SOFTECH INC
Form 424B3
January 14, 2016

Filed Pursuant to Rule 424(b)(3)

Registration Statement No. 333-174818

**PROSPECTUS SUPPLEMENT NO. 9**

**(to Prospectus dated December 28, 2011, as amended and supplemented)**

**SofTech, Inc.**

**380,455 Shares of Common Stock**

This Prospectus Supplement No. 9 supplements and amends our Prospectus dated December 28, 2011, as amended (including by Post-Effective Amendment No. 4 to Form S-1 filed with the Securities and Exchange Commission on September 30, 2015 and declared effective on October 1, 2015) and supplemented. This Prospectus Supplement No. 9 includes our attached Quarterly Report on Form 10-Q for the quarter ended November 30, 2015, as filed with the Securities and Exchange Commission on January 14, 2016.

The Prospectus and this Prospectus Supplement No. 9 relate to the disposition from time to time by the selling shareholders identified in the Prospectus, including their donees, pledgees, assignees, transferees and other successors-in-interest, of up to 380,455 shares of our common stock. We are not selling any common stock under the Prospectus and this Prospectus Supplement No. 9, and we will not receive any of the proceeds from the sale of the shares by the selling shareholders.

Our common stock is quoted on the OTCQB market maintained by OTC Market Groups, Inc. under the symbol SOFT . On January 14, 2016, the last quoted sale price for our common stock as reported on the OTCQB market was $1.20 per share.

This Prospectus Supplement No. 9 should be read in conjunction with the Prospectus and any prospectus supplements filed before the date hereof. Any statement contained in the Prospectus and any prospectus supplements filed before

the date hereof shall be deemed to be modified or superseded to the extent that information in this Prospectus Supplement No. 9 modifies or supersedes such statement. Any statement that is modified or superseded shall not be deemed to constitute a part of the Prospectus except as modified or superseded by this Prospectus Supplement No. 9.

**Investing in our common stock involves certain risks. You should review carefully the risks described under Risk Factors beginning on page 2 of the Prospectus and under similar headings in any amendments or supplements to the Prospectus.**

**Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if the Prospectus or this Prospectus Supplement No. 9 is truthful or complete. Any representation to the contrary is a criminal offense.**

The date of this Prospectus Supplement No. 9 is January 14, 2016.

* * * * *

**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

# FORM 10-Q

X .**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended November 30, 2015

.**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from _________________ to ___________________

**0-10665**
Commission File Number

**SOFTECH, INC.**
(Exact name of the Registrant as specified in its charter)

| **Massachusetts** | **04-2453033** |
|---|---|
| (State or other jurisdiction of incorporation or organization) | (I.R.S Employer Identification No.) |

**650 Suffolk Street, Suite 415, Lowell, MA 01854**
(Address of principal executive offices and zip code)

**Telephone (978) 513-2700**
(Registrant s telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes X . No .

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definitions of accelerated filer, large accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

| | |
|---|---|
| Large accelerated filer . | Accelerated filer . |
| Non-accelerated filer . (Do not check if a smaller reporting company) | Smaller reporting company X . |

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

The number of shares outstanding of registrant s common stock at January 11, 2016 was 903,724 shares.

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SOFTECH, INC.

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**PART I FINANCIAL INFORMATION**

**Item 1. Financial Statements.**

**SOFTECH, INC. AND SUBSIDIARIES**

**CONSOLIDATED BALANCE SHEETS**

| | *(in thousands)* | |
|---|---|---|
| | **November 30, 2015 (Unaudited)** | **May 31, 2015** |
| ASSETS | | |
| Cash | $ 104 | $ 310 |
| Accounts receivable (less allowance for uncollectible accounts of $18 as of November 30, 2015 and May 31, 2015) | 969 | 587 |
| Earn-out payments from CADRA sale, current portion | 200 | 243 |
| Prepaid and other assets | 206 | 315 |
| Total current assets | 1,479 | 1,455 |
| Property and equipment, net | 86 | 57 |
| Goodwill | 948 | 948 |
| Capitalized software development costs, net | 625 | 422 |
| Capitalized patent costs | 114 | 109 |
| Earn-out payments from CADRA sale, net of current portion | 125 | 133 |
| Related party note receivable | 134 | 134 |
| Other assets | 35 | 35 |
| TOTAL ASSETS | $ 3,546 | $ 3,293 |
| LIABILITIES, REDEEMABLE COMMON STOCK AND SHAREHOLDERS DEFICIT | | |
| Liabilities: | | |
| Accounts payable | $ 265 | $ 137 |
| Accrued expenses | 393 | 283 |
| Deferred maintenance revenue | 1,289 | 1,732 |
| Capital lease, current | 24 | 19 |

| | | | | |
|---|---|---|---|---|
| Current maturities of long-term debt | | 926 | | 446 |
| Total current liabilities | | 2,897 | | 2,617 |
| Capital lease, net of current portion | | 50 | | 30 |
| Other accrued liabilities | | 5 | | 10 |
| Total liabilities | | 2,952 | | 2,657 |
| Commitments and contingencies | | | | |
| Redeemable Common Stock and Shareholders Deficit: | | | | |
| Redeemable common stock, $0.10 par value, 180,000 and 170,000 shares issued and outstanding at November 30, 2015 and May 31, 2015, respectively. | | 1,260 | | 1,190 |
| Shareholders deficit: | | | | |
| Common stock, $0.10 par value 20,000,000 shares authorized, 723,724 issued and outstanding at November 30, 2015 and May 31, 2015 | | 73 | | 73 |
| Additional paid in capital | | 27,085 | | 27,056 |
| Accumulated deficit | | (27,596) | | (27,400) |
| Accumulated other comprehensive loss | | (228) | | (283) |
| Total shareholders deficit | | (666) | | (554) |
| TOTAL LIABILITIES AND SHAREHOLDERS DEFICIT | $ | 3,546 | $ | 3,293 |

See accompanying notes to unaudited consolidated financial statements

**SOFTECH, INC. AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)**

| | *(in thousands, except for share and per share data)* | |
|---|---|---|
| | **For the Three Months Ended** | |
| | **November 30, 2015** | **November 30, 2014** |
| Revenue: | | |
| Products | $ 354 | $ 199 |
| Services | 950 | 828 |
| Total revenue | 1,304 | 1,027 |
| Cost of revenue: | | |
| Products | 17 | 33 |
| Services | 426 | 436 |
| Total cost of revenue | 443 | 469 |
| Gross margin | 861 | 558 |
| Research and development expenses | 137 | 222 |
| Selling, general and administrative expenses | 634 | 645 |
| Change in fair value of earn-out payments and holdback payment | 61 | (21) |
| Operating income (loss) | 29 | (288) |
| Interest expense | 28 | 63 |
| Other expense | 23 | 28 |
| Net loss | $ (22) | $ (379) |
| Basic and diluted net loss per share: | $ (0.02) | $ (0.44) |
| Weighted average common and redeemable shares outstanding-basic and diluted | 899,109 | 866,911 |

