SOFTECH INC
Form 10QSB
April 14, 2003

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 February 28,2003	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 March 31, 2003 was 12,205,236 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)	
	February 28, 2003 (unaudited)	May 31, 2002 (audited)
ASSETS		
Cash and cash equivalents	$ 1,074	$ 708
Accounts receivable, net	2,951	1,671
Prepaid expenses and other assets	169	170
Total current assets	4,194	2,549
Property and equipment, net (Note B)	252	330
Capitalized software costs, net	8,216	9,371
Identifiable intangible purchased assets, net	2,750	-
Goodwill, net	4,370	2,197
Marketable securities	-	106
Other assets	143	143

TOTAL ASSETS	$ 19,925	$ 14,696
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Accounts payable	$ 524	$ 372
Accrued expenses	1,909	694
Deferred maintenance revenue	4,370	2,642
Current portion of capital lease obligations	58	79
Current portion of long term debt	1,099	714
Total current liabilities	7,960	4,501
Capital lease obligations, net of current portion	-	23
Non-current liabilities	774	459
Long-term debt, net of current portion	13,313	10,589
Total long-term liabilities	14,087	11,071
Stockholders' deficit	(2,122)	(876)
TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT	$ 19,925	$ 14,696

See accompanying notes to consolidated condensed financial statements.

SOFTECH, INC. AND SUBSIDIARIES
CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS
(Unaudited)

	(in thousands, except fo Three Months February 28, 2003
Revenue	
Products	$ 989

Services	2,167
Total revenue	3,156
Cost of products sold	16
Cost of services provided	332
Gross margin	2,808
Research and development expenses	706
Selling, general and administrative	2,282
Income (loss) from operations before interest expense and income taxes	(180)
Interest expense	314
Loss from operations before income taxes	(494)
Provision for income taxes	-
Net loss	$ (494)
Basic and diluted net loss per common share	$ (0.04)
Weighted average common shares outstanding	12,205

See accompanying notes to consolidated condensed financial statements.

SOFTECH, INC. AND SUBSIDIARIES
CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS
(Unaudited)

	(in thousands, except fo Nine Months
	February 28, 2003
Revenue	
Products	$ 2,124
Services	4,979
Total revenue	7,103

Cost of products sold	49
Cost of services provided	469
Gross margin	6,585
Research and development expenses	1,402
Selling, general and administrative	5,532
Loss from operations before interest expense and income taxes	(349)
Interest expense	890
Loss from operations before income taxes	(1,239)
Provision for income taxes	-
Net loss	$ (1,239)
Basic and diluted net loss per common share	$ (0.10)
Weighted average common shares outstanding	12,205

See accompanying notes to consolidated condensed financial statements.

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

	(dollars in thou Nine Months E
	February 28, 2003
Cash flows from operating activities:	
Net loss	$ (1,239)
Adjustments to reconcile net loss to net cash provided (used) by operating activities:	
Depreciation and amortization	1,703
Change in current assets and liabilities:	
Accounts receivable	(900)
Prepaid expenses and other assets	134
Accounts payable and accrued expenses	706
Deferred maintenance revenue	285
Total adjustments	1,928

Net cash provided (used) by operating activities	689
Cash flows used by investing activities:	
Payments for business acquisition, net of cash acquired	(3,305)
Capital expenditures	(83)
Net cash used by investing activities	(3,388)
Cash flows from financing activities:	
Principal payments under capital lease obligations	(44)
Proceeds from line of credit agreements, net	3,109
Net cash provided by financing activities	3,065
Increase (decrease) in cash and cash equivalents	366
Cash and cash equivalents, beginning of period	708
Cash and cash equivalents, end of period	$ 1,074
Supplemental Disclosures of Cash Flow Information:	
Interest Paid	890
Income Taxes Paid	11

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 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 2002 Annual Report on Form 10-KSB.

(B) SIGNIFICANT ACCOUNTING POLICIES

REVENUE RECOGNITION:

The Company has adopted the provisions of Statement of Position No. 97-2, "Software Revenue Recognition" (SOP 97-2) as amended by SOP No. 98-9, in recognizing revenue from software transactions. Revenue from software license sales are recognized when persuasive evidence of an arrangement exists, delivery of the product has been made, and a fixed fee and collectibility has been determined. To the extent that obligations exist for other services, the Company allocates revenue between the license and the services based upon their relative fair value. 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.

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. 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.

ACCOUNTING FOR GOODWILL AND OTHER INTANGIBLE ASSETS

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 ceased as of May 31, 2002.

