SOFTECH INC
Form 10-K/A
September 10, 2008

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

# Form 10-K/A

AMENDMENT NO. 1

TO

ANNUAL REPORT

PURSUANT TO SECTION 13 or 15(d)

OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended May 31, 2008

Commission file number 0-10665

SofTech, Inc.

(Exact name of registrant as specified in its charter)

| | |
|---|---|
| Massachusetts | 04-2453033 |
| (State or other jurisdiction of Incorporation or organization) | (IRS Employer Identification Number) |

| | |
|---|---|
| 59 Composite Way Suite 401, Lowell, Massachusetts | 01851 |
| (Address of principal executive offices) | (Zip Code) |

Registrant's telephone number, including area code: (978) 513-2700

Securities registered pursuant to Section 12(b) of the Act: None

Securities registered pursuant to Section 12(g) of the Act:
Common Stock, $.10 par value
(Title of Class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

o Yes x No

Indicate by check mark if the registrant is not required to file pursuant to Section 13 or Section 15(d) of the Act.

x Yes o No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act (Check one):

Large accelerated filer o Accelerated filer o Non-accelerated filer x

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). o Yes xNo

State the aggregate market value of the voting and nonvoting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, or the average bid and asked price of such common equity, as of the last business day of the registrant s most recently completed second fiscal quarter: $658,114.

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. Yesx No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. x

As of August 13, 2008, there were 12,213,236 shares of the registrant s common stock outstanding.

EXPLANATORY NOTE

We filed our Annual Report on Form 10-K for the fiscal year ended May 31, 2008 on August 27, 2008 (the Original Report ). We are filing this Amendment No. 1 on Form 10-K/A (the Amended Report ) for the purpose of making certain corrections to Items 7A, 11 and 15 of the Original Report. While other Items of the Original Report have not changed, they are repeated in this Amended Report for the convenience of the reader.

The amended Items (7A, 11 and 15) have not been updated to reflect events occurring after the date of the Original Report or to modify or update those disclosures affected by subsequent events. The Amended Report speaks as of the date of the filing of the Original Report, August 27, 2008. Events occurring after the date of the Original Report or other disclosures necessary to reflect subsequent events will be addressed in reports filed with the SEC that address financial reporting periods subsequent to the fiscal year ended May 31, 2008.

# PART I

## ITEM 1 BUSINESS

### OUR COMPANY

We were formed as a corporation in Massachusetts on June 10, 1969. We completed an initial public offering in August 1981 and a subsequent offering in December 1982. From inception until the disposition of the Government Systems Division in December 1993, our primary business was that of custom software development for the U.S. Government, primarily the Department of Defense.

After the sale of our Government Systems Division in December, 1993 and until December 1996, our only business was reselling hardware and software products of third parties and offering services related to such products (the Reseller Model ). Between December 1996 and December 2002, we acquired eight entities involved in developing, supporting and/or marketing software products and/or services to the Computer Aided Design and Manufacturing ( CAD/CAM ) and Product Data Management ( PDM ) marketplace. The three most significant acquisitions during this time period were the purchases of Workgroup Technology Corporation ( WTC ) in December 2002, Adra Systems, Inc. in May 1998, and the Advanced Manufacturing Technology ( AMT ) in November 1997. This aggressive acquisition strategy, funded primarily through debt, substantially increased our Company s risk profile but was required in order to create a viable and sustainable business.

### PRODUCTS AND SERVICES

We operate in one reportable segment and are engaged in the development, marketing, distribution and support of computer software solutions that enable companies to manage the entire lifecycle of their products from conception through design and manufacture, to service and disposal, all of which is known in the industry as Product Lifecycle Management ( PLM ) or Product Data Management ( PDM ). These solutions include software technology offerings for Computer Aided Design ( CAD ), Computer Aided Manufacturing ( CAM ), Product Data Management ( PDM ) and Collaboration technologies, all of which fit under the broadly defined PLM industry. Our operations are organized geographically in the U.S. and Europe. We have sales and customer support offices through out the US, France, Germany and Italy. We also operate through resellers in Europe and Asia. Components of revenue and long-lived assets (consisting primarily of intangible assets, capitalized software and property, plant and equipment) by geographic location are outlined in Note E to the financial statements.

A description of our primary product offerings are as follows:

Cadra   is a drafting and design software package for the professional mechanical engineer. The CADRA family of CAD/CAM products includes CADRA Design Drafting, a fast and highly productive mechanical design documentation tool; CADRA NC, a comprehensive 2 through 5 axis NC programming application; and CADRAWorks, an integration with SolidWorks providing for an integrated drawing production system and 3D solid modeler. The CADRA family of products is rounded out by an extensive collection of translators and software options that make it a seamless fit into today's multi-platform and multi-application organizations.



---

ProductCenter is a proven enterprise-wide, collaborative PLM solution delivering a unique and powerful combination of document management, design integration, configuration control, change management, bill of materials management and integration capability with other enterprise-wide systems. ProductCenter is designed to help companies rapidly optimize the product development process. ProductCenter provides for the secure management of product information and allows engineers and the entire design chain to manage, share, modify and track product data and documents throughout the product development lifecycle. ProductCenter supports engineering change management and bill of materials management for automating business processes. ProductCenter s web-based collaboration capabilities allow employees, customers, suppliers, and other globally dispersed team members to securely exchange product information while maintaining a centralized database of critical product data. ProductCenter also enables integration with other business applications, such as Enterprise Resource Planning ( ERP ), Supply Chain Management ( SCM ), or Customer Relationship Management ( CRM ), for continuous data exchange across the product lifecycle.

The ProductCenter family of products is a suite of modules that, when combined, offers a unified collaborative product data management software solution. ProductCenter modules may be deployed in various combinations to meet the specific needs of a customer.