See accompanying notes to unaudited consolidated financial statements

**SOFTECH, INC. AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)**

| | *(in thousands, except for share and per share data)* | |
|---|---|---|
| | **For the Six Months Ended** | |
| | **November 30, 2015** | **November 30, 2014** |
| Revenue: | | |
| Products | $ 408 | $ 270 |
| Services | 1,877 | 1,621 |
| Total revenue | 2,285 | 1,891 |
| Cost of revenue: | | |
| Products | 46 | 86 |
| Services | 803 | 791 |
| Total cost of revenue | 849 | 877 |
| Gross margin | 1,436 | 1,014 |
| Research and development expenses | 291 | 494 |
| Selling, general and administrative expenses | 1,233 | 1,362 |
| Change in fair value of earn-out payments and holdback payment | 51 | (60) |
| Operating loss | (139) | (782) |
| Interest expense | 41 | 127 |
| Other expense | 16 | 43 |
| Net loss | $ (196) | $ (952) |
| Basic and diluted net loss per share: | $ (0.22) | $ (1.08) |
| Weighted average common and redeemable shares outstanding-basic and diluted | 896,402 | 881,653 |

See accompanying notes to unaudited consolidated financial statements

**SOFTECH, INC. AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF**

**COMPREHENSIVE INCOME (LOSS) (UNAUDITED)**

| | *(in thousands, except for share and per share data)* | | | |
|---|---|---|---|---|
| | **For the Three Months Ended** | | | |
| | **November 30, 2015** | | **November 30, 2014** | |
| Net loss | $ | (22) | $ | (379) |
| Other comprehensive income: | | | | |
| Foreign currency translation adjustment | | 49 | | 28 |
| Comprehensive income (loss) | $ | 27 | $ | (351) |

See accompanying notes to unaudited consolidated financial statements

**SOFTECH, INC. AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF**

**COMPREHENSIVE INCOME (LOSS) (UNAUDITED)**

| | *(in thousands, except for share and per share data)* | | | |
|---|---|---|---|---|
| | **For the Six Months Ended** | | | |
| | **November 30, 2015** | | **November 30, 2014** | |
| Net loss | $ | (196) | $ | (952) |
| Other comprehensive income: | | | | |
| Foreign currency translation adjustment | | 55 | | 85 |
| Comprehensive loss | $ | (141) | $ | (867) |

See accompanying notes to unaudited consolidated financial statements

**SOFTECH, INC. AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)**

| | *(in thousands)* For the Six Months Ended | |
|---|---|---|
| | **November 30, 2015** | **November 30, 2014** |
| Cash flows from operating activities: | | |
| Net loss | $ (196) | $ (952) |
| Adjustments to reconcile net loss to net cash used in operating activities: | | |
| Depreciation and amortization expense | 49 | 189 |
| Stock-based compensation | 58 | 59 |
| Non-cash loss on foreign currency transactions | 16 | 43 |
| Non-cash interest expense | - | 18 |
| Change in fair value of earn-out payments and holdback payment | 51 | (60) |
| Change in current assets and liabilities: | | |
| Accounts receivable | (382) | (67) |
| Prepaid expenses and other assets | 109 | 16 |
| Accounts payable and accrued expenses | 224 | (489) |
| Deferred maintenance revenue | (443) | (290) |
| Net cash used in operating activities | (514) | (1,533) |
| | | |
| Cash flows from investing activities: | | |
| Capital expenditures | (17) | (2) |
| Proceeds from holdback agreement | - | 320 |
| Capitalized software development costs | (231) | - |
| Capitalized patent costs | (5) | (2) |
| Net cash provided by (used in) investing activities | (253) | 316 |
| | | |
| Cash flows from financing activities: | | |
| Cost of repurchase of common stock | - | (37) |
| Cost of repurchase of redeemable common stock | - | (275) |
| Borrowing under debt agreements | 555 | 750 |
| Proceeds from issuance of common stock | 50 | 820 |
| Repayments under debt agreements | (75) | (770) |
| Repayments under capital lease | (7) | (7) |
| Net cash provided by financing activities | 523 | 481 |
| | | |
| Effect of exchange rates on cash | 38 | 44 |
| Decrease in cash and cash equivalents | (206) | (692) |
| Cash and cash equivalents, beginning of period | 310 | 1,209 |
| Cash and cash equivalents, end of period | $ 104 | $ 517 |
| | | |
| Supplemental disclosures of cash flow information: | | |
| Interest paid | $ 26 | $ 84 |

| | | | | |
|---|---|---|---|---|
| Taxes paid | $ | 2 | $ | 2 |
| | | | | |
| Noncash investing and financing activities: | | | | |
| Accretion of redeemable common stock | $ | 29 | $ | 370 |
| Purchase of property and equipment under capital lease | $ | 32 | $ | - |

See accompanying notes to unaudited consolidated financial statements

SOFTECH, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

**A. DESCRIPTION OF THE BUSINESS AND BASIS OF PRESENTATION**

SofTech, Inc. (the Company ) was formed in Massachusetts on June 10, 1969. The Company is engaged in the development, marketing, distribution and support of computer software solutions that serve the Product Lifecycle Management ( PLM ) industry. The Company s operations are organized geographically with offices in the U.S. and in Italy. The Company also has resellers in Asia and Europe.

The Company has been actively engaged in acquiring and filing new U.S. patents, evaluating alternatives for monetizing its existing patents and investigating the acquisition of specific patents already awarded that might enhance shareholder value.

The unaudited consolidated financial statements of the Company include the accounts of SofTech, Inc. and its wholly-owned subsidiaries, Information Decisions, Inc., Workgroup Technology Corporation, HomeView, Inc., SofTech, GmbH and SofTech, Srl. All significant intercompany accounts and transactions have been eliminated in consolidation.

Our unaudited consolidated financial statements presented herein have been prepared pursuant to the rules of the Securities and Exchange Commission (the SEC ) for quarterly reports on Form 10Q and do not include all of the information and footnote disclosures required by generally accepted accounting principles in the United States of America ( GAAP ). These statements should be read in conjunction with the consolidated financial statements and notes thereto for the year ended May 31, 2015 included in our Annual Report on Form 10K ( Annual Report ), which was filed with the SEC on August 31, 2015. In the opinion of management, the consolidated financial statements include all adjustments necessary for the fair presentation of the consolidated financial position, results of operations, and cash flows of the Company as of and for these interim periods.

HOMEVIEW, INC.

The Company established a wholly-owned subsidiary, HomeView, Inc. on April 7, 2015 in Massachusetts. HomeView , a technology being developed by HomeView, Inc., is a secure, intelligent home asset management and maintenance system. HomeView allows homeowners to create a virtual home manual that logs, manages and tracks personal assets and attributes about the property. Home ownership is made easier by managing user manuals, warranty

periods, service records, maintenance reminders and other projects with HomeView. Our plans are to offer this technology as a hosted solution wherein the software would reside on our servers.

CADRA SALE

On October 18, 2013, the Company sold substantially all of the assets of its CADRA product line, including all intellectual property related to that technology but specifically excluding cash, billed accounts receivable and liabilities other than the deferred maintenance liability associated with CADRA customer maintenance contracts for support services (the CADRA Sale ), to Mentor Graphics Corporation ( Mentor ), pursuant to an Asset Purchase Agreement dated August 30, 2013 (the Asset Purchase Agreement ). The aggregate consideration for the CADRA Sale is up to $3.95 million. Through November 30, 2015, the Company has received a total of approximately $3.5 million from Mentor and could receive up to an additional $423,000 based upon the CADRA revenue generated by Mentor for the period from February 1, 2015 through October 31, 2016. In accordance with the terms of the Asset Purchase Agreement such additional payments would be received in two installments on or before April 1, 2016 and 2017.

In conjunction with completing the CADRA Sale, the Company entered into a one-year, exclusive Distributorship Agreement with Mentor allowing us to market and support the CADRA technology as a reseller throughout Europe (except Germany) at a thirty percent (30%) gross margin. That arrangement was extended through January 31, 2016 on a non-exclusive basis. Under the new arrangement, gross margin on software remained at 30% and the gross margin on support contracts increased to either 35% or 40% dependent on annual purchase volume.