The Company completed the first step of the transitional goodwill impairment test during the three months ended November 30, 2002 based on the amount of goodwill as of the beginning of fiscal year 2003, as required by SFAS No. 142. The Company utilized a third party independent valuation to determine the fair value of each of the reporting units based on a discounted cash flow income approach. Based on the results of the first step of the transitional goodwill impairment test, the Company has determined that the fair value of each of the reporting units exceeded their carrying amounts and, therefore, no goodwill impairment existed as of June 1, 2002. As a result, the second step of the transitional goodwill impairment test is not required to be completed. These valuations contain certain assumptions concerning estimated future revenues and future expenses for each of our two product lines, Cadra and AMT, using our fiscal 2003 budget as the baseline. For Cadra, we projected that annual revenue would decrease at rates between 1.7% and 2.4% and expenses would increase at annual rates of about 1.5%. For AMT, we projected annual revenue would increase at annual rates between 2.5% and 3.3% and that expenses would increase at annual rates of about 1.5%. No additional revenue was projected for new product offerings for either product line. Should actual results differ from these estimate, an impairment charge may be necessary in subsequent periods. The Company will be required to continue to perform a goodwill impairment test on an annual basis.

The Company did not record expense related to the amortization of goodwill during the three and nine months ended February 28, 2003. The Company has determined that all of its intangible assets (other than goodwill) have finite lives and, therefore, the Company has continued to amortize its intangible assets.

	Three Months Ended February 28 (000's) (unaudited)	
	2003	2002
Reported net loss	$(494)	$(591)
Add back: Goodwill amortization	--	258
Adjusted net loss	$(494)	$(333)
Basic and diluted loss per share, as reported	$(.04)	$(.06)
Basic and diluted loss per share, as adjusted	$(.04)	$(.03)

	Nine Months Ended February 28 (000's) (unaudited)	
	2003	2002
Reported net loss	$(1,239)	$(1,635)
Add back: Goodwill amortization	--	772
Adjusted net loss	$(1,239)	$ (863)
Basic and diluted loss per share, as reported	$ (.10)	$ (.15)
Basic and diluted loss per share, as adjusted	$ (.10)	$ (.08)

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.

FOREIGN CURRENCY TRANSLATION:

The functional currency of the Company's foreign operations (France, 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 are included in the statement of operations.

SOFTECH, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

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 allowance for doubtful accounts, valuation of long lived assets including goodwill and intangibles (capitalized software costs) and deferred tax assets. Actual results could differ from those estimates.

(C) LIQUIDITY

The Company ended the first nine months of fiscal 2003 with cash of approximately $1.1 million of which $215,000 is restricted. Operating activities provided approximately $689,000 of cash during the first nine months of the fiscal year. The net loss adjusted for non-cash expenditures related to amortization and depreciation provided cash of $464,000. An increase in accounts receivable used $900,000, a decrease in prepaid and other assets provided $134,000 and an increase in liabilities provided approximately $991,000.

These funds provided from operations together with additional borrowings, net of repayments, of about $3.1 million under the Company's debt facilities were utilized to purchase the shares of Workgroup Technology Corporation ("WTC") as described under Note K.

Although the Company believes its current cost structure together with reasonable revenue run rates based on historical performance will generate positive cash flow in fiscal 2003, the current economic environment especially in the manufacturing sector makes forecasting revenue based on historical models difficult and somewhat unreliable.

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. With the completion of the WTC acquisition, the Company amended its lease for office space at its headquarters in Tewksbury, Massachusetts. As part of that amendment, the Company provided the lessor with a letter of guarantee from a commercial bank for $375,000. At February 28, 2003, the Company had available borrowings on its debt facilities of approximately $3.2 million.

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

	February 28, 2003 (unaudited)	May 31, 2002 (audited)

Property and equipment	$ 3,723	$ 3,568
Accumulated depreciation and amortization	(3,471)	(3,238)
Property and equipment, net	$ 252	$ 330

Common stock, $.10 par value	$ 1,274	$ 1,274
Capital in excess of par value	19,544	19,544
Accumulated deficit	(21,158)	(19,919)
Cumulative translation adjustment	(221)	(166)
Unrealized loss on marketable securities	-	(48)
Less treasury stock	(1,561)	(1,561)
Stockholders' deficit	$ (2,122)	$ (876)

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. Options to purchase shares of common stock have been excluded from the denominator for the computation of diluted earnings per share for all periods presented in fiscal 2003 and 2002 because their inclusion would be antidilutive. The weighted average shares outstanding for each of the income statements included in this filing are presented below:

	For the Three Month Periods Ended	
	February 28, 2003 (unaudited)	February 28, 2002 (unaudited)
Basic weighted average shares outstanding	12,205,236	10,741,784
Effect of employee stock options outstanding	--	--
Diluted	12,205,236	10,741,784

