SOFTECH INC
Form 10QSB
October 15, 2007

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-QSB

QUARTERLY REPORT UNDER SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the Quarter Ended August 31, 2007	Commission File Number 0-10665

SOFTECH, INC.

State of Incorporation Massachusetts	IRS Employer Identification 04-2453033

2 Highwood Drive, Tewksbury, MA 01876
Telephone (978) 640-6222

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 October 1, 2007 was 12,213,236 shares.

SOFTECH, INC.

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PART I. FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS
SOFTECH, INC. AND SUBSIDIARIES

CONSOLIDATED CONDENSED BALANCE SHEETS

(dollars in thousands)

	August 31, 2007
ASSETS	
Cash and cash equivalents	$ 940
Accounts receivable, net	1,354
Prepaid and other assets	447
Total current assets	2,741
Property and equipment, net	207
Capitalized software costs, net	1,509
Goodwill, net	4,600
Other assets	136
TOTAL ASSETS	$ 9,193

LIABILITIES AND STOCKHOLDERS' DEFICIT	
Accounts payable	$ 258
Accrued expenses	725
Deferred maintenance revenue	3,257
Current portion of capital lease	31
Current portion of long term debt	657
Total current liabilities	4,928
Capital lease, net of current portion	74
Long-term debt, net of current portion	12,885
Total long-term liabilities	12,959
Stockholders' deficit	(8,694)
TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT	$ 9,193

See accompanying notes to consolidated condensed financial statements.

Form 1
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SOFTECH, INC. AND SUBSIDIARIES

CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS

	(in thousands, except for per share Three Months Ended	
	August 31, 2007	August 2006
Revenue		
Products	$ 477	$

Services	2,239	
Total revenue	2,716	
Cost of products sold: materials	14	
Cost of product sold: amortization of capitalized software costs	354	
Cost of services provided	436	
Gross margin	1,912	
Research and development expenses	447	
Selling, general and administrative	1,105	
Income (Loss) from operations before interest expense	360	
Interest expense	359	
Net Income (Loss)	$ 1	$
Basic and diluted net loss per common share	$ 0.00	$
Basic Weighted average common shares outstanding	12,213	1
Diluted Weighted average common shares outstanding	12,245	1

See accompanying notes to consolidated condensed financial statements.

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

	(dollars in thousands) Three Months Ended	
	August 31, 2007	August 31, 2006
Cash flows from operating activities:		
Net Income	$ 1	$ (738)
Adjustments to reconcile net income (loss) to net cash used by operating activities:		
Depreciation and amortization	373	367
Change in current assets and liabilities:		
Accounts receivable	142	342
Prepaid expenses and other assets	29	(35)
Accounts payable and accrued expenses	(186)	(126)
Deferred maintenance revenue	(311)	(401)

Total adjustments	47	147
Net cash provided by (used in) by operating activities	48	(591)
Cash flows used by investing activities:		
Capital expenditures	-	(10)
Net cash used by investing activities	-	(10)
Cash flows from financing activities:		
Borrowings under debt agreements	-	1,000
Repayments under debt agreements	(146)	(675)
Repayments under capital lease	(8)	-
Net cash (used in) provided by financing activities	(154)	325
Effect of exchange rates on cash	(2)	-
Decrease in cash and cash equivalents	(108)	(276)
Cash and cash equivalents, beginning of period	1,048	680
Cash and cash equivalents, end of period	$ 940	$ 404

See accompanying notes to consolidated condensed financial statements.

SOFTECH, INC. AND SUBSIDIARIES

NOTES TO 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 2007 Annual Report on Form 10-KSB.

(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 collectibility 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 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, 2007 or 2006. Substantially all of the recorded balance represents software acquired from third parties. Amortization expenses related to capitalized software costs for the three month periods ended August 31, 2007 and 2006 were $354,000.

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 those periods. Amortization of goodwill ceased as of May 31, 2002.

As of May 31, 2007, 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.

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

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 period ended August 31, 2007.