**B. SIGNIFICANT ACCOUNTING POLICIES**

USE OF ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The most significant estimates included in the financial statements pertain to revenue recognition, the allowance for doubtful accounts receivable, the fair value estimate of the Holdback Payment and Earn-Out Payments and the valuation of long term assets including goodwill, capitalized patent costs, capitalized software development costs and deferred tax assets. Actual results could differ from those estimates.

SOFTWARE DEVELOPMENT COSTS

The Company accounts for its software development costs in accordance with Accounting Standards Codification ( ASC ) *985-20, Software-Costs of Computer Software to Be Sold, Leased or Marketed* and *ASC 350-40, Intangibles-Goodwill and Other- Internal Use-Software.* ASC 985-20 is applicable to costs incurred to develop or purchase software to be sold, leased or otherwise marketed as a separate product or as part of a product or process. ASC 350-40 is applicable to costs incurred to develop or obtain software solely to meet an entity s internal needs and for which no substantive plan exists or is being developed to externally market the software. ASC 350-40 also covers technology that would be offered as a hosted solution.

Under ASC 985-20, costs that are incurred in researching and developing a computer software product are charged to expense until technological feasibility has been established for the product. Once technological feasibility is established, software development costs are capitalized until the product is available for general release to customers.

Under ASC 350-40 there are three distinct stages associated with development software which include 1) preliminary project; 2) application development; and 3) post implementation-operation. Costs should be capitalized after each of the following has occurred:

· The preliminary project stage has been completed;

· Management with the relevant authority authorizes the project;

· Management with the relevant authority commits to fund the project;

· It is probable that the project will be completed; and

· It is probable that the software will be used for the intended purpose.

Capitalization stops after the software is substantially complete.

Capitalized costs are amortized using the straight-line method over the estimated economic life of the product, generally three years. The Company evaluates the realizability of the assets and the related periods of amortization on a regular basis. Judgment is required in determining when costs should begin to be capitalized under both standards as well as the technology s economic life.

During the three and six months ended November 30, 2014, the Company did not capitalize software development costs. During the three and six months ended November 30, 2015, the Company capitalized approximately $113,000 and $231,000 of its software development costs, respectively. Amortization expense related to capitalized software development costs for the three and six months ended November 30, 2015 was approximately $12,000 and $28,000, respectively, as compared to approximately $28,000 and $56,000 for the comparable periods in the prior fiscal year.

INCOME TAXES

The provision for income taxes is based on the earnings or losses reported in the consolidated financial statements. The Company recognizes deferred tax liabilities and assets for the expected future tax consequences of events that have been recognized in the Company s financial statements or tax returns. Deferred tax liabilities and assets are determined based on the difference between the financial statement carrying amounts and tax bases of assets and liabilities using enacted tax rates in effect in the years in which the differences are expected to reverse. The Company provides a valuation allowance against deferred tax assets if it is more likely than not that some or all of the deferred tax assets will not be realized.

REVENUE RECOGNITION

The Company follows the provisions of ASC 985-605, *Software Revenue Recognition,* for transactions involving the licensing of software and software support services. Revenue from software license sales is recognized when persuasive evidence of an arrangement exists, delivery of the product has been made, there is a fixed fee and collectability is reasonably assured. The Company does not provide for a right of return. For multiple element arrangements, total fees are allocated to each of the undelivered elements based upon vendor specific objective evidence ( VSOE ) of their fair values, with the residual amount recognized as revenue for the delivered elements, using the residual method set forth in ASC 985-605. Revenue from customer maintenance support agreements is deferred and recognized ratably over the term of the agreements, typically one year. Revenue from engineering, consulting and training services is recognized as those services are rendered using a proportional performance model.

The Company follows the provisions of ASC 605, *Revenue Recognition* for transactions that do not involve the licensing of software or software support services as in the case of the recent sale of its patents. Revenue from the sale of patents is recorded when persuasive evidence of an arrangement exists, delivery has taken place, there is a fixed fee and collectability is reasonably assured. These conditions are no different from those when the Company licenses software.



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For multiple element arrangements accounted for under ASC 605-25, a determination is made as to which elements have stand-alone value, and are therefore separable. Total fees are then allocated to each of the separate elements based upon the relative selling price method. Under that method the allocation of fees to the separate elements is based on VSOE, or if it doesn t exist, then based on third party evidence of selling price. If neither exists, then the allocation is based on management s best estimate of the selling price.

ACCOUNTING FOR GOODWILL

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

As of May 31, 2015, the Company conducted its annual impairment test of goodwill by comparing the fair value of the reporting unit to the carrying amount of the underlying assets and liabilities of its single reporting unit. The Company determined that the fair value of the reporting unit exceeded the carrying amount of the assets and liabilities, therefore no impairment existed as of the testing date. The Company concluded that no facts or circumstances arose during the three and six months ended November 30, 2015 to warrant an interim impairment test.

CAPITALIZED PATENT COSTS

Costs related to patent applications are capitalized as incurred and are amortized once the patent application is accepted or are expensed if the application is finally rejected. Patent costs are amortized over their estimated economic lives under the straight-line method, and are evaluated for impairment when events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable through the estimated undiscounted future cash flows from the use of the associated patent. Capitalized patent costs totaled approximately $3,000 and $5,000 for the three and six month periods ended November 30, 2015, respectively, as compared to $2,000 for both the three and six month periods ended November 30, 2014.

LONG-LIVED ASSETS

The Company periodically reviews the carrying value of all intangible 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. As of November 30, 2015, the Company does not have any long-lived assets it considers to be impaired.

FINANCIAL INSTRUMENTS

The Company s financial instruments consist of cash, accounts receivable, Earn-Out Payments, related party notes receivable, accounts payable, notes payable accrued expenses, long-term debt and capital lease obligations. The Company s estimate of the fair value of these financial instruments approximates their carrying value due to the short term maturity of the assets and liabilities at November 30, 2015.

FAIR VALUE OF FINANCIAL INSTRUMENTS

Accounting guidance defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Under this guidance, the Company is required to classify certain assets based on the fair value hierarchy, which groups fair value-measured assets based upon the following levels of inputs:

.

Level 1 Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities;

.

Level 2 Quoted prices in markets that are not active, or inputs which are observable, either directly or indirectly, for substantially the full term of the asset or liability;

.

Level 3 Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (i.e. supported by little or no market activity).

The assets maintained by the Company that are required to be measured at fair value on a recurring basis are the Earn-Out Payments associated with the Company s sale of the CADRA product line. As of November 30, 2015, the maximum amount that could be received by the Company under the Asset Purchase Agreement totaled $423,000. The

actual amount to be received is dependent on the amount of CADRA revenue produced by Mentor for the period from February 1, 2015 through October 31, 2016.