	For the Nine Month Periods Ended	
	February 28, 2003 (unaudited)	February 28, 2002 (unaudited)
Basic weighted average shares outstanding	12,205,236	10,741,784
Effect of employee stock options outstanding	--	--
Diluted	12,205,236	10,741,784

(F) COMPREHENSIVE LOSS

The Company's comprehensive loss includes accumulated foreign currency translation adjustments and unrealized gain (loss) on marketable securities. For the three and nine month periods ended at February 28, 2003 and 2002, the comprehensive loss was as follows (000's):

	Three Month Periods Ended February 28, 2003 (unaudited)	2002 (unaudited)
Net loss	$ (494)	$ (591)
Changes in:		
Foreign currency translation adjustment	(67)	12
Unrealized loss on marketable securities	(4)	--
Comprehensive loss	$ (565)	$ (579)

SOFTECH, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

	Nine Month Periods Ended February 28, 2003 (unaudited)	2002 (unaudited)
Net loss	$ (1,239)	$ (1,635)
Changes in:		
Foreign currency translation adjustment	(56)	17
Unrealized gain on marketable securities	73	--
Comprehensive loss	$ (1,222)	$ (1,618)

(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 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 February 28, 2003 (unaudited)	Three Months Ended February 28, 2002 (unaudited)
North America	$2,625	$1,306
Asia	280	466
Europe	522	578
Eliminations	(271)	(77)
Consolidated Total	$3,156	$2,273

Revenue:	Nine Months Ended February 28, 2003 (unaudited)	Nine Months Ended February 28, 2002 (unaudited)
North America	$4,925	$4,142
Asia	749	996
Europe	1,931	1,814
Eliminations	(502)	(251)
Consolidated Total	$7,103	$6,701

Long-Lived Assets:	February 28, 2003 (unaudited)	May 31, 2002 (audited)
North America	$15,536	$12,050
Europe	195	97
Consolidated Total	$15,731	$12,147

(H) NEW ACCOUNTING PRONOUNCEMENTS

On December 31, 2002, the FASB issued FASB Statement No. 148 (SFAS 148), Accounting for Stock-Based Compensation -- Transition and Disclosure, amending FASB Statement No. 123 (SFAS 123), Accounting for Stock-Based Compensation. This Statement amends SFAS 123 to provide

alternative methods of transition for an entity that voluntarily changes to the fair value based method of accounting for stock-based employee compensation. It also amends the disclosure provisions of that Statement to require prominent disclosure about the effects on reported net income of an entity's accounting policy decisions with respect to stock-based employee compensation. Finally, SFAS 148 amends APB Opinion No. 28, Interim Financial Reporting, to require disclosure about those effects in interim financial information. For entities that voluntarily change to the fair value based method of accounting for stock-based employee compensation, the transition provisions are effective for fiscal years ending after December 15, 2002. For all other companies, the disclosure provisions and the amendment to APB No. 28 are effective for interim periods beginning after December 15, 2002. We are currently evaluating the impact of SFAS 148 on our financial statements and related disclosures.

On November 25, 2002, the FASB issued FASB Interpretation No. 45 ("FIN 45"), Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others, an interpretation of FASB Statements No. 5, 57, and 107 and Rescission of FASB Interpretation No. 34. FIN 45 clarifies the requirements of FASB Statement No. 5, Accounting for Contingencies (SFAS 5), relating to the guarantor's accounting for, and disclosure of, the issuance of certain types of guarantees. FIN 45 requires that upon issuance of a guarantee, the guarantor must recognize a liability for the fair value of the obligation it assumes under that guarantee. FIN 45 covers guarantee contracts that have any of the following four characteristics: (a) contracts that contingently require the guarantor to make payments to the guaranteed party based on changes in an underlying that is related to an asset, a liability, or an equity security of the guaranteed party (e.g., financial and market value guarantees), (b) contracts that contingently require the guarantor to make payments to the guaranteed party based on another entity's failure to perform under an obligating agreement (performance guarantees), (c) indemnification agreements that contingently require the indemnifying party (guarantor) to make payments to the indemnified party (guaranteed party) based on changes in an underlying that is related to an asset, a liability, or an equity security of the indemnified party, such as an adverse judgment in a lawsuit or the imposition of additional taxes due to either a change in the tax law or an adverse interpretation of the tax law, and (d) indirect guarantees of the indebtedness of others. FIN 45 specifically excludes certain guarantee contracts from its scope. Additionally, certain guarantees are not subject to FIN 45's provisions for initial recognition and measurement but are subject to its disclosure requirements. The initial recognition and measurement provisions are effective for guarantees issued or modified after December 31, 2002. The disclosure requirements are effective for our annual financial statements the year ended May 31, 2003. We are currently evaluating the impact of FIN 45 on our financial statements and related disclosures.