Our AMT group has three primary products: Prospector , ToolDesigner , and ExpertCAD . Prospector is a knowledge-based NC programming package for complex tool production. This Windows based, easy-to-use package gives full flexibility for generating and editing NC toolpaths while utilizing the power of the industry's best knowledge base of tools, speeds, feeds, and cutting paths. ToolDesigner is a software package for developing and designing complex molds and dies. Core and cavity splits, parting line placement, wireframe design and drafting, photorealistic rendering, surface modeling, trimmed surfaces, injection and cooling line placement are aptly handled with this professional package. ExpertCAD is a drafting technology designed specifically for the Tool & Die industry.

We market and distribute our products and services primarily through a direct sales force and through our service organization in North America and Europe. The majority of our sales in Asia are in Japan. We market and distribute our products and services in Japan primarily through authorized resellers. We have contracted with resellers in Europe to reach areas not covered by our direct sales presence and to supplement our existing sales force, however, to date, the revenue generated from this indirect distribution has not been material.

COMPETITION

We compete against much larger entities, all of which have substantially greater financial and research and development resources than we do. We operate in an extremely competitive market for all of our software and service offerings. We compete in all our markets on the basis of meeting our customer s business needs with a viable solution that offers an affordable price, low cost of ownership and a high level of customer support and services.

The Cadra software technology acquired in the acquisition in fiscal 1998 compete directly with the offerings of such companies as AutoDesk and UGS. This 2D technology is also marketed as a complementary offering to many 3D products (that all possess some level of 2D drafting capability) offered by companies such as Parametric Technology Corporation, Dassault, UGS, AutoDesk and SolidWorks. These companies all have financial resources far in excess of our resources.

Our Company s PLM and collaborative technology, ProductCenter, competes against offerings of the companies listed in the paragraph above and against other companies that have focused on PLM and collaborative offerings as well.

Our Company's CAM technology, Prospector, is marketed to the Plastic Injection Mold and Tool & Die industries. The large CAD companies, such as Parametric Technology Corporation, Dassault, UGS, and AutoDesk, all have modules that compete in this market.

Our service offerings, which include consulting, training and discreet engineering services, compete with offerings by all of the large CAD companies noted above, small regional engineering services companies and the in-house capabilities of its customers.

## PERSONNEL

As of August 13, 2008, we employed 44 persons, 43 on a full time basis and 1 part time. These employees were distributed over functional lines as follows: Sales = 8; Product Development Engineers = 14; Engineers = 16; General and Administrative = 6.

Our ability to attract qualified individuals has been and is expected to continue to be a constraint on future growth.

## BACKLOG

Product backlog as of May 31, 2008 and 2007 was insignificant. Deferred revenue, consisting primarily of software maintenance services for which payment has been received, but where the service is to be performed during the following year, totaled approximately $3,341,000 and $3,568,000 at May 31, 2008 and 2007, respectively. In addition, as of May 31, 2008, we had a backlog of consulting orders totaling approximately $.5 million, an increase from the $.3 million at May 31, 2007. Given the short time period between receipt of order and recognition of service revenue, on average less than 30 days, we do not believe that product revenue backlog is an important measure as to the relative health of the business.

## RESEARCH AND DEVELOPMENT

We have approximately 14 product development engineers in our research and development groups located in Michigan and Massachusetts. In fiscal 2008 and 2007, we incurred research and development expense of $1.8 million and $2.2 million, respectively, related to the continued development of our technology and products. We also use third-party engineering companies to perform some of our product development and quality assurance testing of our technology.

INTELLECTUAL PROPERTY

We rely primarily on a combination of trade secrets, patents, copyright and trademark laws, and confidentiality procedures to protect our technology. Due to the technological change that characterizes the PLM industry, we believe that the improvement of existing products, reliance upon trade secrets and unpatented proprietary know-how and the development of new products are generally as important as patent protection in establishing and maintaining a competitive advantage.

We own 4 patents related to our Cadra and ProductCenter technologies.  One of our Cadra related patents expire in 2013 and the other expires in 2016.  Our two ProductCenter related patents expire in 2016 and 2019.  We have not been nor are we currently involved in or aware of any litigation of any of our patents.  In addition to our patents, we have secured registration on a number of trademarks which we consider important to the protection of our brands.

We license certain technology for incorporation into our Prospector line of products; the revenue from this product line is not significant in relation to our total revenue.  Accordingly, if this license was terminated and we were unable to secure substitute technology, we do not believe there would be a material adverse effect on our results from operations.

GOVERNMENTAL REGULATION

We export our products throughout the world, and thus we are subject to Federal Export Regulations.  We believe we comply with all such regulations.

CUSTOMERS

No single customer accounted for more than 10% of our revenue in fiscal 2008 or 2007.  Our largest customer was responsible for 7% and 5% of our revenue during fiscal 2008 and 2007, respectively.  Our three largest customers were responsible in the aggregate for 15% and 13% of our revenue during fiscal 2008 and 2007, respectively.  Accordingly, the loss of one or more of our three largest customers could have a material adverse effect on the business.

SEASONALITY

Our first fiscal quarter, which begins June 1 and ends August 31, has historically been our slowest quarter. We believe that this weakness is due primarily to the buying habits of our customers and that this quarter falls within prime vacation periods.

ITEM 1B.  UNRESOLVED STAFF COMMENTS

NONE

ITEM 2    PROPERTIES

We lease office space in Troy, Michigan; Lowell, Massachusetts; Munich, Germany, and Milan, Italy. During fiscal 2008, we moved our headquarters from Tewksbury, Massachusetts to Lowell, Massachusetts and we closed our Grenoble, France office.  We believe that our current office space is adequate for current and anticipated levels of business activity.

## ITEM 3 - LEGAL PROCEEDINGS

From time to time, we are party to various legal proceedings and claims that arise in the ordinary course of our business. At August 15, 2008 there were no material outstanding claims and, at May 31, 2008, no amounts had been accrued.

## ITEM 4 - SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

Not Applicable.