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, 2007:

	NUMBER OF OPTIONS	WEIGHTED AVERAGE EXERCISE PRICE PER SHARE	WEIGHTED AVERAGE REMAINING CONTRACTUAL LIFE IN YEARS	AGGREGATE INTRINSIC VALUE
Outstanding at May 31, 2007	238,000	$ .49	4.69	$ 1,770
Granted	--	--		
Exercised	--	--		
Forfeited or expired		--		
Outstanding at				

August 31, 2007	238,000	$ .45	4.36	$ 3,540
Exercisable at August 31, 2007	230,800	$ .45	4.30	$ 3,540

SOFTECH, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

The following table summarizes the information related to non-vested stock option awards outstanding as of August 31, 2007:

	NUMBER OF OPTIONS	WEIGHTED AVERAGE GRANT DATE FAIR VALUE PER SHARE
Non-vested at May 31, 2007	27,200	$ .03
Granted	-	
Vested	(20,000)	$ .03
Forfeited	-	
Non-vested at August 31, 2007	7,200	$ .03

As of August 31, 2007, the remaining prospective pre-tax cost of non-vested stock option employee compensation was $1,000 which 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 statements are classified in accumulated other comprehensive income (loss). Foreign currency gains and losses arising from transactions are included in the 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 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 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.

NEW ACCOUNTING PRONOUNCEMENTS:

FIRST QUARTER DISCLOSURE FOR FIN 48

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 has adopted the provisions of FIN 48. 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 for the fiscal years ended 2004, 2005 and 2006. The Company and its Subsidiaries state income tax returns are subject to audit for the fiscal years ended 2004, 2005 and 2006.

The Company has determined that no liability exists for interest and penalties related to uncertain tax positions as of May 31, 2007 and August 31, 2007. The Company accounts for interest and penalties related to uncertain tax positions as part of its provision for federal and state income taxes.

SOFTECH, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements," which provides enhanced guidance for using fair value to measure assets and liabilities. SFAS No. 157 establishes a common definition of fair value, provides a framework for measuring fair value under U.S. generally accepted accounting principles and expands disclosure requirements about fair value measurements. SFAS No. 157 is effective for financial statements issued in fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. The Company is currently evaluating the impact, if any, the adoption of SFAS No. 157 will have on the consolidated financial statements.

In February 2007, the FASB issued Statement of Financial Standards No. 159 ("FASB 159"), "The Fair Value Option for Financial Assets and Financial Liabilities -- Including an Amendment of FASB Statement No. 115". This Statement provides companies with an option to measure, at specified election dates, many financial instruments and certain other items at fair value that are not currently measured at fair value. A company that adopts SFAS 159 will report unrealized gains and losses on items for which the fair value option has been elected in earnings at each subsequent reporting date. This Statement also establishes presentation and disclosure requirements designed to facilitate comparisons between entities that choose different measurement attributes for similar types of assets and liabilities. This Statement is effective for fiscal years beginning after November 15, 2007. The Company does not believe that the adoption of SFAS 159 will have a material impact on our results of operations or financial condition.

(C) LIQUIDITY

As of August 31, 2007, the Company had cash of $940,000, a decrease of $108,000 from May 31, 2007. Operating activities generated $48,000 of cash during the first three months of the fiscal year. At August 31, 2007, the Company had available borrowings on its debt facilities of approximately $579,000.

The Company believes its cost structure subsequent to the cost reduction actions during Q207 together with reasonable revenue run rates based on historical performance will generate positive cash flow during the remainder of fiscal 2008. The Company believes that the cash on hand together with cash flow from operations and its available borrowings under its credit facility will be sufficient for meeting its liquidity and capital resource needs for the next year.