In January 2003 the FASB issued FIN 46, an interpretation of accounting Research Bulletin No. 51, Consolidating Financial statements. FIN 46 addresses consolidating by business enterprises of variable interest entities. Under current practice, consolidation occurs when one enterprise controls the other through voting interests. FIN 46 explains how to identify variable interest entities and how an enterprise assesses its interest in a variable interest entity to decide whether to consolidate that entity. FIN 46 requires existing unconsolidated variable interest entities to be consolidated by their primary beneficiary if the entities do not effectively disperse risks among the parties involved. Variable interest entities that effectively disperse risks will not be consolidated unless a single party holds an interest or combination of interests that effectively negates such risk dispersion. FIN 46 applies immediately for variable interest entities created after January 31, 2003 and to variable interest entities in which an enterprise obtains an interest after that date. It applies in the first interim period beginning after June 15, 2003 to variable interest entities in which an enterprise holds a variable interest that is acquired before February 1, 2003. Management believes that it does not have a variable interest in an entity that is not consolidated in its financial position or its results of operations.

In August 2001, the FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations. SFAS No. 143 requires entities to record the fair value of a liability for an asset retirement obligation in the period in which it is incurred. When the liability is initially recorded, an entity capitalizes a cost by increasing the carrying amount of the long-lived asset. Over time, the liability is accreted to its present value each period and the capitalized cost is depreciated over the useful life of the related asset. Upon settlement of the liability, an entity either settles the obligation for its recorded amount or incurs a gain or loss upon settlement. The standard is effective for fiscal years beginning after June 15, 2002. Management believes the adoption of SFAS No. 143 will not have a material effect on the financial position or results of operations of the Company.

In July 2002, FASB issued Statement No. 146 "Accounting for Costs Associated with Exit or Disposal Activities", which becomes effective January 2003. SFAS No. 146 requires companies to recognize costs associated with exit or disposal activities when they are incurred rather than at the date of commitment. Management believes the adoption of SFAS No. 146 will not have a material effect on the financial position or results of operations or retained earnings.

(I) RECLASSIFICATIONS:

Certain prior year amounts have been reclassified to conform to the current year presentation. Research and development expense for the three and nine month periods ended February 28, 2002 included $527,000 and $1,414,000, respectively, of amortization and allocation of overhead cost that have been reclassified to selling, general and administrative expense to conform to the current year presentation. These reclassifications have no effect on the previously reported results of operations or retained earnings.

(J) AMENDMENT TO PROMISSORY NOTE

On November 8, 2002, the Company amended its Promissory Note with Greenleaf Capital, Inc. Under the amended agreement the Company increased its borrowing from $11.0 million to $15.0 million. In addition, the interest rate was reduced from 9.75% to Prime Rate plus 3.0% (currently 7.25%). This amendment was entered into in order to provide the Company sufficient capital to complete the acquisition of Workgroup Technology Corporation (see Note K). The Promissory Note expires on June 12, 2007.

(K) ACQUISITION

On December 18, 2002, the Company closed its all cash tender offer ("Offer") for all of the outstanding shares of common stock of Workgroup Technology Corporation, a Delaware corporation ("WTC"), at a price of $2.00 per share. WTC is a publicly traded company listed on the Over the Counter

Bulletin Board. WTC develops, supports and markets a software product to mechanical CAD ("Computer Aided Design") users that allows them to manage their design models. Its product offerings are compatible with SofTech's.

A total of 1,505,958 shares of WTC's common stock were tendered in the Offer, which, together with shares beneficially owned by SofTech prior to commencement of the Offer, represents approximately 88.8% of WTC's outstanding common stock. The source of the funds used to purchase the tendered shares under the Offer were borrowed from Greenleaf Capital, Inc., SofTech's principal stockholder, under an amended Promissory Note arrangement which increased the Company's available borrowings (See Note J).

The Offer was made pursuant to an Agreement and Plan of Merger, dated as of November 13, 2002, among WTC, SofTech and SofTech Acquisition Corp., a Delaware corporation and wholly owned subsidiary of SofTech formed for the purpose of making the Offer.

The aggregate purchase price for WTC was approximately $4.1 million including costs associated with completing the Offer. SofTech assumed net liabilities in the transaction of approximately $1.1 million bringing the total consideration paid to approximately $5.2 million. A third party appraisal of the long-lived assets of WTC was performed subsequent to the transaction and a draft report has been issued. The draft valuation report is being reviewed and evaluated at this time. Our preliminary conclusion based on this draft valuation report is that approximately $3.0 million of purchase price will be allocated to identifiable intangible assets such as contracts and technology acquired. These identifiable intangible assets will be amortized over their estimated useful lives of between three (3) and five (5) years. The remaining $2.2 million of the purchase price will be allocated to goodwill. Goodwill is not subject to amortization. These preliminary allocations based on the draft valuation report may change after the review and evaluation has been completed and the valuation report is finalized. Included in the purchase price is an accrual of approximately $461,000 related to the costs associated with purchasing the 205,000 shares not tendered in the Offering and payments due certain stock option holders with "in-the-money" vested stock options at acquisition date.