The following table summarizes the valuation of the Company's assets and liabilities measured at fair value on a recurring basis as of November 30, 2015:

| | *(in thousands)* | | | |
|---|---|---|---|---|
| | **Total** | **Quoted prices in active markets (Level 1)** | **Significant other observable inputs (Level 2)** | **Significant unobservable inputs (Level 3)** |
| Assets: | | | | |
| Earn-Out Payments | $ 325 | $ - | $ - | $ 325 |
| Total assets at fair value | $ 325 | $ - | $ - | $ 325 |

The following table summarizes the valuation of the Company's assets and liabilities measured at fair value on a recurring basis as of May 31, 2015:

| | *(in thousands)* | | | |
|---|---|---|---|---|
| | **Total** | **Quoted prices in active markets (Level 1)** | **Significant other observable inputs (Level 2)** | **Significant unobservable inputs (Level 3)** |
| Assets: | | | | |
| Earn-Out Payments | $ 376 | $ - | $ - | $ 376 |
| Total assets at fair value | $ 376 | $ - | $ - | $ 376 |

The table below provides a summary of the changes in fair value of the Level 3 classified Holdback Payment and Earn-Out Payments asset for the six month period ended November 30, 2015.

| | *(in thousands)* |
|---|---|
| Fair value at May 31, 2014 | $ 895 |
| Payments received | (604) |
| Change in fair value | 85 |
| Fair value at May 31, 2015 | 376 |
| Change in fair value | (51) |
| Fair value at November 30, 2015 | $ 325 |

The fair value of the Earn-Out Payments expected to be collected within twelve months of the balance sheet date have been classified as current assets and the remainder as non-current assets in the accompanying consolidated balance sheets. The Company has estimated the fair value of the Earn-Out Payments using a discounted cash flow approach.

This valuation is based upon several factors including; i) management s estimate of the amount and timing of future CADRA revenues, ii) the timing of receipt of payments from Mentor, and iii) a discount rate of 7%.

A change in any of these unobservable inputs can significantly change the fair value of the asset. The change in fair value of the Earn-Out Payments recognized in the Consolidated Statements of Operations for the three and six months ended November 30, 2015 resulted in losses of approximately ($61,000) and ($51,000), respectively. The change in fair value of the Earn-Out Payments recognized in the Consolidated Statements of Operations for the three and six months ended November 30, 2014 resulted in income of approximately $21,000 and $60,000, respectively.

FOREIGN CURRENCY TRANSLATION

The functional currency of the Company s foreign operations is the Euro. As a result, assets and liabilities are translated at period-end exchange rates and revenues and expenses are translated at the average exchange rates. Adjustments resulting from translation of such financial statements are classified in accumulated other comprehensive loss. Foreign currency gains and losses arising from transactions were included in the statements of operations. For the three and six month periods ended November 30, 2015, the Company recorded a net loss from foreign currency related transactions of approximately $23,000, and $16,000, respectively, as compared to approximately $28,000 and $43,000, respectively, for the comparable periods in the prior fiscal year, to Other expense in the unaudited Consolidated Statements of Operations.

NET (LOSS) INCOME PER COMMON SHARE

For the three and six month periods ended November 30, 2015, 1,619 and 619, respectively, options to purchase common shares were anti-dilutive and were excluded from the basic and diluted earnings per share calculation. For the three and six month periods ended November 30, 2014, 2,368 and 1,184, respectively, options to purchase common shares were anti-dilutive and were excluded from the basic and diluted earnings per share calculation.

STOCK-BASED COMPENSATION

Stock-based compensation expense for all stock-based payment awards made to employees and directors is measured based on the grant-date fair value of the award. The Company estimated the fair value of each share-based award using the Black-Scholes option valuation model. The Black-Scholes option valuation model incorporates assumptions as to stock price volatility, the expected life of options, a risk-free interest rate and dividend yield. The Company recognizes stock-based compensation expense on a straight-line basis over the requisite service period of the award.

In May 2011, the 2011 Equity Incentive Plan (the 2011 Plan ) was approved by the Company s shareholders, pursuant to which 150,000 shares of our common shares are reserved for issuance. Any shares subject to any award under the 2011 Plan that expires, is terminated unexercised or is forfeited will be available for awards under the 2011 Plan. The Company may grant stock options, restricted stock, restricted stock units, stock equivalents and awards of shares of common stock that are not subject to restrictions or forfeiture under the 2011 Plan. As of November 30, 2015, 149,500 options were awarded.

The following table summarizes option activity under the 2011 Stock Option Plan:

| | **Number of Options** | **Weighted Average Exercise Price Per Share** | **Weighted-Average Remaining Life (in years)** | **Aggregate Intrinsic Value** |
|---|---|---|---|---|
| Outstanding options at May 31, 2014 | 129,500 | 1.88 | 9.74 | 20,825 |
| Granted | 30,000 | 1.84 | 10.00 | - |
| Exercised | - | - | - | - |
| Forfeited or expired | (12,500) | 1.11 | - | - |
| Outstanding options at May 31, 2015 | 147,000 | 1.77 | 8.54 | 2,625 |
| Granted | 2,500 | - | - | - |
| Exercised | - | - | - | - |

| | | | | | |
|---|---|---|---|---|---|
| Forfeited or expired | - | | - | - | | - |
| Outstanding options at November 30, 2015 | 149,500 | $ | 1.75 | 8.07 | $ | 5,625 |
| Exercisable at November 30, 2015 | 114,867 | $ | 1.77 | 7.92 | $ | 5,063 |

The Company determined the volatility for options granted using the historical volatility of the Company s common stock. The expected life of options has been determined utilizing the simplified method as prescribed in ASC 718, *Compensation, Stock Compensation*. The expected life represents an estimate of the time options are expected to remain outstanding. The risk-free interest rate is based on a treasury instrument whose term is consistent with the expected life of the stock options. The Company has not paid, and does not anticipate paying, cash dividends on its common stock; therefore, the expected dividend yield is assumed to be zero.

For the three and six month periods ended November 30, 2015, the Company expensed approximately $27,000 and $58,000 of stock-based compensation, respectively, as compared to approximately $32,000 and $59,000 in the comparable prior periods.

REDEEMABLE COMMON STOCK

During the year ended May 31, 2013, the Company issued 50,000 shares of common stock, $0.10 par value (the Common Stock ), at a purchase price of $5.00 per share to accredited investors (collectively, the Investors ) in separate private placement transactions for total proceeds of $250,000. These transactions were completed pursuant to a Securities Purchase Agreement (the Agreement ) which the Company entered into with each of the respective Investors. In lieu of registration rights, each $25,000 investment entitled the Investors to a fee of $6,000 (the Fee ) to be paid in six equal quarterly installments during the eighteen month period following the investment. The Agreement also provided the Investors with the right to require the Company to redeem the Common Stock held by such Investors (the Put Option ) for $5.50 per share in cash for a 30 day period ending between June 1, 2014 and June 30, 2014. Each of the Investors exercised their Put Option and the Common Stock was repurchased by the Company at the agreed upon Put Option price of $5.50 per share for a total of $275,000 during the first quarter of fiscal 2015.

During the fiscal quarter ended August 31, 2014, in a transaction structured in a similar fashion to the above described Agreement, the Company issued 110,000 shares of the Common Stock at a purchase price of $5.00 per share to Joseph P. Daly, an accredited investor and existing Company shareholder, in a private placement transaction for total proceeds of $550,000. This transaction was completed pursuant to a securities purchase agreement whereby Mr. Daly shall have the right to require the Company to repurchase some or all of the shares at $7.00 per share during the ninety (90) day period immediately following the three-year anniversary of the transaction. Upon completion of the transaction, the 110,000 shares of Common Stock issued pursuant to the security purchase agreement were recorded as redeemable common stock at its redemption value of $770,000 and accretion of $220,000 was recorded to additional paid in capital.

