SOFTECH INC
Form 10-Q
January 12, 2010

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
November 30, 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 .

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate web site, if any, every Interactive Data File required to be submitted an posted pursuant to Rule 405 of regulation ST (Sec. 232.405) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes . No X .

The number of shares outstanding of registrant s common stock at January 6, 2010 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)	
	November 30, 2009	May 31, 2009
ASSETS		
Cash and cash equivalents	$ 499	$ 758
Accounts receivable (less allowance for uncollectible accounts of $29 as of November 30, 2009 and May 31, 2009)	776	1,272
Prepaid and other assets	509	572
Total current assets	1,784	2,602
Property and equipment, net	114	118
Capitalized software costs, net	51	113
Goodwill	4,615	4,611
Other assets	136	136
TOTAL ASSETS	$ 6,700	$ 7,580
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Accounts payable	$ 195	$ 463
Accrued expenses	694	778
Deferred maintenance revenue	2,302	3,022
Current portion of capital lease	35	31
Current portion of long term debt	1,968	1,914
Total current liabilities	5,194	6,208
Capital lease, net of current portion	26	20
Long-term debt, net of current portion	8,810	9,108
Total long-term liabilities	8,836	9,128

Stockholders' deficit		(7,330)		(7,756)
TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT	$	6,700	$	7,580

See accompanying notes to consolidated condensed financial statements.

SOFTECH, INC. AND SUBSIDIARIES

CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS

	(in thousands, except for share and per share data) Three Months Ended (unaudited)			
	November 30, 2009		November 30, 2008	
Revenue				
Products	$	245	$	550
Services		1,647		1,923
Total revenue		1,892		2,473
Cost of products sold: materials		4		14
Cost of products sold: amortization of capitalized software costs and other intangible assets		26		101
Cost of services provided		357		370
Gross margin		1,505		1,988
Research and development expenses		462		460
Selling, general and administrative		713		903
Income from operations		330		625
Other (income) expense		(10)		54
Interest expense		148		223
Net income	$	192	$	348
Basic and diluted net income per common share	$	0.02	$	0.03
Weighted average common shares outstanding-basic		12,213,236		12,213,236
		12,295,132		12,213,236

Weighted average common shares
outstanding-diluted

See accompanying notes to consolidated condensed financial statements.

SOFTECH, INC. AND SUBSIDIARIES

CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS

	(in thousands, except for share and per share data) Six Months Ended (unaudited)	
	November 30, 2009	November 30, 2008
Revenue		
Products	$ 464	$ 1,090
Services	3,409	3,937
Total revenue	3,873	5,027
Cost of products sold: materials	8	30
Cost of products sold: amortization of capitalized software costs and other intangible assets	63	203
Cost of services provided	701	735
Gross margin	3,101	4,059
Research and development expenses	911	904
Selling, general and administrative	1,534	1,856
Income from operations	656	1,299
Other (income) expense	(15)	79
Interest expense	299	453
Net income	$ 372	$ 767
Basic and diluted net income per common share	$ 0.03	$ 0.06
Weighted average common shares outstanding-basic	12,213,236	12,213,236
	12,278,166	12,213,236

Weighted average common shares
outstanding-diluted

See accompanying notes to consolidated condensed financial statements.

SOFTECH, INC. AND SUBSIDIARIES

CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS

	(dollars in thousands) Six Months Ended (unaudited)	
	November 30, 2009	November 30, 2008
Cash flows from operating activities:		
Net income	$ 372	$ 767
Adjustments to reconcile net income to net cash used by operating activities:		
Depreciation and amortization	100	231
Provision for uncollectable accounts	-	25
Change in current assets and liabilities:		
Accounts receivable	496	416
Prepaid expenses and other assets	63	(52)
Accounts payable and accrued expenses	(352)	56
Deferred maintenance revenue	(720)	(1,024)
Total adjustments	(413)	(348)
Net cash (used in) provided by operating activities	(41)	419
Cash flows from investing activities:		
Capital expenditures	(5)	(33)
Net cash used in investing activities	(5)	(33)
Cash flows from financing activities:		
Borrowings under debt agreements	700	-
Repayments under debt agreements	(944)	(807)
Repayments under capital lease	(15)	(16)
Net cash used in financing activities	(259)	(823)
Effect of exchange rates on cash	46	73
Decrease in cash and cash equivalents	(259)	(364)
Cash and cash equivalents, beginning of period	758	900
Cash and cash equivalents, end of period	$ 499	$ 536

Supplemental disclosures of cash flow information:

Interest paid	299	453
Income taxes paid	-	-
Supplemental disclosures of noncash investing and financing activities:		
Acquisition of equipment under capital lease	25	-

See accompanying notes to consolidated condensed financial statements.

SOFTECH, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(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 2009 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, now included in Accounting Standards Codification (ASC) 985 *Software*. 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 ASC 985. 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 is recognized as those services are rendered using a proportional performance model.