SOFTECH, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

The unaudited pro forma results of operations set forth below for the three and nine months ended February 28, 2003 and 2002 assume that the WTC acquisition had occurred as of the beginning of each of these periods (000's):

	Three Months Ended February 28, (unaudited)	
	2003	2002
Revenue	$ 3,464	$ 4,057
Net loss	(454)	(1,530)
Net loss per share:		

Basic	(.04)	(.14)
Diluted	(.04)	(.14)

	Nine Months Ended February 28, (unaudited)	
	2003	2002
Revenue	$ 10,714	$ 12,338
Net loss	(2,219)	(5,071)
Net loss per share:		
Basic	(.18)	(.47)
Diluted	(.18)	(.47)

(L) COMBINED PRO FORMA RESULTS

The unaudited pro forma results of operations set forth below for the three and nine months ended February 28, 2003 and 2002 combine the pro forma adjustments related to the WTC acquisition detailed in Note (K) above with the pro forma adjustments related to the cessation in goodwill amortization detailed in Note (B) above (000's):

	Three Months Ended February 28, (unaudited)	
	2003	2002
Revenue	$ 3,464	$ 4,057
Net loss	(454)	(1,530)
Add back: Goodwill amortization	--	441
Adjusted net loss	(454)	(1,089)
Net loss per share:		
Basic	(.04)	(.10)
Diluted	(.04)	(.10)

	Nine Months Ended February 28, (unaudited)	
	2003	2002
Revenue	$ 10,714	$ 12,338
Net loss	(2,219)	(5,071)
Add back: Goodwill amortization	--	1,322
Adjusted net loss	(2,219)	(3,749)
Net loss per share:		
Basic	(.18)	(.35)
Diluted	(.18)	(.35)

SOFTECH, INC. AND SUBSIDIARIES

MANAGEMENT'S DISCUSSION AND ANALYSIS OF OPERATIONS

The statements made below with respect to SofTech's outlook for fiscal 2003 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 CAD and CAM technologies, potential unfavorable outcome to existing litigation, maintaining existing relationships with the Company's lenders, remaining in compliance with debt covenants, 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 JUDGEMENTS 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 A to the Company's consolidated financial statements, contained in its May 31, 2002 Annual Report on Form 10-K, as filed with the SEC. The Company believes that the following accounting policies require the application of management's most difficult, subjective or complex judgments:

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 LONG-LIVED AND INTANGIBLE ASSETS

We assess the recoverability of long-lived assets and intangible assets whenever we determine that events or changes in circumstances indicate that their carrying amount may not be recoverable. Our assessment is primarily based upon our estimate of future cash flows associated with these assets. These valuations contain certain assumptions concerning estimated future revenues and future expenses for each of our two product lines, Cadra and AMT, using our fiscal 2003 budget as the baseline. For Cadra, we projected that annual revenue would decrease at rates between 1.7% and 2.4% and expenses would increase at annual rates of about 1.5%. For AMT, we projected annual revenue would increase at annual rates between 2.5% and 3.3% and that expenses would increase at annual rates of about 1.5%. No additional revenue was projected for new product offerings for either product line. A third party valuation of our acquisition of WTC was also completed subsequent to the acquisition. We have not determined that there has been an indication of impairment of any of our assets. However, should our operating results deteriorate, we may determine that some portion of our long-lived assets or intangible assets are impaired. Such determination could result in non-cash charges to income that could materially affect our financial position or results of operations for that period

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.

The Company completed the first step of the transitional goodwill impairment test during the three months ended November 30, 2002 based on the amount of goodwill as of the beginning of fiscal year 2003, as required by SFAS No. 142. The Company utilized a third party independent valuation to determine the fair value of each of the reporting units based on a discounted cash flow income approach. Based on the results of the first step of the transitional goodwill impairment test, the Company has determined that the fair value of each of the reporting units exceeded their carrying amounts and, therefore, no goodwill impairment existed as of June 1, 2002. As a result, the second step of the transitional goodwill impairment test is not required to be completed. The Company will be required to continue to perform a goodwill impairment test on an annual basis.