(D) BALANCE SHEET COMPONENTS

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

	August 31, 2007
Property and equipment	$ 4,143
Accumulated depreciation and amortization	(3,936)
Property and equipment, net	$ 207
Common stock, $.10 par value	$ 1,221
Capital in excess of par value	18,037
Accumulated deficit	(27,602)
Accumulated other comprehensive income	(350)
Stockholders' deficit	$ (8,694)

SOFTECH, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(E) LOSS 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. At August 31, 2007 61,000 stock option shares 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):

	Three Month Periods Ended August 31, 2007	2006
Basic weighted average shares outstanding	12,213	12,213
Incremental shares from dilutive options	32	---
Weighted average of diluted shares outstanding	12,245	12,213

(F) COMPREHENSIVE INCOME/LOSS

The Company's comprehensive loss 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, 2007	2006
Net income (loss)	$ 1	$ (738)
Changes in:		
Foreign currency translation adjustment	1	(2)
Comprehensive income (loss)	$ 2	$ (740)

SOFTECH, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(G) 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):

Revenue:	Three Months Ended August 31, 2007	Three Months Ended August 31, 2006
North America	$ 2,079	$ 1,734
Asia	280	314
Europe	581	493
Eliminations	(224)	(45)
Consolidated Total	$ 2,716	$ 2,496

	August 31, 2007
Long Lived Assets:	
North America	$ 6,307
Europe	145
Consolidated Total	$ 6,452

SOFTECH, INC. AND SUBSIDIARIES

MANAGEMENT'S DISCUSSION AND ANALYSIS OF OPERATIONS

The statements made below with respect to SofTech's outlook for fiscal 2008 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. These include, among other risks and uncertainties, general business and economic conditions, generating sufficient cash flow from operations to fund working capital needs, continued integration of acquired entities, potential obsolescence of the Company's technologies, maintaining existing relationships with the Company's lenders, successful introduction and market acceptance of planned new products and the ability of the Company to attract and retain qualified personnel both in our existing markets and in new territories in an extremely competitive environment.

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.

The Company's significant accounting policies are described in Note B to these financial statements. The Company believes that the following accounting policies require the application of management's most difficult, subjective or complex judgments:

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 collectibility 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. Revenue from customer maintenance support agreements is deferred and recognized ratably over the term of the agreements. Revenue from engineering, consulting and training services, primarily performed on a time and material basis, is recognized as those services are rendered.

VALUATION OF LONG-LIVED AND INTANGIBLE ASSETS

The Company periodically reviews 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, 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.

VALUATION OF GOODWILL

Effective June 1, 2002, the Company adopted the provisions of SFAS No. 142, "Goodwill and Other Intangible Assets". This statement affects the Company's treatment of 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 those periods. Amortization of goodwill and intangible assets with indeterminable lives ceased as of June 1, 2002.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF OPERATIONS

As of May 31, 2007, 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.

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 collectibility 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 the Company generating sufficient taxable income in future years during the period over which temporary differences reverse. The Company's deferred tax assets are currently fully reserved.

RESULTS OF OPERATIONS
Revenue for the three month period ended August 31, 2007 was approximately $2.7 million as compared to approximately $2.5 million for the same periods in the prior fiscal year. This represents an increase of 8.8% for the first quarter of fiscal 2008.

Product revenue for the three month period ended August 31, 2007 was approximately $477,000 as compared to $388,000 for the same period in the prior fiscal year. This represents an increase of 22.9% for Q1 2008. The majority of the product revenue increase for the quarter ended August 31, 2007 as compared to the same period in fiscal 2007 was related to an increase in order flow from the ProductCenter and Cadra product lines.

Service revenue for the three month period ended August 31, 2007 was approximately $2.2 million as compared to approximately $2.1 million for the same period in fiscal 2007. This represents an increase of 6.2% for Q1 2008 as compared to the same period in fiscal 2007. The 43% increase in service revenue was mainly attributed to ProductCenter consulting services as a result of an increase in license sales in the U.S. and Europe as compared to the same period in the prior fiscal year. Maintenance revenue for the three month period increase by 2% as compared to the same period in fiscal 2007.