CAPITALIZED SOFTWARE COSTS AND RESEARCH AND DEVELOPMENT

The Company accounts for its software development costs in accordance with Statements of Financial Accounting Standards (SFAS) No. 86, *Accounting for the Costs of Computer Software to Be Sold, Leased or Otherwise Marketed,* now included in ASC 985. Accordingly, the Company capitalizes certain costs incurred to internally develop and/or purchase software that it then licenses 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 the assets 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 in fiscal year 2010 or 2009.

Substantially all of the recorded balance represents software acquired from third parties. Amortization expense related to capitalized software costs was $26,000 and $63,000 for the three and six month periods ended November 30, 2009, respectively, as compared to $101,000 and $203,000 for the comparable prior periods.

ACCOUNTING FOR GOODWILL

The Company accounts for goodwill pursuant to ASC 350 *Intangibles Goodwill and Other*. This requires that goodwill be reviewed annually, or more frequently as a result of an event or change in circumstances, for possible impairment with impaired assets written down to fair value. Additionally, existing goodwill and intangible assets must be assessed and classified within the statement's criteria.

As of May 31, 2009, the Company conducted its annual impairment test of goodwill by comparing fair value to the carrying amount of the underlying assets and liabilities of its single reporting unit. 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. The Company concluded that no facts or circumstances arose during the first half of fiscal year 2010 to warrant an interim impairment test.

In December 2007, The FASB issued SFAS No. 141R (revised 2007) *Business Combinations*, now included in ASC 805 *Business Combinations,* which significantly changed the financial accounting and reporting for business combination transactions. ASC 805 requires the acquiring entity in a business combination to recognize all the assets acquired and liabilities assumed in the transaction and establishes the acquisition date fair value as the measurement objective for all assets acquired and liabilities assumed in a business combination. Certain provisions of this standard will, among other things, impact the determination of acquisition-date fair value of consideration paid in a business combination (including contingent consideration); exclude transaction costs from acquisition accounting; and change accounting practices for acquired contingencies, acquisition-related restructuring costs, in-process research and development, indemnification assets and tax benefits. The Company adopted ASC 805 on June 1, 2009. Adoption of this statement did not have an impact on the Company s results of operations or financial position for the six months ended November 30, 2009; however, its provisions will impact any future business combinations.

LONG-LIVED ASSETS:

The Company periodically reviews the carrying value of all intangible (primarily capitalized software costs and other intangible assets) 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 year 2004 but options granted prior to that time continue to vest. As of November 30, 2009 and May 31, 2009 all outstanding stock options have vested.

SOFTECH, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(Continued)

The following table summarizes information for stock options outstanding and exercisable at November 30, 2009:

	Number of Options	Weighted Average Exercise Price Per Share	Weighted Average Remaining Contractual Life in Years	Aggregate Intrinsic Value
Outstanding at May 31, 2009	220,000	$ .21	2.92	-
Granted	-	-	-	-
Exercised	-	-	-	-
Forfeited or expired	-	-	-	-
Outstanding at November 30, 2009	220,000	$.21	2.41	$5,310
Exercisable at November 30, 2009	220,000	$.21	2.41	$5,310

FOREIGN CURRENCY TRANSLATION:

The functional currency of the Company's foreign operations (Germany and Italy) is the local currency. 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 statements are classified in accumulated other comprehensive income (loss). Foreign currency gains and losses arising from transactions were included in operations during the three and six month periods ending November 30, 2009 and 2008. For the three and six month periods ended November 30, 2009, the Company recorded to other income (expense) a net gain (loss) from foreign currency related transactions of approximately $10,000 and $15,000, respectively, as compared to ($54,000) and ($79,000) for the comparable prior periods.

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 and 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 pertain to revenue recognition, the allowance for doubtful accounts receivable, the valuation of long term assets including intangibles (goodwill, capitalized software costs and other intangible assets) and deferred tax assets. 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, FASB issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement 109* ("FIN 48"), now included in ASC 840 Income Taxes. 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. ASC 840 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. The Company believes that there are no uncertain tax positions or liabilities for interest and penalties associated with uncertain tax positions as of May 31, 2009 and November 30, 2009. If the Company had interest and penalties related to uncertain tax positions it would be accounted for as part of the 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 for the fiscal years ended 2003 to 2009 and in various states depending upon when returns were filed.

NEW ACCOUNTING PRONOUNCEMENTS:

In May 2009, the FASB issued Statement No. 165 *Subsequent Events*, now included in ASC 855 *Subsequent Events*. ASC 855 establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before the financial statements are issued or are available to be issued. The Company adopted ASC 855 on June 1, 2009. The adoption of this Statement did not impact the Company s Consolidated Financial Statements. Management has reviewed events occurring through January 13, 2010, the date the financial statements were issued, and no subsequent events occurred requiring accrual or disclosure.

Effective July 1, 2009, the Company adopted the FASB Accounting Standards Codification ("ASC or Codification"), *Generally Accepted Accounting Principles* ("ASC 105-10"). The Codification, which was issued in June 2009, is the new source of authoritative U.S. GAAP for Securities and Exchange Commission ("SEC") registrants. The Codification reorganizes current U.S. GAAP into a topical format

SOFTECH, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(Continued)

that eliminates the previous U.S. GAAP hierarchy and establishes two levels of U.S. GAAP - authoritative and non-authoritative. The Codification superseded all existing non-SEC accounting and reporting standards upon its effective date and carries the same level of authority as pronouncements issued under the previous hierarchy of U.S. GAAP. The adoption of the Codification did not have a significant impact on the Company's Condensed Consolidated Financial Statements.

