings (loss) per share:				
Basic	$	.02	$	(.01)
Diluted	$	.02	$	(.01)

	Nine Month Periods Ended			
	February 28, 2009		February 29, 2008	
	(Amounts in thousands, except per share amounts)			
Net income (loss) available to common shareholders	$	972	$	(350)
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		-		-
Weighted average number of common shares outstanding used in calculating diluted earnings per share		12,213		12,213
Earnings (loss) per share:				
Basic	$	.08	$	(.03)
Diluted	$	.08	$	(.03)

SOFTECH, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(Continued)

At February 28, 2009 and February 29, 2008, respectively, 229,000 and 238,000 options to purchase common shares were anti-dilutive and were excluded from the above calculation for both the three and nine month periods.

(E)

COMPREHENSIVE INCOME

The Company s comprehensive income includes accumulated foreign currency translation adjustments. The comprehensive income (loss) was as follows (000 s):

	Three Month Periods Ended			
	February 28, 2009		February 29, 2008	
Net income (loss)	$	205	$	(133)
Changes in:				
Foreign currency translation adjustment		6		(11)
Comprehensive income (loss)	$	211	$	(144)

	Six Month Periods Ended			
	February 28, 2009		February 29, 2008	
Net income (loss)	$	972	$	(350)
Changes in:				
Foreign currency translation adjustment		59		(49)
Comprehensive income (loss)	$	1,031	$	(399)

SOFTECH, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

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