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 and nine month periods ended February 28, 2003 was $3.2 million and $7.1 million, respectively. Revenue for the same periods in the prior fiscal year was $2.3 million and $6.7 million. This represents an increase from fiscal 2002 to fiscal 2003 in total revenue of about $.9 million or 39% for the three month period and $.4 million or 6% for the nine month period. The results of operations of WTC were included in the current quarter's results since the acquisition date of December 18, 2002 and contributed approximately $1.4 million to the current quarter's revenue accounting for the revenue increase for both of the periods presented.

Product revenue for the three and nine month periods ended February 28, 2003 was approximately $1.0 million and $2.1 million, respectively, as compared to $.7 million and $1.7 million for the same periods in the prior fiscal year. This represents an increase from fiscal 2002 to fiscal 2003 of about $.3 million or 47% for the three month period and $.4 million or 22% for the nine month period. WTC contributed approximately $.6 million of license revenue for the current quarter results accounting for the license revenue increase for both of the periods presented.

Service revenue for the three and nine month periods ended February 28, 2003 was $2.2 million and $5.0 million, respectively, as compared to $1.6 million and $5.0 million for the same periods in the prior fiscal year. This represents an increase of about $.6 million or 36% from fiscal 2002 to fiscal 2003 for the three month period. Service revenue for the nine month period was flat in fiscal 2003 as compared to the same period in fiscal 2002. WTC contributed approximately $.8 million to the current quarter's service revenue. This component of revenue is made up primarily of amortization of one year software maintenance agreements that are much less likely to be negatively impacted by short term economic conditions. Renewing maintenance on technology in which a user has already invested in a perpetual license is important to protect that customer's engineering environment.

Prior to the acquisition of WTC, the Company had taken action to reduce its headcount across all geographies and product lines over the past few years as the reduced capital spending throughout the worldwide manufacturing marketplace had negatively impacted our license revenue. With the reduced headcount the Company has also taken steps to reduce it spending on infrastructure. Much consolidation has taken place during that time period to reduce office locations and focus our resources on our installed base. This has resulted in significantly reduced operating expenditures and overhead allocations to various development, sales and administrative groups.

For the three and nine month periods ended February 28, 2003, operating costs totaled $ 3.0 million and $6.9 million, respectively. Operating expenses for the same periods in the prior fiscal year were $2.5 million and $7.1 million, respectively. The operating expenses associated with WTC included in results of operations since the acquisition date totaled $1.3 million. Operating expenses excluding the impact of the WTC business were $.8 million or 32% lower in the current quarter as compared to the same period in fiscal 2002. Operating expenses excluding the impact of the WTC business were $1.5 million or 21.3% lower for the current nine month period as

compared to the same period in fiscal 2002. Included in operating expenses are non-cash expenses primarily related to the amortization of intangible assets of $.7 million and $1.7 million for the three and nine month periods ended February 28, 2003, respectively. The non-cash charges for the same periods in fiscal 2002 totaled $ .8 million and $2.3 million, respectively. The fiscal 2002 non-cash charges included goodwill amortization of approximately $.3 million and $.8 million for the three and nine month periods, respectively, which is no longer subject to periodic write off.

Research and development expenses ("R&D") were $.7 million and $1.4 million for the three and nine month periods ended February 28, 2003, respectively, as compared to $.4 million and $1.1 million for the same periods in the prior fiscal year. The increase in R&D expenditures in both periods is due primarily to the addition of WTC's development engineers.

Selling, general and administrative ("SG&A") expense was $2.3 million and $5.5 million for the three and nine month periods ended February 28, 2003, respectively, as compared to $2.1 million and $6.0 million for the same periods in the prior fiscal year. WTC's SG&A expenditures since acquisition date totaled approximately $.9 million. This WTC related increase offset the previously noted cost reductions and non-cash charges related to goodwill recorded in fiscal 2002.

Interest expense for the three and nine month periods ended February 28, 2003 was approximately $.3 million and $.9 million, respectively, representing no material change from the debt service expenditures in the corresponding periods in fiscal 2002. The additional interest charges on the borrowings drawn in the current quarter to acquire WTC were offset by reduced interest rates negotiated in the amendment to the promissory Note as detailed in Note J. hereto.

The loss from operations for the three and the nine month periods ended February 28, 2003 was $.5 million and $1.2 million, respectively, as compared to a loss from operations of $.6 million and $1.6 million for the same periods in the prior fiscal year. The loss per share for the three and nine month periods ended February 28, 2003 was $(.04) and $(.10), respectively, as compared to $(.06) and $(.15) for the same periods in the prior fiscal year.