PART II

ITEM 5 - MARKET FOR REGISTRANT S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

Our common stock is quoted on the Financial Industry Regulatory Authority s ( FINRA ) over-the-counter market (Over the Counter Bulletin Board) under the symbol "SOFT . However, there is not currently an established trading market for our common stock.

At August 13, 2008, there were approximately 236 holders of record of our common stock. The table below sets forth quarterly high and low sale prices for the common stock for the indicated fiscal periods. These quotations may include inter-dealer prices without retail mark-up, markdown, or commission.

| | 2008 | | 2007 | |
|---|---|---|---|---|
| | High | Low | High | Low |
| First Quarter | .12 | .10 | .20 | .13 |
| Second Quarter | .14 | .10 | .20 | .09 |
| Third Quarter | .16 | .12 | .13 | .08 |
| Fourth Quarter | .18 | .14 | .11 | .09 |

We have not paid any cash dividends since 1997 and we do not anticipate paying cash dividends in the foreseeable future.

The table below details information regarding equity compensation plans of the Company as of May 31, 2008:

Equity Compensation Plan Information

| Plan category | Number of shares to be issued upon exercise of outstanding options warrants and rights | Weighted average exercise price of outstanding options, warrants and rights | Number of shares securities available for future issuances under Plan |
|---|---|---|---|
| Approved by Shareholders | 229,000 | $ .28 | -- |

| | | | |
|---|---|---|---|
| Not approved by Shareholders | -- | N/A | -- |

RECENT SALES OF UNREGISTERED SECURITIES

Not Applicable

ITEM 6 SELECTED FINANCIAL DATA

Since we are a smaller reporting company, as defined by SEC regulation, we are not required to provide the information required by this Item.

## ITEM 6 - MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The statements made below with respect to SofTech s outlook for fiscal 2009 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, whether we will be able to generate sufficient cash flow from our operations or other sources to fund our working capital needs, maintain existing relationships with our lender, successfully introduce and attain market acceptance of any new products, attract and retain qualified personnel both in our existing markets and in new territories in an extremely competitive environment, and potential obsolescence of our technologies.

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

## DESCRIPTION OF THE BUSINESS

We were formed as a corporation in Massachusetts on June 10, 1969. We completed an initial public offering in August 1981 and a subsequent offering in December 1982. From inception until the disposition of the Government Systems Division in December 1993, our primary business was that of custom software development for the U.S. Government, primarily the Department of Defense.

After the sale of our Government Systems Division in December, 1993 and until December 1996, our only business was reselling hardware and software products of third parties and offering services related to such products (the Reseller Model ). Between December 1996 and December 2002, we acquired eight entities involved in developing, supporting and/or marketing software products and/or services to the Computer Aided Design and Manufacturing ( CAD/CAM ) and Product Data Management ( PDM ) marketplace. The three most significant acquisitions during this time period were the purchases of Workgroup Technology Corporation ( WTC ) in December 2002, Adra Systems, Inc. in May 1998, and the Advanced Manufacturing Technology ( AMT ) in November 1997. While this aggressive acquisition strategy, which was funded primarily through debt, substantially increased our leverage and related risks, these acquisitions were necessary in order to create a viable and sustainable business.

Critical Accounting Policies and Significant Judgments and Estimates

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

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

Revenue Recognition

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

Estimating Allowances for Doubtful Accounts Receivable

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

Valuation of Long-lived and Intangible Assets

We periodically review the carrying value of all intangible assets (primarily capitalized software costs and other intangible assets) and other long-lived assets. If indicators of impairment exist, we compare the 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. We do not have any long-lived assets we consider to be impaired.

Valuation of Goodwill

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

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

Valuation of Deferred Tax Assets

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

RESULTS OF OPERATIONS

The table below presents the relationship, expressed as a percentage, between income and expense items and total revenue, for the fiscal years ended May 31, 2008 and 2007. In addition, the percentage change in those items, again expressed as a percentage, from the year ended May 31, 2007 to May 31, 2008

| | Items as a percentage of revenue | | Percentage change year to year |
|---|---|---|---|
| | 2008 | 2007 | 2007 to 2008 |
| Revenue | | | |
| Products | 19.9% | 23.6% | (22.8)% |
| Services | 80.1 | 76.4 | (4.1) |
| Total revenue | 100.0 | 100.0 | (8.5) |
| Cost of sales | | | |
| Product | 14.1 | 13.6 | (6.0) |
| Services | 16.4 | 14.6 | 3.0 |
| Total cost of sales | 30.5 | 28.2 | (1.4) |
| Total gross margin | 69.5 | 71.8 | (11.4) |
| Research and development | 17.9 | 19.6 | (16.3) |
| S.G.& A. | 41.8 | 50.0 | (23.5) |
| Interest expense | 12.8 | 13.1 | (10.8) |
| Other Income (Expense) | 0.8 | 0.0 | 0.0 |
| Loss before income tax | (3.0) | (11.0) | (75.6) |

Revenues

Revenue for fiscal year 2008 was approximately $10.1 million, compared to approximately $11.0 million for the comparable prior period, a decrease of 8.5%. As explained below, there were declines in both product and service revenue.  The combined product and service revenue by product line for fiscal 2008 as compared to fiscal 2007 are as follows (in thousands, except percent change):

| **Product Line** | **FY 2008** | **FY 2007** | **$ Change** | **% Change** |
|---|---|---|---|---|
| ProductCenter | $ 5,156 | $ 5,642 | $ (486) | (8.6)% |
| Cadra | 4,106 | 4,514 | (408) | (9.0) |
| AMT | 844 | 893 | (49) | (5.5) |
| Total | 10,106 | 11,049 | (943) | (8.5) |