During the fiscal quarter ended November 30, 2014, the Company issued an additional 60,000 shares of the Common Stock at a purchase price of $5.00 per share to four accredited investors (collectively, the New Investors ) in private placement transactions for total proceeds of $300,000. These transactions were completed pursuant to Securities Purchase Agreements (the New Agreements ) entered into with each of the respective New Investors. In lieu of registration rights, each $50,000 investment entitles the New Investors to a fee (the New Investors Fees ) of $5,000 to be paid in eight equal quarterly installments during the twenty-four month period (the Payment Period ) following the investment. The New Agreements also provide the New Investors with the right to require the Company to redeem the Common Stock held by such New Investors for $7.00 per share in cash for a 30 day period following the Payment Period. Upon completion of these transactions, the 60,000 shares of Common Stock issued pursuant to the New Agreements were recorded as redeemable common stock at its redemption value of $420,000 and accretion of $120,000 was recorded to additional paid in capital.

During the fiscal quarter ended November 30, 2015, the Company issued an additional 10,000 shares of the Common Stock at a purchase price of $5.00 per share to an accredited investor in private placement transactions for total proceeds of $50,000. This transaction was completed pursuant to a Securities Purchase Agreement entered into with the investor. In lieu of registration rights, the investor is entitled to a fee of $5,000 to be paid in eight equal quarterly installments during the twenty-four month period (the Payment Period ) following the investment. The Securities Purchase Agreement also provides the investor with the right to require the Company to redeem the Common Stock

held by such investor for $7.00 per share in cash for a 30 day period following the Payment Period. Upon completion of this transaction, the 10,000 shares of Common Stock issued pursuant to the Securities Purchase Agreement was recorded as redeemable common stock at its redemption value of $70,000 and accretion of $20,000 was recorded to additional paid in capital.

The Company first assessed the redeemable Common Stock to determine whether each of these instruments should be accounted for as a liability in accordance with ASC 480, *Distinguishing Liabilities from Equity*. In that the put option is optionally redeemable by the holder, the Common Stock was not required to be accounted for as a liability. Next, the Company assessed each put option within the redeemable Common Stock as a potential embedded derivative pursuant to the provisions of ASC 815, *Derivatives and Hedging,* and concluded that the put option did not meet the net settlement criteria within the definition of a derivative. Therefore, the Company has accounted for the redeemable Common Stock in accordance with ASC 480-10-S99, *Classification and Measurement of Redeemable Securities*, which provides that securities that are optionally redeemable by the holder for cash or other assets are classified outside of permanent equity in temporary equity.

RECENT ACCOUNTING PRONOUNCEMENTS

In May 2015, the FASB issued ASU No. 2015-08, "Business Combinations (Topic 805): Pushdown Accounting Amendments to SEC Paragraphs Pursuant to Staff Accounting Bulletin No. 115."  The amendments in this ASU amend various SEC paragraphs pursuant to the issuance of Staff Accounting Bulletin No. 115, Topic 5: Miscellaneous Accounting, regarding various pushdown accounting issues, and did not have a material impact on the Company's consolidated financial statements.



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In April 2015, the FASB issued ASU No. 2015-05, "Intangibles - Goodwill and Other - Internal-Use Software (Subtopic 350-40): Customer's Accounting for Fees Paid in a Cloud Computing Arrangement." The amendments in this ASU provide guidance to customers about whether a cloud computing arrangement includes a software license. If a cloud computing arrangement includes a software license, then the customer should account for the software license element of the arrangement consistent with the acquisition of other software licenses. If a cloud computing arrangement does not include a software license, the customer should account for the arrangement as a service contract. The amendments do not change the accounting for a customer's accounting for service contracts. As a result of the amendments, all software licenses within the scope of Subtopic 350-40 will be accounted for consistent with other licenses of intangible assets. The amendments in this ASU are effective for public business entities for annual periods, including interim periods within those annual periods, beginning after December 15, 2015. Early adoption is permitted. An entity can elect to adopt the amendments either: (1) prospectively to all arrangements entered into or materially modified after the effective date; or (2) retrospectively. The Company is currently assessing the impact that ASU 2015-05 will have on its consolidated financial statements.

In April 2015, the FASB issued ASU No. 2015-03, "Interest Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs." The amendments in this ASU are intended to simplify the presentation of debt issuance costs. These amendments require that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The recognition and measurement guidance for debt issuance costs are not affected by the amendments in this ASU. The amendments in this ASU are effective for public business entities for financial statements issued for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years. Early adoption is permitted for financial statements that have not been previously issued. The Company does not expect the adoption of ASU 2015-03 to have a material impact on its consolidated financial statements.

In February 2015, the FASB issued ASU No. 2015-02, "Consolidation (Topic 810): Amendments to the Consolidation Analysis." The amendments in this ASU are intended to improve targeted areas of consolidation guidance for legal entities such as limited partnerships, limited liability corporations, and securitization structures (collateralized debt obligations, collateralized loan obligations, and mortgage-backed security transactions). In addition to reducing the number of consolidation models from four to two, the new standard simplifies the FASB Accounting Standards Codification and improves current GAAP by placing more emphasis on risk of loss when determining a controlling financial interest, reducing the frequency of the application of related-party guidance when determining a controlling financial interest in a variable interest entity ("VIE"), and changing consolidation conclusions for public and private companies in several industries that typically make use of limited partnerships or VIEs. The amendments in this ASU are effective for public business entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. Early adoption is permitted, including adoption in an interim period. ASU 2015-02 may be applied retrospectively in previously issued financial statements for one or more years with a cumulative-effect adjustment to retained earnings as of the beginning of the first year restated. The Company does not expect the adoption of ASU 2015-02 to have a material impact on its consolidated financial statements.

Accounting Standards Update (ASU) 2014-16, Derivatives and Hedging (Topic 815) Determining Whether the Host Contract in a Hybrid Financial Instrument Issued in the Form of a Share Is More Akin to Debt or to Equity was issued by the FASB in November 2014. The primary purpose of the ASU is to eliminate the use of different methods in practice and thereby reduce existing diversity under GAAP in the accounting for hybrid financial instruments issued

in the form of a share. ASU 2014-16 is effective for public business entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. The Company does not believe that this guidance will have a material impact on its consolidated results of operations or financial position or disclosures.

Accounting Standards Update (ASU) 2014-15, Presentation of Financial Statements-Going Concern (Subtopic 205-40) Disclosure of Uncertainties about an Entity s Ability to Continue as a Going Concern was issued by the FASB in August 2014. The primary purpose of the ASU is to provide guidance in GAAP about management s responsibility to evaluate whether there is substantial doubt about an entity s ability to continue as a going concern and to provide related footnote disclosures. The amendments should reduce diversity in the timing and content of footnote disclosure. ASU 2014-15 is effective for the annual period ending after December 15, 2016, and for the annual periods and interim periods thereafter. Early adoption is permitted. The Company is in the process of evaluating if this guidance will have a material impact on its consolidated results of operations or financial position or disclosures.

ASU 2014-12, Compensation-Stock Compensation (Topic 718) Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period was issued by the FASB in June 2014. ASU 2014-12 requires that compensation cost should be recognized in the period in which it becomes probable that the performance target will be achieved and should represent the compensation cost attributable to the period(s) for which the requisite service has already been rendered. ASU 2014-12 is effective for public business entities for annual periods and interim periods within the annual periods beginning after December 15, 2015. Early adoption is permitted. The Company does not believe this guidance will have a material impact on its consolidated results of operations or financial position.