CAPITAL RESOURCES AND LIQUIDITY

The Company ended the third quarter of fiscal 2003 with cash of approximately $1.1 million of which $215,000 is restricted. This represents an increase in total cash of about $.4 million from the fiscal year end 2002 balance. Operating activities provided approximately $689,000 of cash during the first nine months of the fiscal year. The net loss adjusted for non-cash expenditures related to amortization and depreciation provided cash of $464,000. An increase in accounts receivable used cash of $900,000, a decrease in prepaid and other assets provided cash of $134,000 and an increase in liabilities provided cash of approximately $991,000.

These funds provided from operations together with additional borrowings, net of repayments, of about $3.1 million under the Company's debt facilities were utilized to purchase the shares of WTC as described in Note K.

Although the Company believes its current cost structure together with reasonable revenue run rates based on historical performance will continue to generate positive cash flow, the current economic environment especially in the manufacturing sector makes forecasting revenue based on historical models difficult and somewhat unreliable.

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. With the completion of the WTC acquisition, the Company amended its lease for office space at its headquarters in Tewksbury, Massachusetts. As part of that amendment, the Company provided the lessor with a letter of guarantee from a commercial bank for $375,000. At February 28, 2003, the Company had available borrowings on its debt facilities of approximately $3.2 million.

FACTORS THAT MAY AFFECT FUTURE RESULTS

The Company's business is subject to many uncertainties and risks. This Form 10-Q also contains certain

SOFTECH, INC. AND SUBSIDIARIES

MANAGEMENT'S DISCUSSION AND ANALYSIS OF OPERATIONS

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; 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 does 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. For the three full fiscal years prior to fiscal year 2002 we generated significant cash losses from operations. The Company took aggressive cost cutting steps that greatly reduced our fixed costs and resulted in positive cash flow from operations in fiscal 2002 and for the nine months ended February 28, 2003. However, there can be no assurances that the Company will continue to generate positive cash in the future.

CONTINUED DECLINE IN BUSINESS CONDITIONS AND INFORMATION TECHNOLOGY (IT) SPENDING COULD CAUSE FURTHER DECLINE IN REVENUE. The level of future IT spending remains very uncertain particularly in light of the decline in the business climate throughout 2001 and 2002 as does the prognosis for an economic recovery in the manufacturing sector. If IT spending continues to decline and the manufacturing sector continues to experience economic difficulty, The Company's revenues could be further adversely impacted.

OUR DESIGNGATEWAY TECHNOLOGY MAY NOT GAIN MARKET ACCEPTANCE. The Company introduced a new product known as DesignGateway. The technology is important in the Company's future plans to both reduce its dependence on its existing products for revenue but also to play a greater role in our customers engineering departments. There can be no assurances that we will be successful in gaining market acceptance for this new technology especially during the recent economic challenges facing our customers in the manufacturing sector.

THE COMPANY IS DEPENDENT ON ITS LENDER FOR CONTINUED SUPPORT. We have a very strong relationship with our sole lender, Greenleaf Capital. They currently represent our sole source of financing and it is our belief that it would be difficult to find alternative financing sources in the event whereby the relationship with Greenleaf changed.

NEW ACCOUNTING PRONOUNCEMENTS

On December 31, 2002, the FASB issued FASB Statement No. 148 (SFAS 148), Accounting for Stock-Based Compensation -- Transition and Disclosure, amending FASB Statement No. 123 (SFAS 123), Accounting for Stock-Based Compensation. This Statement amends SFAS 123 to provide alternative methods of transition for an entity that voluntarily changes to the fair value based method of accounting for stock-based employee compensation. It also amends the disclosure provisions of that Statement to require prominent disclosure about the effects on reported net income of an entity's accounting policy decisions with respect to stock-based employee compensation. Finally, SFAS 148 amends APB Opinion No. 28, Interim Financial Reporting, to require disclosure about those effects in interim financial information. For entities that voluntarily change to the fair value based method of accounting for stock-based employee compensation, the transition provisions are effective for fiscal years ending after December 15, 2002. For all other companies, the disclosure provisions and the amendment to APB No. 28 are effective for interim periods beginning after December 15, 2002. We are currently evaluating the impact of SFAS 148 on our financial statements and related disclosures.

On November 25, 2002, the FASB issued FASB Interpretation No. 45 ("FIN 45"), Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others, an interpretation of FASB Statements No. 5, 57, and 107 and Rescission of FASB Interpretation No. 34. FIN 45