11

Product Revenue

Product revenue for fiscal year 2008 was approximately $2.0 million, compared to approximately $2.6 million for the comparable prior period, a decrease of 22.8%. The change from year to year in product revenue among our three product lines was as follows (in thousands, except percent):

| **Product Line** | **FY 2008** | **FY 2007** | **$ Change** | **% Change** |
|---|---|---|---|---|
| ProductCenter | $ 680 | $ 1,010 | $ (330) | (32.7)% |
| Cadra | 1,124 | 1,390 | (266) | (19.2) |
| AMT | 204 | 202 | 2 | 1.0 |
| Total | 2,008 | 2,602 | (594) | (22.8) |

The decrease in product revenue for our ProductCenter technology was primarily attributable to new opportunities that we were unable to close as a result of PTC s decision not to renew us in their Partner Advantage Program. As a result of PTC s decision, we are unable to offer our solution to new customers utilizing PTC s Pro/ENGINEER solution. We are investigating other CAD integration solutions to supplement our other existing integration solutions so as to enable other drawing tools to integrate with our ProductCenter line. This should position us to replace any lost Pro/ENGINEER related business opportunities and to expand the application of the ProductCenter line so that it is compatible with a broader array of drawing tools. Nevertheless, our current inability to offer our solution to new customers utilizing PTC s Pro/ENGINEER could have an adverse affect on our future revenues. We also experienced an apparent reluctance on the part of customers to consummate orders, as well as customers deciding not to move forward with their PLM programs during Fiscal Year 2008, which we believe is due primarily to the current weak economic climate. While some of the opportunities that were expected to close in FY2008 continue to be pursued in FY2009, we cannot determine if the delays and customer decisions to not move forward with their PLM initiatives will continue into FY2009. If these customer sentiments persist, there could be further erosion of our ProductCenter revenue. In addition, declines in our ProductCenter revenue could also lead to declines in service revenue related to our ProductCenter product line. The decrease in Cadra product revenue was primarily attributable to higher than expected sales in the prior fiscal year, which were associated with the release of a new Cadra version during the third fiscal quarter of 2007. While we are continuously enhancing our Cadra product line and plan to issue new versions in the future, the continued migration of our customer base to 3D solutions may cause further declines in Cadra product revenues.

Service Revenue

Service revenue (consisting of maintenance and consulting revenue) for fiscal year 2008 was approximately $8.1 million, compared to approximately $8.4 million for the comparable prior period, a decrease of 4.1%. The change from year to year in service revenue among our three product lines was as follows (in thousands, except percent):

| Product Line | FY 2008 | FY 2007 | $ Change | % Change |
|---|---|---|---|---|
| ProductCenter | $ 4,476 | $ 4,632 | $ (156) | (3.4%) |
| Cadra | 2,982 | 3,124 | (142) | (4.6) |
| AMT | 640 | 691 | (51) | (7.4) |
| Total | 8,098 | 8,447 | (349) | (4.1) |

The 3.4% decrease in ProductCenter service revenue was primarily attributable to existing customers delaying or suspending consulting engagements and the lack of new customer orders, which also drive the consulting business. If these customer sentiments persist there could be further erosion of our ProductCenter service revenue. ProductCenter maintenance revenue decreased by 0.7% and consulting revenue decreased by 11.1% in fiscal year 2008.

Consulting/training is a very minor component of our Cadra and AMT product lines.

The 4.6% decline in service revenue for our Cadra product line was due to the continued migration of the CAD marketplace from 2D CAD tools such as Cadra to 3D technologies. This migration has been going on for some time and is expected to continue. With the continued market acceptance of 3D technologies, our customers are reducing their utilization of Cadra and reducing their maintenance coverage or opting not to renew at all. Thus, we expect to continue to experience declining Cadra related service revenue.

The 7.4% decline in service revenue for our AMT product line was part of the continued downward trend in service related revenue over the last five years for this technology. AMT s customers are primarily North American vendors to the major parts suppliers to the American automotive industry. Our customers have experienced severe financial difficulty as the North American automotive industry has struggled with foreign competition, loss of market share, increasing costs and a myriad of other problems. These events have had a substantial detrimental impact on the revenue generated from this product line. Thus, we expect to continue to experience declining AMT related service revenue.

Gross Margin

Gross profit as a percentage of revenue was 69.5% in fiscal 2008, as compared to 71.8% for the comparable prior period. The decrease in gross margin percentage was due to decrease in revenue and the relatively fixed nature of the components of our cost of sales. As disclosed above, total revenue for fiscal 2008 decreased by 8.5%, compared to fiscal 2007.

Research and Development Expenses

Research and development expenses ( R&D ) were $1.8 million for fiscal year 2008, as compared to $2.2 million in the comparable prior period, a decrease of 16.3%. The reduced spending was the result of reduced investment, mostly in the form of reduced headcount related to our legacy technologies. While we remain committed to improving those technologies and ensuring their compatibility with current operating systems, our spending must reflect the trend of decreasing revenue from our Cadra and AMT product lines.

Selling, General and Administrative Expenses

Selling, general and administrative ( SG&A ) expenses were $4.2 million for fiscal year 2008, as compared to $5.5 million in the comparable prior period, a decrease of 23.5%. The decrease is due primarily to the reduced head count, the reduction in rent expense arising from our relocation to new corporate headquarters, and the suspension of the management fee we have been paying Greenleaf Capital, as described below. Thus, we do not expect similar declines in SG&A in future periods.

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

Interest Expense

Interest expense for the fiscal year ended May 31, 2008 was approximately $1.3 million, as compared to $1.4 million for the comparable prior period, a decrease of 10.9%. This decrease in interest expense was primarily attributable to a decrease in the average amount outstanding under our debt facilities and a decrease in the applicable interest rates. Average borrowings were approximately $13.3 million for the fiscal year ending May 31, 2008, as compared to $13.9 million for the comparable prior period, and the interest rate on those borrowings decreased to about 7.5% in the fourth quarter from 10.5% for the comparable prior period. The change in the interest rate on our borrowing in fiscal year 2008 as compared to 2007 is due to a decrease in the prime rate.