Revenue generated in the U.S. accounted for 77% of total revenue for the three month period ended August 31, 2007 as compared to 69% of total revenue for the same period in the previous year. Revenue generated in Europe for the three month period ended August 31, 2007 was 21% of total revenue as compared to 20% of total revenue for the same period in prior fiscal year. Revenue generated in Asia for the three month period ended August 31, 2007 was 10% of total revenue, as compared to 13% of total revenue for the same period in fiscal 2007. For the three month period ended August 31, 2007 revenue changes as compared to the same period in the prior fiscal year by geography were as follows: the U.S. increased by about 17%, Europe increased by about 18%, and Asia decreased by about 11%." . The increased revenue in the U.S. and Europe were primarily a result of increased orders for our ProductCenter offering. The decrease in Asia revenue was attributed to the timing of incoming Cadra maintenance renewals.

SOFTECH, INC. AND SUBSIDIARIES

MANAGEMENT'S DISCUSSION AND ANALYSIS OF OPERATIONS

Gross margin as a percentage of revenue was 70.4% for the three month period ended August 31, 2007, as compared to 69.8% and for the same period in fiscal 2007. The gross margin increase in Q108 compared to Q107 was due to the increase in revenue. Total revenue increased by 8.8% in Q108 compared to Q107 and royalties for third party products increased 6.6% when compared to the same period in the prior year.

Research and development expenses ("R&D") were $447,000 for the three month period ended August 31, 2007, as compared to $705,000 the same period in the prior fiscal year. This represents a decrease of 36.6% for the three month period ended August 31, 2007, as compared to the same period in the prior fiscal year. The reduced spending was the result of reduced investment, mostly in the form of reduced headcount, related to our legacy technologies. While the Company remains committed to improving those technologies and ensuring their compatibility with current operating systems, our spending must reflect the reality of the revenue trend for these product lines.

Selling, general and administrative ("SG&A") expenses were $1.1 million for the three month period ended August 31, 2007 as compared to $1.4 million for the same period in fiscal 2007. This represents a decrease of approximately 23% for the three month period ended August 31, 2007, as compared to the same period in the prior fiscal year. The decrease is due primarily to the reduction of certain Cadra sales and support personnel in the U.S. and Europe in Q207.

The non-cash expenses related to the amortization of capitalized software and other intangible assets were $354,000 for the three month period ended August 31, 2007 and 2006.

Interest expense for the three month period ended August 31, 2007 was approximately $359,000, as compared to $340,000 for the same period in fiscal 2007. This represents an increase of 5.6% for the first quarter of fiscal 2008 compared to the same period in the previous fiscal year. For the quarter, the average borrowings decreased to approximately $13.5 million during the current quarter as compared to $13.7 million for the same period in fiscal 2007 and the interest rate on those borrowings increased to about 10.5% in the current quarter from 10% for the same period in fiscal 2007.

The net income for the three month period ended August 31, 2007 was $1,000 as compared to a net loss of $(738,000) for the same period in the prior fiscal year. The earnings per share for the three month period ended August 31, 2007 was zero. The loss per share for the three month period ended August 31, 2006 was $(.06).

CAPITAL RESOURCES AND LIQUIDITY

As of August 31, 2007, the Company had cash of $940,000, a decrease of $108,000 from May 31, 2007. Operating activities generated $48,000 of cash during the first three months of the fiscal year and debt payments under the line of credit utilized $154,000. At August 31, 2007, the Company had available borrowings on its debt facilities of approximately $579,000.

The Company believes its cost structure subsequent to the cost reduction actions in the prior fiscal year together with reasonable revenue run rates based on historical performance will generate positive cash flow during the remainder of fiscal 2008. The Company believes that the cash on hand together with cash flow from operations and its available borrowings under its credit facility will be sufficient for meeting its liquidity and capital resource needs for the next year.

SOFTECH, INC. AND SUBSIDIARIES

MANAGEMENT'S DISCUSSION AND ANALYSIS OF OPERATIONS

FACTORS THAT MAY AFFECT FUTURE RESULTS

The Company's business is subject to many uncertainties and risks. This Form 10-QSB also contains certain forward-looking statements within the meaning of the Private Securities Reform Act of 1995. The Company's future results may differ materially from its current results and actual results could differ materially from those projected in the forward looking statements as a result of certain risk factors, including but not limited to those set forth below, other one-time events and other important factors disclosed previously and from time to time in the Company's other filings with the SEC.