clarifies the requirements of FASB Statement No. 5, Accounting for Contingencies (SFAS 5), relating to the guarantor's accounting for, and disclosure of, the issuance of certain types of guarantees. FIN 45 requires that upon issuance of a guarantee, the guarantor must recognize a liability for the fair value of the obligation it assumes under that guarantee. FIN 45 covers guarantee contracts that have any of the following four characteristics: (a) contracts that contingently require the guarantor to make payments to the guaranteed party based on changes in an underlying that is related to an asset, a liability, or an equity security of the guaranteed party (e.g., financial and market value guarantees), (b) contracts that contingently require the guarantor to make payments to the guaranteed party based on another entity's failure to perform under an obligating agreement (performance guarantees), (c) indemnification agreements that contingently require the indemnifying party (guarantor) to make payments to the indemnified party (guaranteed party) based on changes in an underlying that is related to an asset, a liability, or an equity security of the indemnified party, such as an adverse judgment in a lawsuit or the imposition of additional taxes due to either a change in the tax law or an adverse interpretation of the tax law, and (d) indirect guarantees of the indebtedness of others. FIN 45 specifically excludes certain guarantee contracts from its scope. Additionally, certain guarantees are not subject to FIN 45's provisions for initial recognition and measurement but are subject to its disclosure requirements. The initial recognition and measurement provisions are effective for guarantees issued or modified after December 31, 2002. The disclosure requirements are effective for our annual financial statements the year ended May 31, 2003. We are currently evaluating the impact of FIN 45 on our financial statements and related disclosures.

In January 2003 the FASB issued FIN 46, an interpretation of accounting Research Bulletin No. 51, Consolidating Financial statements. FIN 46 addresses consolidating by business enterprises of variable interest entities. Under current practice, consolidation occurs when one enterprise controls the other through voting interests. FIN 46 explains how to identify variable interest entities and how an enterprise assesses its interest in a variable interest entity to decide whether to consolidate that entity. FIN 46 requires existing unconsolidated variable interest entities to be consolidated by their primary beneficiary if the entities do not effectively disperse risks among the parties involved. Variable interest entities that effectively disperse risks will not be consolidated unless a single party holds an interest or combination of interests that effectively negates such risk dispersion. FIN 46 applies immediately for variable interest entities created after January 31, 2003 and to variable interest entities in which an enterprise obtains an interest after that date. It applies in the first interim period beginning after June 15, 2003 to variable interest entities in which an enterprise holds a variable interest that is acquired before February 1, 2003. Management believes that it does not have a variable interest in an entity that is not consolidated in its financial position or its results of operations.

In August 2001, the FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations. SFAS No. 143 requires entities to record the fair value of a liability for an asset retirement obligation in the period in which it is incurred. When the liability is initially recorded, an entity capitalizes a cost by increasing the carrying amount of the long-lived asset. Over time, the liability is accreted to its present value each period and the capitalized cost is depreciated over the useful life of the related asset. Upon settlement of the liability, an entity either settles the obligation for its recorded amount or incurs a gain or loss upon settlement. The standard is effective for fiscal years beginning after June 15, 2002. Management believes the adoption of SFAS No. 143 will not have a material effect on the financial position or results of operations of the Company.

In July 2002, FASB issued Statement No. 146 "Accounting for Costs Associated with Exit or Disposal Activities", which becomes effective January 2003. SFAS No. 146 requires companies to recognize costs associated with exit or disposal activities when they are incurred rather than at the date of commitment. Management believes the adoption of SFAS No. 146 will not have a material effect on the financial position or results of operations or retained earnings.

ITEM 3. CONTROLS AND PROCEDURES

The Company's Chief Operating Officer is responsible for establishing and maintaining disclosure controls and procedures for the Company. Such officer has concluded (based upon their 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 Officer also has 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

The Company filed a Form 8-K on January 2, 2003 related to the completion of its Offer to purchase WTC shares .

SIGNATURES

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

SOFTECH, INC.

Date: April 14, 2003

/s/ Joseph P. Mullaney
Joseph P. Mullaney
President
Chief Operating Officer

SOFTECH, INC.
2 Highwood Drive
Tewksbury, MA 01876

Certification Issued Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002)

I, Joseph P. Mullaney, President and Chief Operating Officer of SofTech, Inc., certify that:

1. I have reviewed this quarterly report on Form 10-QSB of SofTech, Inc.

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. I am responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and I have:

a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent function):

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: April 14, 2003

/s/ Joseph P. Mullaney
Joseph P. Mullaney
President
Chief Operating Officer

SofTech, Inc.
2 Highwood drive
Tewksbury, MA 01876

(Certification Issued Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002)

I, Joseph P. Mullaney, certify that:

1. I am the President and Chief Operating Officer of SofTech, Inc.

2. I have read the quarterly report of SofTech, Inc. filed on Form 10-QSB for the quarter ending February 28, 2003 (the "Report"), including the financial statements contained in the Report.

3. The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 and the information contained in this quarterly report fairly presents, in all material respects, the financial condition and results of operations of SofTech, Inc. for and as of the period described.

Date: April 14, 2003

/s/ Joseph P. Mullaney

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Joseph P. Mullaney
President
Chief Operating Officer