Net Loss

Net loss for fiscal 2008 was $(306,000), as compared to a net loss of $(1.2) million in fiscal 2007. The net loss per share for fiscal 2008 was $(.03) as compared to the net loss of $(.10) in fiscal 2007. The weighted average number of shares outstanding was 12.2 million in fiscal 2008 and 2007.

CAPITAL RESOURCES AND LIQUIDITY

As of May 31, 2008 we had cash on hand of $900,000, a decrease of $148,000 from May 31, 2007. Operating activities generated approximately $974,000 of cash during fiscal year 2008, compared with generating approximately $313,000 in cash during the comparable prior period. The $661,000 increase in cash generated by operating activities was primarily attributable to the approximate $916,000 decrease in net loss and a $158,000 reduction in change in prepaid expenses, partially offset by a $227,000 increase in the change in deferred revenue. During the year ended May 31, 2008, our financing activities used net cash of approximately $982,000, compared with providing net cash of approximately $112,000 during the comparable prior period. The increase in cash used by financing activities was primarily attributable to decreased borrowings of approximately $1.6 million, partially offset by decreased repayments on borrowings of approximately $527,000. At May 31, 2008, we had an approximate working capital deficit of $3.4 million, compared to a working capital deficit of $2.4 million at May 31, 2007. The approximate $1.0 million increase in our working capital deficit was primarily attributable to a $1.0 million increase in the current portion of long term debt and a decrease in cash and accounts receivable of $240,000, partially offset by a decrease in deferred revenue of $227,000.

We currently fund our operations through a combination of cash flow from operations and our debt facilities with Greenleaf Capital. We have a $3.0 million Line of Credit with Greenleaf Capital which expires annually in June. As of May 31, 2008, approximately $579,000 was available under this facility which has been extended an additional year through June 2009. (See Note H to the Consolidated Financial Statements.) At May 31, 2008, we had total long-term debt of approximately $11.1 million and current debt of $1.6 million (for total debt of $12.7 million), consisting of $10.3 million under a promissory note and $2.4 million under our revolving credit facility with Greenleaf. We are dependent on availability under our debt facilities and cash flow from operations to meet our near term working capital needs and to make debt service payments.

The aggregate principal amount payable to Greenleaf at May 31, 2008 was $12.7 million. The monthly minimum principal and interest payments are approximately $210,000 on these borrowings. In addition, we are currently making additional monthly principal payments of $44,000. Of the 12.7 million, $1.6 is payable by May 31, 2009 and $11.1 million is payable by May 31, 2010.

In fiscal 2008, we generated $971,000 from operating activities and our intention is to manage the business with a view to achieve positive cash flows from operating activities in fiscal 2009.

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

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

## ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We have assets and liabilities as well as revenue and expenses outside the United States that are subject to fluctuations due to changes in foreign currency exchange rates. Our primary exposure is related to local currency revenue and operating expenses in Europe. However, we do not engage in forward foreign exchange or similar contracts to reduce our economic exposure to changes in exchange rates as the associated risk is not considered significant. Because we market, sell and license our products throughout the world, we could be significantly affected by weak economic conditions in foreign markets that could reduce demand for our products.

We are exposed to changes in interest rates primarily as a result of its long-term debt requirements. Our interest rate risk management objectives are to limit the effect of interest rate changes on earnings and cash flows and to lower overall borrowing costs. Based on the debt balance at May 31, 2008, a hypothetical change in the interest rate of +2% or 2% would result in a hypothetical change to interest expense of about $271,000 and $(271,000), respectively.

The Company does not enter into contracts for speculative or trading purposes, nor is it a party to any leveraged derivative instruments.

FACTORS THAT MAY AFFECT FUTURE RESULTS

The statements herein with respect to our outlook for fiscal 2009 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, whether we will be able to generate sufficient cash flow from our operations or other sources to fund our working capital needs, maintain existing relationship with our lender, successfully introduce and attain market acceptance of any planned products, attract and retain qualified personnel both in our existing markets and in new territories in an extremely competitive environment, and potential obsolescence of our technologies.

Our future results may differ materially from our past results, and our 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.

Our quarterly results may fluctuate. Our quarterly revenue and operating results are difficult to predict and may fluctuate significantly from quarter to quarter. Our quarterly revenue may fluctuate significantly for several reasons, including: the timing and success of introductions of any new products or product enhancements or those of our competitors; uncertainty created by changes in the market; difficulty in predicting the size and timing of individual orders; competition and pricing; 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 our results of operations are not necessarily meaningful and should not be relied upon as indications of future performance.

We may not be able to fund our operations from future cash flows. We cannot assure you that we will generate sufficient positive cash flow in the future to fund our operations. During fiscal years 1998 through 2001, our operating activities generated significant negative cash flows. We took aggressive cost cutting steps and reorganized our operations at the beginning of fiscal 2002. These actions have greatly reduced our fixed costs and improved our cash flows. It is our expectation that we can continue to improve our cash flows; however, there can be no assurances that we will be able to continue to improve our cash flow in the future. If we are unable to fund our operations from future cash flows, we will need to seek additional debt or equity financing, which may not be available on attractive terms, if at all, in which case there could be a material adverse effect on our results of operations and financial condition. We are currently dependent on Greenleaf Capital, our lender and sole source of external financing, for its continued support We currently have a strong relationship with Greenleaf; and it is our largest shareholder, owning approximately 44.5% of our issued and outstanding common stock, and it has been our sole debt provider since 1996. (See Note F to the Consolidated Financial Statements.)

Decline in business conditions and Information Technology (IT) spending could cause further decline in revenue. The level of future IT spending remains uncertain as does the economic outlook in the manufacturing sector. If IT spending declines and/or the manufacturing sector experiences further economic difficulty, our revenues could be adversely impacted.