Our quarterly results may fluctuate. The Company's 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 our 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, the Company has often recognized a substantial portion of its 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 its results of operations are not necessarily meaningful and should not be relied upon as indications of future performance.

We may not generate positive cash flow in the future. During fiscal years 1998 through 2001 we generated significant cash losses from operations. The Company took aggressive cost cutting steps and reorganized its operations at the beginning of fiscal 2002. These actions have greatly reduced our fixed costs and resulted in positive cash flow from operations for five of our last six fiscal years. During Q1 2008 we also generated positive cash flow and net income, although nominal, for the first time in many years. It is our expectation that we can continue to improve on our recent success, however, there can be no assurances that the Company will continue to generate positive cash in the future.

Decline in business conditions and Information Technology (IT) spending could cause a decline in revenue. Business conditions and the level of IT spending have improved in the recent past as evidenced by our revenue growth. However, there can be no assurance that this recent improvement will continue given the difficult to forecast economic environment. If IT spending declines the Company's revenues and profitability could be adversely impacted.

The Company is dependent on its lender for continued support. We have a strong relationship with our sole lender, Greenleaf Capital. They currently represent our sole source of financing. Greenleaf Capital is the company's largest shareholder owning 44.6% and has been the company's sole debt provider since 1996. (See Note I to the Consolidated Financial Statements.)

The Company utilizes partnerships with various third party vendors and relies upon certain of their software and utilities to continue to develop and support ProductCenter customers with their integrations from ProductCenter to their respective CAD solution. These agreements are subject to termination at will by the vendor and would require the Company to seek alternative methods of providing continuing support for its existing customers and an alternative solution to meet the needs of prospective customers which could have a material effect on future performance. On July 20, 2007, the Company was informed that its agreement with one such vendor, Parametric Technology Corporation (PTC) will not be extended beyond its renewal date of January 31, 2008. The Company is investigating and validating viable alternatives for our current and future customers who would require a Pro/ENGINEER integrator solution and we are also assessing the impact that this non-renewal will have on our current and future business. Approximately 60% of our current ProductCenter customer base utilizes our current Pro/ENGINEER integrator solution.

SOFTECH, INC. AND SUBSIDIARIES

MANAGEMENT'S DISCUSSION AND ANALYSIS OF OPERATIONS

REVENUE DECLINE FOR CERTAIN PRODUCT LINES. We experienced revenue declines from 2005 to 2006 of 11% for our Cadra product line and 4% for our AMT product line. The declines for the same period for software maintenance revenue was about 11% for each of those product lines. While we understand that as these technologies age the revenue will decline as a normal part of the technology life cycle, double digit declines from year to year were not expected. Should this unexpected fiscal 2008 revenue decline for these product lines continue it will materially negatively impact the Company's overall financial performance.

ITEM 3. CONTROLS AND PROCEDURES

The Company's President and Chief Financial Officer are responsible for establishing and maintaining disclosure controls and procedures for the Company. Such officers have concluded (based upon thier evaluation of these controls and procedures as of a date within 90 days of the filing of this report) that the Company's disclosure controls and procedures are effective to ensure that information required to be disclosed by the Company in this report is accumulated and communicated to the Company's management, including its principal executive officers as appropriate, to allow timely decisions regarding required disclosure.

The Certifying Officers also have indicated that there were no significant changes in the Company's internal controls or other factors that could significantly affect such controls subsequent to the date of their evaluation, and there were no corrective actions with regard to significant deficiencies and material weaknesses.

PART II. OTHER INFORMATION

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(b) Reports on Form 8-K

None.

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 15, 2007

/s/ Amy E. McGuire

Amy E. McGuire
Chief Financial Officer

Date: October 15, 2007

/s/ Jean J. Croteau

Jean J. Croteau
President