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In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers*, (Topic 606). The ASU is the result of a joint project by the FASB and the International Accounting Standards Board ( IASB ) to clarify the principles for recognizing revenue and to develop a common revenue standard for GAAP and International Financial Reporting Standards ( IFRS ) that would: remove inconsistencies and weaknesses, provide a more robust framework for addressing revenue issues, improve comparability of revenue recognition practices across entities, jurisdictions, industries, and capital markets, improve disclosure requirements and resulting financial statements, and simplify the presentation of financial statements. The core principle of the new guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The ASU is effective for annual and interim reporting periods beginning after December 15, 2017, based on ASU 2015-14. Early application is permitted but not before the original effective date of December 15, 2016. The Company is currently assessing the impact of this guidance.

**C. GEOGRAPHICAL INFORMATION**

The Company operates in one reportable segment and is engaged in the development, marketing, distribution and support of computer aided design and product data management and collaboration computer solutions. The Company s operations are organized geographically with offices in the U.S. 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 (in thousands):

| | **Three Month Periods Ended** | |
|---|---|---|
| Revenue: | **November 30, 2015** | **November 30, 2014** |
| North America | $ 1,043 | $ 859 |
| Europe | 274 | 177 |
| Asia | 3 | - |
| Eliminations | (16) | (9) |
| Consolidated Total | $ 1,304 | $ 1,027 |

| | **Six Month Periods Ended** | |
|---|---|---|
| Revenue: | **November 30, 2015** | **November 30, 2014** |
| North America | $ 1,818 | $ 1,541 |
| Europe | 482 | 366 |
| Asia | 6 | - |
| Eliminations | (21) | (16) |
| Consolidated Total | $ 2,285 | $ 1,891 |

| Long Lived Assets: | **As of** | **As of** |
|---|---|---|

| | November 30, 2015 | | May 31, 2015 | |
|---|---|---|---|---|
| North America | $ | 2,026 | $ | 1,797 |
| Europe | | 41 | | 41 |
| Consolidated Total | $ | 2,067 | $ | 1,838 |

**D. DEBT**

ESSIGPR

On June 20, 2014, the Company entered into a promissory note agreement (the Note ) with EssigPR, Inc. ( EssigPR ), a Puerto Rico corporation and related party of the Company. The Note is a three (3) year borrowing arrangement with EssigPR as the lender. The Note is a $750,000 term loan maturing on April 1, 2017, that accrues interest at a 9.5% interest rate, paid quarterly in arrears. The principal on the Note was to be paid from the deferred payments (Holdback Payment and Earn-Out Payments) due over the next three years from Mentor in connection with their purchase of the CADRA product line.

On October 1, 2014, the Company entered into an additional short term borrowing arrangement with EssigPR ( Short Term Note ) whereby it was agreed that the Company would retain $300,000 of the Holdback Payment due from Mentor in October 2014 rather than utilize those monies to pay down the above described Note. The interest rate on the Short Term Note is 9.5%, payable quarterly in arrears. The Short Term Note can be repaid at any time without penalty and was due in full on April 10, 2015. EssigPR was awarded 5,000 fully vested stock options to purchase SofTech common stock at $1.00 per share. The stock options will expire on October 1, 2024 if not exercised. The Short Term Note arrangement did not increase the total principal amount of debt owed to EssigPR. Rather, the arrangement had the effect of establishing new payoff terms for that portion of the debt owed to EssigPR under the Note.

On April 2, 2015, the Short Term Note was amended to extend the due date by three months from April 10, 2015 to July 10, 2015. EssigPR was awarded 2,500 fully vested stock options to purchase SofTech common stock at $1.00 per share. The stock options will expire on April 2, 2025 if not exercised.

During the three months ended August 31, 2015, the Short Term Note was amended to extend the due date to October 10, 2015 and to increase the borrowings by $200,000 in exchange for 2,500 fully vested stock options to purchase SofTech common stock at $1.00 per share. The stock options will expire on July 15, 2025 if not exercised.

During the three months ended November 30, 2015, the Short Term Note was amended to extend the due date to January 10, 2016 and to increase the borrowings by $254,000.

On January 8, 2016, the Short Term Note was amended to extend the due date to April 10, 2016.

On the occurrence and continuance of an event of default under the Note that is not cured after written notice from EssigPR, all or any part of the indebtedness under the Note may become immediately due at the option of EssigPR. Under the Note, events of default are (1) a default in the payment of any money owed by the Company to EssigPR under the Note or in any other transaction or (2) a default in the Company s performance of any obligation to EssigPR under the Note or any other agreement between the two parties, whether such agreement is presently existing or entered into in the future. If the Company dissolves, becomes insolvent, or makes an assignment for the benefit of creditors, all such indebtedness under the Note shall become automatically due and payable.

EssigPR is owned by Joseph P. Daly, a related party of the Company whose beneficial ownership was approximately 19.6% of the Company s outstanding common stock as of November 30, 2015.

SHORT TERM ADVANCES FROM RELATED PARTIES

Robert Anthonyson, an Officer, Director and beneficial owner of 19.5% of Company common shares as of November 30, 2015, loaned the Company $50,000 on July 29, 2015 which was repaid to Mr. Anthonyson during the second quarter of fiscal year 2016. Joseph Mullaney, an Officer, Director and beneficial owner of 11.2% of Company common shares as of November 30, 2015, loaned the Company $19,300 on September 1, 2015 which was repaid during the second quarter of fiscal year 2016.

BLUEVINE

In September 2015, the Company arranged for a credit line of up to $80,000 with BlueVine Capital, Inc. ( BlueVine ). The borrowing arrangement with BlueVine as the lender allows the Company to receive an advance of 85% of the total value of specified invoices. During the three month period ended November 30, 2015 the Company received advances totaling approximately $27,000 against three invoices from one customer. These three invoices were paid subsequent to November 30, 2015.

Subsequent to the end of the fiscal quarter, the Company received an advance of $23,000 from BlueVine under the above described credit line against four invoices from one customer. These four invoices were also repaid subsequent to November 30, 2015.

**E. NOTE RECEIVABLE, RELATED PARTY**

Joseph Mullaney, the Company s CEO, was extended a non-interest bearing note in the amount of $134,000 related to a stock transaction in May, 1998. The note is partially secured by the Company stock acquired in that transaction. The Company does not expect repayment within the next twelve months.



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**F. STOCK PURCHASE AGREEMENT**

In June 2013, the Company purchased 170,000 shares of common stock from Greenleaf, The Ronda E. Stryker and William D. Johnston Foundation, and The L. Lee Stryker 1974 Irrevocable Trust fbo Ronda E. Stryker, for a purchase price of $62,900 or $0.37 per share as detailed in Note K to the consolidated financial statements as of May 31, 2013. On August 8, 2014 the Company repurchased Greenleaf s remaining 101,411 shares at $0.37 per share for a total of approximately $37,000.

**G. SUBSEQUENT EVENTS**

The Company has evaluated all events and transactions that occurred after the balance sheet and through the date that the financial statements were issued.

Subsequent to the end of the fiscal quarter, the Company received an advance of $23,000 from BlueVine under the above described credit line against four invoices from one customer. These four invoices were also repaid subsequent to November 30, 2015.

On January 8, 2016, the Short Term Note between the Company and EssigPR was amended to extend the due date by three months from January 10, 2016 to April 10, 2016.

**Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations**

This report includes forward-looking statements. These forward-looking statements are often identified by words such as may, will, should, could, would, expect, intend, plan, anticipate, believe, estimate, proj similar expressions. These statements are only predictions and involve estimates, assumptions and uncertainties that could cause actual results to differ materially from those expressed. You should not place any undue reliance on these forward-looking statements.