Our agreements with certain critical software vendors may be terminated at will by the vendor. We utilize third party vendors to provide certain software and utilities which enable us to continue to develop and support Product Center customers with their integrations from ProductCenter to their respective CAD solutions. These agreements are subject to termination at will by the vendor, and, if terminated, we would need to seek alternative methods of providing continuing support to our 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, we were informed that our agreement with one such vendor, Parametric Technology Corporation (PTC), was not going to be extended beyond its renewal date of January 31, 2008. Thus the Agreement has since expired. Approximately 60% of our current ProductCenter customer base utilizes PTC s Pro/ENGINEER integrator solution. We will continue to support (beyond January 31, 2008) with a customer specific consulting solution our current customers who are utilizing a Pro/ENGINEER integration solution. We are investigating other CAD integration solutions so as to enable other drawing tools to integrate with our ProductCenter line. This should position us to replace any lost Pro/ENGINEER related business opportunities and to expand the application of the ProductCenter line so that it is compatible with a broader array of drawing tools. Nevertheless, our current inability to offer our solution to new customers utilizing Pro/ENGINEER could have an adverse affect on our future revenues.

Revenue decline for certain product lines. We experienced revenue declines from 2007 to 2008 of 9% for our Cadra product line, 5.5% for our AMT product line, and 8.6% for our ProductCenter product line. In addition, Cadra and AMT software maintenance revenue declined in 2008 approximately 5.0% and 7.3%, respectively. We understand that as our Cadra and AMT technologies age, related revenue will decline as a normal part of the technology life cycle. While we anticipate that the current revenue trends in these product lines will continue, should there be further significant revenue declines for these product lines, there will be a material adverse impact upon our overall financial performance.

ITEM 8 - FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The required Financial statements are included at the end of this Report on Form 10K.

ITEM 9 - CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

Not Applicable.

ITEM 9A(T). CONTROLS AND PROCEDURES

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

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

Management s Report on Internal Control over Financial Reporting. The Company s management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934. Our internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions or that the degree of compliance with the policies or procedures may deteriorate.

With the participation of our President and Chief Financial Officer, and after consultation with a third party consultant, management conducted an evaluation of the effectiveness of our internal control over financial reporting as of May 31, 2008, based on the framework and criteria established in *Internal Control Integrated Framework*, issued by the Committee of Sponsoring Organizations of the Treadway Commission.

Based on our assessment of the effectiveness in internal control over financial reporting as of May 31, 2008, we concluded that our internal controls over financial reporting were effective.

This annual report does not include an attestation report of our registered public accounting firm regarding internal control over financial reporting. Our report was not subject to attestation by our registered public accounting firm pursuant to temporary rules of the Securities and Exchange Commission that permit us to provide only management s report in this annual report.

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

ITEM 9B. OTHER INFORMATION

Not Applicable

PART III

ITEM 10 DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Set forth below is certain information regarding the Directors and executive officers of SofTech, Inc. (the "Company") as of August 13, 2008, based on information furnished by them to the Company.

DIRECTORS

Ronald A. Elenbaas, age 55. Mr. Elenbaas term expired in 2006, but he continues to serve until his successor is duly elected and qualified. Mr. Elenbaas is currently Chairman of the Board of Humanex, LLC, a human resource strategic planning firm. He also serves on the Boards of the Ocean Reef Medical Center and Greenleaf Trust. Until recently, Mr. Elenbaas served as Chairman of the Board of the Ocean Reef Club. From 1975 to 2000, Mr. Elenbaas was employed by Stryker Corporation in various positions, most recently as President of Stryker Surgical Group, a division of Stryker Corporation. Mr. Elenbaas was appointed a Director of the Company in September 1996.

William D. Johnston, 61. Mr. Johnson s term expires in 2008. Mr. Johnston serves as Chairman of the Company and has been a Director since 1996. Mr. Johnston is President, Chairman and CEO of the Greenleaf Companies. Included in the Greenleaf Companies are Greenleaf Trust, a Michigan chartered bank, Greenleaf Capital, Inc. a venture capital company and lender to SofTech, Greenleaf Hospitality Group, Inc., a management company delivering management services to the host industry, and Catalyst Development Co., L.L.C., a commercial real estate development company. Mr. Johnston has served as President, Chairman and CEO of the Greenleaf Companies since 1991.

Timothy L. Tyler, 54. Mr. Tyler s term expired in 2007, but he continues to serve until his successor is duly elected and qualified. Mr. Tyler has served since 1995 as President of Borroughs Corporation, a privately held, Michigan-based business that designs, manufactures and markets industrial and library shelving units, metal office furniture and check out stands primarily in the United States. Mr. Tyler served as President and General Manager of Tyler Supply Company from 1979 to 1995. Mr. Tyler was appointed a Director of the Company in September 1996.

Michael Elliston, 46. Mr. Elliston s term expires in 2008. Mr. Elliston has served as Chief Financial Officer of the Greenleaf Capital in 2008, Prior to his position as Chief Financial Officer, Mr. Elliston was the Chief Accounting Officer of the Greenleaf Companies since June 2005. Prior to joining Greenleaf, Mr. Elliston was the Chief Financial Officer for Holly s, Inc. and GR Hospitality, Inc., Michigan based Companies that owned and managed hotels since July 1991. Mr. Elliston was appointed a Director of the Company in March of 2007.

Frederick A. Lake, 72.   Mr. Lake s term expired in 2006, but he continues to serve until his successor is duly elected and qualified.   Mr. Lake is a partner in the law firm of Lake, Stover & Schau, PLC, a Michigan based law firm. Mr. Lake has been with Lake, Stover & Schau, PLC, and its predecessors for more than five years. Mr. Lake s firm also serves as corporate counsel to the Greenleaf Companies.  Mr. Lake was appointed a Director of the Company in July 2000.

Each member of the Board of Directors also serves on the Audit Committee of the Board of Directors. The Audit Committee recommends the engagement of the Company's independent accountants. In addition, the Audit Committee reviews comments made by the independent accountants with respect to internal controls and considers any corrective action to be taken by management; reviews internal accounting procedures and controls within the Company's financial and accounting staff; and reviews the need for any non-audit services to be provided by the independent accountants. The Board of Directors has designated Mr. Elliston as our audit committee s financial expert.