In June 2009, the FASB issued Statement No. 167 *Accounting for Transfers of Financial Assets*, now included in ASC 810 *Consolidations*. ASC 810 includes evaluation criteria to identify the primary beneficiary of a variable interest entity provided by FASB Interpretation No. 46(R), *Consolidation of Variable Interest Entities An Interpretation of ARB No. 51*. Additionally, ASC 810 requires ongoing reassessments of whether an enterprise is the primary beneficiary of the variable interest entity. The Company will adopt ASC 810 in Fiscal Year 2011 and is currently evaluating the impact of its pending adoption on the Company s Consolidated Financial Statements.

(C)

BALANCE SHEET COMPONENTS

Details of certain balance sheet captions are as follows:

	November 30, 2009		May 31, 2009	
	(Amounts in thousands, except share and per share data)			
Property and equipment	$	4,109	$	4,047
Accumulated depreciation and amortization		(3,995)		(3,929)
Property and equipment, net	$	114	$	118
Common stock, $.10 par value; authorized 20,000,000 shares; issued 12,213,236	$	1,221	$	1,221
Capital in excess of par value		18,037		18,037
Accumulated deficit		(26,215)		(26,588)
Accumulated other comprehensive income		(373)		(426)

Stockholders deficit	$	(7,330)	$	(7,756)

(D)

EARNINGS PER SHARE

Basic net income per share is computed by dividing the net income by the weighted-average number of common shares outstanding. Diluted net income per share is computed by dividing net income 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 anti-dilutive.

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			
	November 30, 2009		November 30, 2008	
	(Amounts in thousands, except share and per share data)			
Net income available to common shareholders	$	192	$	348
Weighted average number of common shares outstanding used in calculation of basic earnings per share		12,213,236		12,213,236
Incremental shares from the assumed exercise of dilutive stock options		81,896		-
Weighted average number of common shares outstanding used in calculating diluted earnings per share		12,295,132		12,213,236
Earnings per share:				
Basic	$	.02	$	.03
Diluted	$	.02	$	.03

	Six Month Periods Ended			
	November 30, 2009		November 30, 2008	
	(Amounts in thousands, except share and per share data)			
Net income available to common shareholders	$	372	$	767
Weighted average number of common shares outstanding used in calculation of basic earnings per share		12,213,236		12,213,236

Incremental shares from the assumed exercise of dilutive stock options		64,930		-
Weighted average number of common shares outstanding used in calculating diluted earnings per share		12,278,166		12,213,236
Earnings per share:				
Basic	$	.03	$	.06
Diluted	$	.03	$	.06

SOFTECH, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(Continued)

For the three and six month periods ending November 30, 2009, 31,000 options to purchase common shares were anti-dilutive and were excluded from the above calculation. For the three and six month periods ending November 30, 2008, 229,000 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. The comprehensive income was as follows (000 s):

	Three Month Periods Ended			
	November 30, 2009		November 30, 2008	
Net income	$	192	$	348
Changes in:				
Foreign currency translation adjustment		53		10
Comprehensive income	$	245	$	358

	Six Month Periods Ended			
	November 30, 2009		November 30, 2008	
Net income	$	372	$	767
Changes in:				
Foreign currency translation adjustment		53		53
Comprehensive income	$	425	$	820

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SOFTECH, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(Continued)

(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 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	Three Months Ended
Revenue:		November 30, 2009	November 30, 2008
North America	$	1,634	1,717
Asia		151	399
Europe		406	543
Eliminations		(299)	(186)
Consolidated Total	$	1,892	2,473

		Six Months Ended	Six Months Ended
Revenue:		November 30, 2009	November 30, 2008
North America	$	3,054	3,673
Asia		302	637
Europe		882	1,175
Eliminations		(365)	(458)
Consolidated Total	$	3,873	5,027

Long Lived Assets:		November 30, 2009	May 31, 2009
North America	$	4,746	4,807
Europe		170	171
Consolidated Total	$	4,916	4,978

SOFTECH, INC. AND SUBSIDIARIES

Item 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Any forward looking statements made in this Report, including with respect to our outlook for fiscal year 2010 and beyond represent 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 and are subject to a number of risks and uncertainties, including but not limited to our ability to:

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generate, despite declining revenues, sufficient cash flow from our operations or other sources to fund our working capital needs, including our business plan

4

maintain relationships with our lender

4

successfully introduce and attain market acceptance of any new products and/or enhancements of existing products

4

attract and retain qualified personnel

4

prevent further obsolescence of our technologies

4

maintain agreements with our critical software vendors

4

secure renewals of existing software maintenance contracts, as well as contracts with new maintenance customers; and

4

secure new business, both from existing and new customers

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 Information Statement. Except as otherwise required by law, SofTech expressly disclaims any obligation or undertaking to release publicly any updates or revisions to any forward-looking statements contained herein 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. SofTech qualifies all 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