You should be aware that our actual results could differ materially from those contained in forward-looking statements due to a number of factors, including our ability to:

· generate sufficient cash flow from our operations or other sources to fund our working capital needs and growth initiatives;

· maintain good relationships with our lenders;

· comply with the covenant requirements of our loan agreements;

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

· attract and retain qualified personnel;

· prevent obsolescence of our technologies;

· maintain agreements with our critical software vendors;

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

· secure new business, both from existing and new customers.

The forward-looking statements speak only as of the date on which they are made, and, except to the extent required by federal securities laws, we undertake no obligation to update any forward-looking statement to reflect events or circumstances after the date on which the statement is made or to reflect the occurrence of unanticipated events. In addition, we cannot assess the impact of each factor on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements. References in this prospectus to the Company, we, our, and us refer to the registrant, SofTech, Inc., and its wh owned subsidiaries.

*The following discussion and results of operations should be read in conjunction with the consolidated financial statements and the notes to those statements included in the previously filed Form 10-K. This discussion includes forward-looking statements that involve risk and uncertainties.*

**Overview**

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 ). These solutions include software technology offerings for Computer Aided Design ( CAD ), which we describe below as the *CADRA* product offering and Product Data Management ( PDM ) and collaboration technologies, which we describe below as our *ProductCenter* and *Connector* technologies. The CADRA technology is marketed by the Company in Europe (other than Germany) under the terms of a distribution agreement (the Distributorship Agreement ) with Mentor Graphics Corporation ( Mentor ), which acquired that technology from us in October 2013. In addition, we offer a technology platform that allows for data exchange between various third party technology offerings which we describe as our *Connector* offering. We deliver these enterprise level PLM solutions, with comprehensive out-of-the-box capabilities, to meet the needs of manufacturers of all sizes quickly and cost-effectively. Our operations are organized geographically in the U.S. and Europe. We have sales and customer support offices in the U.S. and Italy. We also operate through resellers in North America, Europe and Asia. For geographical information about our operating revenues and assets, see Note E to the consolidated financial statements included in the Company s Form 10-K for the fiscal year ended May 31, 2015.

The Company has been actively engaged in acquiring and filing new patent applications, evaluating alternatives for monetizing its existing patents and investigating the acquisition of specific patents already awarded that might enhance our value. It is expected that this kind of activity will become an increasing area of focus and investment over the coming years.



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*Developing HomeView Technology*

One such patent filed in 2012 described an information management system for the residential property market. During fiscal 2015 and 2016 we have invested a substantial amount of time in, among other things, researching this market, reviewing various business models, creating specifications for the technology and developing the technology. Our plans are to offer this technology, under the name HomeView , as a hosted solution wherein the software would reside on our servers. By the end of the second quarter of fiscal 2015 we had completed the preliminary project stage and met the other conditions for capitalizing development costs under ASC 350-40. While this technology is aimed at the needs of the residential property market, the skillsets of our PLM engineers are very similar to the requirements for this technology.

In December 2015, the mobile version of HomeView was approved on iTunes and is now available for download at no charge. We are continuing to develop the technology and expect multiple new releases for the foreseeable future. We expect to be introducing this product to the market in the third quarter of fiscal 2016, through attendance and participation at multiple trade events as well as conducting other market outreach activities.

*ProductCenter*

From fiscal years 2006 through 2014 our ProductCenter technology experienced year over year revenue declines. We identified multiple causes for this historical negative revenue trend including, among other things: (i) an increased number of competitive offerings in the marketplace, (ii) elongation of purchase decisions by customers of a technology that already had a long sales cycle, and (iii) uncertain economic conditions. ProductCenter revenue increased in fiscal 2015 by 14.6% as compared to the prior fiscal year. For the three and six months ended November 30, 2015, ProductCenter product line revenue increased 16.4% and 14.9% from the same periods in the prior fiscal year.

This is the fifth consecutive fiscal quarter in which ProductCenter revenue experienced double-digit revenue growth as compared to the same period in the prior fiscal year. The percentage increases ranged from 13.0% in the three month period ended August 31, 2015 compared to the same period in the prior year to 34.8% in the three month period ended May 31, 2015 compared to the same period in the prior year. The growth has come from existing customers that have expanded their usage of the technology. While the pipeline signals continued growth, the timing of orders has been difficult to predict accurately in the past.

*Connector*

The Connector technology is offered only as an annual subscription. During fiscal year 2015, subscription billings increased by 38.4% as compared to the same period in the prior fiscal year. For the three and six months ended November 30, 2015, subscription billings increased by 433% and 95.6%, respectively, as compared to the same periods in the prior fiscal year.

**CADRA Sale**

CADRA is a drafting and design software package for the professional mechanical engineer.

On October 18, 2013, the Company sold substantially all of the assets of its CADRA product line, including all intellectual property related to that technology but specifically excluding cash, billed accounts receivable and liabilities other than the deferred maintenance liability associated with CADRA customer maintenance contracts for support services (the CADRA Sale ), to Mentor pursuant to an Asset Purchase Agreement dated August 30, 2013 (the Asset Purchase Agreement ). The aggregate consideration for the CADRA Sale is up to $3.95 million, which is comprised of (i) $3.2 million, $2.88 million of which was paid on the closing date and $320,000 (representing a 10% holdback) payable on the one year anniversary of the closing date subject to any indemnification claims, (the Holdback Payment ), and (ii) earn-out payments of up to an aggregate $750,000 over the three-year period subsequent to the closing date (the Earn-Out Payments ), based on 10% of the net revenue generated by the CADRA business, subject to the terms of the Earn-Out Agreement dated August 30, 2013 (the Earn-Out Agreement ). The Holdback Payment of $320,000 was received on October 20, 2014. No indemnification claims against the Company were made by Mentor during the period of indemnification which has now expired. Mentor has paid the Company $327,000 of the maximum $750,000 of Earn-Out Payments related to CADRA revenue generated by Mentor from the transaction date to January 31, 2015.

In conjunction with completing the CADRA Sale, the Company entered into a one-year, exclusive Distributorship Agreement with Mentor allowing us to market and support the CADRA technology as a reseller throughout Europe (except Germany) at a thirty percent (30%) gross margin. That arrangement was extended through January 31, 2016 on a non-exclusive basis. Under the new arrangement gross margin on software remained at 30% and the gross margin on support contracts increased to 35% or 40% dependent on volume.



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We are in the process of restructuring our business subsequent to the CADRA Sale to enable us to successfully operate as a significantly smaller company and to seek new sources of revenue and possible new strategic initiatives. We currently contemplate pursuing the activities described below and other strategic initiatives that the board of directors may subsequently determine are in the best interests of the shareholders.

**Activities following the CADRA Sale**

*PLM Business*

Subsequent to the completion of the CADRA Sale, we have continued to offer our ProductCenter and Connector technologies to design and manufacturing companies. Our ProductCenter technology manages the engineering data and electronic files of discrete parts designed in third party proprietary design technologies offered primarily by SolidWorks, PTC and Autodesk. The Connector platform is a technology that allows for a direct interface between Aras Innovator, a third-party PLM solution which features modern, web-based technology, and various well-established CAD technologies. The Aras technology is offered under a subscription revenue model as is our Connector technology. We entered into a partnership agreement with Aras in 2012, pursuant to which we provide distribution and consulting services, as further described below. For a description of the risks related to our PLM business, see Risk Factors Risks Related to Our Business in our Form 10-K for fiscal year 2015.

*Distribution Activity*

In connection with the CADRA Sale, we entered into a Distribution Agreement with Mentor to market and support the CADRA technology throughout Europe (except Germany), for a minimum of one year following the sale, through its wholly-owned subsidiary in Italy, SofTech, Srl. As described above, we have extended this agreement on a non-exclusive basis through January 31, 2016. The margin to be earned by SofTech for this distribution activity pursuant to the existing Distributorship Agreement was consistent with the margin earned by distributors in the industry. In addition, we will continue to market and distribute third party technologies from Aras as we have since 2012.