Because of our financial relationship with Greenleaf, Mr Elliston is not considered independent within the meaning of the Nasdaq Stock Market s independence rule applicable to audit committee members.

Each member of the Board of Directors also serves on the Compensation Committee of the Board of Directors. The Compensation Committee recommends salaries and bonuses for officers and general managers and establishes general policies and procedures for salary and performance reviews and the granting of bonuses to other employees. It also administers the Company's 1994 Stock Option Plan (the "Plan") and the SofTech Employee Stock Purchase Plan.

EXECUTIVE OFFICERS

The current executive officers of the Company are as follows:

| Name | Age | Position |
|---|---|---|
| Jean J. Croteau | 52 | President |
| Victor G. Bovey | 51 | Vice President, Engineering |
| Amy E. McGuire | 33 | Chief Financial Officer |

The following provides biographical information with respect to the Executive Officers not identified in Item 10 of this Annual Report on Form 10-K:

Jean Croteau was appointed our President in January of 2007. He was formerly our Vice President, Operations from July 2001 to January 2007. He started with the Company in 1981 as Senior Contracts Administrator and was promoted to various positions of greater responsibilities until his departure in 1995. Mr. Croteau rejoined SofTech in 1998. From 1995 through 1998 he served as the Director of Business Operations for the Energy Services Division of XENERGY, Inc.

Victor G. Bovey was appointed our Vice President of Engineering in March of 2000. He started with us in November 1997 as Director of Product Development. Prior to his employment with us, he was employed for thirteen years with CIMLINC Incorporated in various engineering and product development positions.

Amy E. McGuire was appointed our Chief Financial Officer in January of 2007. She joined us as an Accounting Manager in 2002 when Workgroup Technology Corporation ( WTC ) was acquired. She became Corporate Controller in August 2004. She was employed by WTC for 5 years prior to the acquisition.

Each of the Executive Officers was appointed by the Board of Directors, and will serve as such until their respective successor is appointed and qualified, or until their earlier resignation or removal.

COMPLIANCE WITH SECTION 16(a) OF THE SECURITIES EXCHANGE ACT OF 1934

Section 16(a) of the Securities Exchange Act of 1934, as amended ("Section 16(a)") requires our Directors and executive officers, and persons who beneficially own more than ten percent of a registered class of our equity securities (collectively, "Section 16 reporting persons"), to file with the Securities and Exchange Commission ("SEC") initial reports of ownership and reports of changes in ownership of our Common Stock and other equity securities. Section 16 reporting persons are required by SEC regulations to furnish us with copies of all Section 16(a) forms they file.

To our knowledge, based solely on a review of the copies of any such reports furnished to us and on written representations that there were no changes in beneficial ownership, during fiscal year ended May 31, 2008, none of the Section 16 reporting persons failed to file on a timely basis reports required by Section 16(a) of the Exchange Act with respect to its most recent fiscal year.

CODE OF ETHICS

We have a Code of Ethics which was adopted in 2004 and is filed as an Exhibit (incorporated by reference) to this 10K.

PROCEDURES FOR SECURITY HOLDERS TO NOMINATE DIRECTORS

Our bylaws do not provide a procedure for Stockholders to nominate directors.  The Board of Directors does not currently have a standing nominating committee.  The Board of Directors currently has the responsibility of selecting individuals to be nominated for election to the Board of Directors.  Qualifications considered by the Directors in nominating an individual may include, without limitation, independence, integrity, business experience, education, accounting and financial expertise, reputation, civic and community relationships and industry knowledge.  In nominating an existing director for re-election to the Board of Directors, the Directors will consider and review an existing director s Board and Committee attendance, performance and length of service.

ITEM 11 - EXECUTIVE COMPENSATION OF DIRECTORS

Directors were not paid any fees or other compensation for service as members of the Board of Directors or any committee thereof during fiscal 2008.

Pursuant to our 1994 Stock Option Plan (the "1994 Stock Option Plan"), non-employee Directors may be granted non-qualified options to purchase shares of our Common Stock. The Compensation Committee of the Board of Directors administers the 1994 Stock Option Plan. Stock options typically terminate upon a Director leaving his or her position for any reason other than death or disability. No option may be exercised after the expiration of ten years from its date of grant. No new options could be granted under this Plan after 2004. No option awards were made in fiscal 2008.

SUMMARY COMPENSATION TABLE

The following table summarizes the compensation paid to our President (principal executive officer) and each of our other two most highly compensated executive officers (the "Named Executives") during or with respect to fiscal 2007 and 2008 for services rendered to us in all capacities.

Summary Compensation Table

| Name and Principal Position | Fiscal Year | Salary($) | Bonus($) | All Other Compensation(1) | Total Compensation |
|---|---|---|---|---|---|
| Jean Croteau - | 2008 | 190,000 | 60,000 | 31,615 | 281,615 |
| President | 2007 | 186,437 | 40,000 | 42,590 | 269,027 |
| Victor G. Bovey - | 2008 | 100,833 | - | 2,017 | 102,850 |
| Vice President, Research & Development | 2007 | 120,800 | - | 2,416 | 123,216 |
| Amy E. McGuire - | 2008 | 91,920(2) | 30,000 | 1,708 | 123,628 |
| Chief Financial Officer | 2007 | 85,667 | 30,000 | 1,783 | 117,450 |
| Joseph P. Mullaney - | 2008 | | | | |
| Former President and COO | 2007 | 156,240 | - | 12,500 | 168,740 |
| (Resigned January 2007) | | | | | |

(1)

Reflects our contributions to each of the Named Executive's accounts under our 401(k) plan (and, with respect to Mr. Croteau, in addition, $27,815 and $38,790 in sales commissions paid with respect to 2008 and 2007, respectively. With respect to Mr. Mullaney, also includes imputed compensation related to the non-interest bearing note receivable described in Note H to the financial statements.

(2) Includes short term disability income related to maternity leave.

NARRATIVE COMPENSATION DISCLOSURE

None of our executives are subject to employment contracts; however our President is eligible to receive sales commission and both our President and our CFO are eligible to receive bonuses at the discretion of the Board of Directors pursuant to their individual bonus plans. The President is eligible to receive quarterly commissions based on 1.5% of product license revenue and an annual bonus based upon improving our financial position. The CFO is eligible to receive an annual bonus based upon the achievement of specific tasks and objectives.

OPTION GRANTS IN THE LAST FISCAL YEAR

No Stock Appreciation Rights ("SARs") or options to purchase our stock have been granted to the Named Executive Officers during fiscal year 2008.

OUTSTANDING EQUITY AWARDS AT FISCAL YEAR END.

The following table sets forth certain information concerning outstanding equity awards at fiscal year end.

| Name | Number of On Exercise | Number of Unexercised Realized($) | Shares Acquired Exercisable/ Unexercisable | Value Price | Options at May 31, 2008 Date | Exercise Expiration |
|---|---|---|---|---|---|---|
| Victor G. Bovey | -- | -- | 15,000/0 | .90 | 11/28/11 | |
| Jean Croteau | -- | -- | 50,000/0 | .90 | 11/28/11 | |

COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

Each of the members of the Board of Directors served as members of the Compensation Committee of the Company's Board of Directors during the fiscal year ended May 31, 2008.

ITEM 12 - SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The following table summarizes securities authorized for issuance under equity compensation plans;

Equity Compensation Plan Information

| Plan category | Number of shares to be issued upon exercise of outstanding options warrants and rights | Weighted average exercise price of outstanding options, warrants and rights | Number of shares securities available for future issuances under Plan |
|---|---|---|---|
| Approved by Shareholders | 229,000 | $ .28 | -- |

| | | | |
|---|---|---|---|
| Not approved by Shareholders | -- | N/A | -- |

23

SECURITY OWNERSHIP OF MANAGEMENT AND PRINCIPAL STOCKHOLDERS

The following table provides Information concerning beneficial ownership of our Common Stock, as of August 13, 2008, for (i) each person named in the "Summary Compensation Table" as a Named Executive, (ii) each Director and (iii) all Directors and executive officers of the Company as a group.

| Name of Beneficial Owner (1) (2) | Amount and nature of Class | Percentage of Beneficial Ownership |
|---|---|---|
| Jean Croteau | 50,000(3) | * |
| Victor G. Bovey | 35,350(3) | * |
| William Johnston | 5,439,643(3)(4) | 44.5 |
| Timothy L. Tyler | 11,400(3) | * |
| Ronald Elenbaas | 54,100(3) | * |
| Frederick Lake | 15,400(3) | * |
| All Directors and executive officers, as a group (6 persons) | 5,800,212 (5) | 45.7% |

* Less than one percent (1%).

(1) Based upon information furnished by the persons listed. Except as otherwise noted, all persons have sole voting and investment power over the shares listed. A person is deemed, as of any date, to have "beneficial ownership" of any security that such person has the right to acquire within 60 days after such date.

(2) There were 12,213,236 shares outstanding on August 13, 2008. In addition, 214,600 shares issuable upon exercise of stock options held by certain Directors and executive officers of the Company are deemed to be outstanding as of August 13, 2008 for purposes of certain calculations in this table. See notes 3, 4 and 5 below.

(3) Includes shares issuable under stock options as follows: Mr. Croteau - 50,000; Mr. Bovey - 15,000; Mr. Johnston 11,400; Mr. Tyler 11,400; Mr. Elenbaas 11,400; and Mr. Lake 15,400.

(4) Mr. Johnston s business address is Greenleaf Capital, 100 West Michigan Ave., Kalamazoo, Michigan, 49007.

(5) Includes 114,600 shares issuable upon exercise of stock options held by all Directors and executive officers as a group.

ITEM 13 - CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, DIRECTOR INDEPENDENCE.

We have, over the last several years entered into various financing arrangements with Greenleaf Capital, which is the beneficial owner of 44.5% of our common stock. Greenleaf Capital is our sole external source of capital. William D. Johnston, who has been one of our directors since September 1996, is the President and sole principal of Greenleaf Companies, which owns Greenleaf Capital. In addition, Greenleaf provides advisory services and its Chief Accounting Officer serves as a member of the board of directors of the Company.

During fiscal 2000, we entered into an $11.0 million borrowing arrangement ( Promissory Note ) with Greenleaf Capital ("Greenleaf"). On November 8, 2002, we amended the Promissory Note. Under the amended agreement we increased our borrowing from $11.0 million to $15.0 million. In addition, the interest rate was reduced from 9.75% to Prime Rate plus 2.25%. Principal and interest is payable monthly and the Promissory Note has a 15-year loan amortization with the remaining principal of approximately $10,316,000 due in a single payment in June 2009. The Promissory Note expires on June 12, 2009.

In addition, we have a $3.0 million Revolving Line of Credit with Greenleaf. This facility is used to supplement cash flows from operations to meet our short term capital needs. The interest rate on the Revolving Line of Credit is Prime Rate plus 2.25%. Amounts borrowed under this facility are due annually in June unless otherwise extended. As of May 31, 2008, the principal balance under the revolving line was $2,421,000. On June 1, 2008, Greenleaf agreed to extend the due date on the revolving line of credit to June 2009. Annual maturities of debt obligations, as amended, for fiscal years ending May 31, 2009 and 2010 are $1,646,000 and $11,091,000, respectively.

During fiscal year 2000, we entered into a debt conversion agreement with Greenleaf. Under the terms of this agreement, we have the right to repurchase up to 4,054,424 shares at the average price of $1.233 per share. There is no expiration to this repurchase right.