*Consulting*

SofTech has been engaged in the PLM market since 1993. Our consulting group is composed of deeply experienced, long tenured experts solving very complex problems relating to data migration, customization, data control, access, version control, connectivity between proprietary systems and a myriad of other problems encountered by our customers.

*Exploring Strategic Initiatives*

A core tenet of the management team s strategy following the Recapitalization Transaction in 2011 has been to actively consider ways to monetize some or all of SofTech s assets and to pursue new strategic initiatives, such as potential business combinations, sale transactions or strategic partnerships.

*Developing Remaining Patent Estate*. The Company has filed three provisional patents and purchased the rights to one provisional patent since March 2011. These patents remain in process at the United States Patent and Trademark Office, and the Company intends to continue to pursue the resolution to these filings. These patents generally relate to methods of accumulating buyers information in a database in ways that allow the information to be shared with sellers so as to allow the sellers to make targeted, relevant offers to the buyers. While these patents, which could generally be considered eCommerce related, pertain to technologies that are not directly related to our historical revenue producing business activities, we believe they may have applications in those areas.

Analyzing the potential of the technologies described in these patents and the business case for us to invest in efforts to commercialize any of them is part of an ongoing evaluation. While many of these businesses would be new to us, we believe that we possess underlying competencies from our existing businesses, such as strong engineering and software capabilities especially in database technologies, and other attributes, such as numerous long-term client relationships with technology companies that may be complementary to developing new businesses around these technologies. However, any investment by us to attempt to commercialize the technologies described in these patents could be costly and prove to be unsuccessful.

As detailed above, under the caption Overview *Developing HomeView Technology*, during fiscal year 2015 and 2016 we have invested a substantial amount of time in pursuing a data management offering for the residential property market. The product idea was detailed in a patent filing in 2012 that has yet to be awarded. We expect to introduce this technology to the market in the third quarter of fiscal 2016.

*Strategic Transactions*. We will continue to evaluate business combinations and other sale opportunities. We believe that, in addition to our remaining businesses and prospects described above, our status as a publicly traded company and tax attributes could make us an attractive strategic partner. As of May 31, 2015, SofTech had approximately $21 million in federal tax attributes and approximately $4 million in state tax attributes. We will continue to seek strategic transactions for the benefit of our shareholders, but there can be no assurances in this regard.

*Other*

*Deferred CADRA Purchase Price*. The sale of the CADRA assets includes contingent Earn-Out Payments equal to 10% of Mentor s revenue derived from the CADRA technology up to a maximum of $750,000 over the three year period following completion of the transaction (ending October 31, 2016). Therefore, SofTech has a direct financial interest in the continued success of the CADRA technology subsequent to the sale. For the period from October 16, 2013 through October 31, 2015, Mentor has reported Earn-Out Payments of approximately $469,000, a portion of which have been paid in accordance with the Earn-Out Agreement. Mentor has reported to us that its CADRA revenue over the more recent quarters has been trending down significantly, and as a result, our revenue forecast for the remaining twelve months of the earn-out period has been reduced.

The foregoing are the currently anticipated activities of the Company following the CADRA Sale. There can be no assurances that our pursuit of these activities will be successful. Furthermore, we may pursue other opportunities that we subsequently determine to be in the best interests of the Company.

**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 the consolidated financial statements for the fiscal year ended May 31, 2015 included in our previously filed Form 10-K. There have been no changes to the policies for the three and six months ended November 30, 2015.

**Results of Operations**

The table below presents the comparative statements of operations for the three month periods ended November 30, 2015 and November 30, 2014 along with the dollar and percentage change amounts for each revenue and expense item (expressed in thousands, except percentages):

| | November 30, 2015 | November 30, 2014 | Change in $ | Change in % |
|---|---|---|---|---|
| Revenue: | | | | |
| Products | $ 354 | $ 199 | $ 155 | 77.9% |
| Services | 950 | 828 | 122 | 14.7 |
| Total revenue | 1,304 | 1,027 | 277 | 27.0 |
| Cost of revenue: | | | | |
| Products | 17 | 33 | (16) | (48.5) |
| Services | 426 | 436 | (10) | (2.3) |
| Total cost of revenue | 443 | 469 | (26) | (5.5) |
| Gross margin | 861 | 558 | 303 | 54.3 |
| Research and development expenses | 137 | 222 | (85) | (38.3) |
| Selling, general and administration expenses | 634 | 645 | (11) | (1.7) |
| Change in fair value of earn-out payments and holdback payment | 61 | (21) | 82 | (390.5) |
| Operating income (loss) | 29 | (288) | 317 | (110.1) |
| Interest expense | 28 | 63 | (35) | (55.6) |
| Other expense | 23 | 28 | (5) | (17.9) |
| Net loss | $ (22) | $ (379) | $ 357 | (94.2)% |

The table below presents the comparative statements of operations for the six month periods ended November 30, 2015 and November 30, 2014 along with the dollar and percentage change amounts for each revenue and expense item (expressed in thousands, except percentages):

| | November 30, 2015 | November 30, 2014 | Change in $ | Change in % |
|---|---|---|---|---|
| Revenue: | | | | |
| Products | $ 408 | $ 270 | $ 138 | 51.1% |
| Services | 1,877 | 1,621 | 256 | 15.8 |
| Total revenue | 2,285 | 1,891 | 394 | 20.8 |
| Cost of revenue: | | | | |
| Products | 46 | 86 | (40) | (46.5) |
| Services | 803 | 791 | 12 | 1.5 |
| Total cost of revenue | 849 | 877 | (28) | (3.2) |
| Gross margin | 1,436 | 1,014 | 422 | 41.6 |
| Research and development expenses | 291 | 494 | (203) | (41.1) |
| Selling, general and administration expenses | 1,233 | 1,362 | (129) | (9.5) |
| Change in fair value of earn-out payments and holdback payment | 51 | (60) | 111 | (185.0) |
| Operating loss | (139) | (782) | 643 | (82.2) |
| Interest expense | 41 | 127 | (86) | (67.7) |
| Other expense | 16 | 43 | (27) | (62.8) |
| Net loss | $ (196) | $ (952) | $ 756 | (79.4)% |

The table below presents the relationship, expressed as a percentage, between income and expense items and total revenue, for the three month periods ended November 30, 2015 and November 30, 2014:

| | Items as a percentage of revenue | |
|---|---|---|
| | November 30, 2015 | November 30, 2014 |
| Revenue: | | |
| Products | 27.1% | 19.4% |

| | | |
|---|---|---|
| Services | 72.9 | 80.6 |
| Total revenue | 100.0 | 100.0 |
| | | |
| Cost of revenue: | | |
| Products | 1.3 | 3.2 |
| Services | 32.7 | 42.5 |
| Total cost of revenue | 34.0 | 45.7 |
| | | |
| Gross margin | 66.0 | 54.3 |
| | | |
| Research and development expenses | 10.5 | 21.6 |
| Selling, general and administrative expenses | 48.6 | 62.8 |
| Change in fair value of earn-out payments and holdback payments | 4.7 | (2.0) |
| | | |
| Operating income (loss) | 2.2 | (28.0) |
| | | |
| Interest expense | 2.1 | 6.1 |
| Other expense | 1.8 | 2.7 |
| | | |
| Net loss | (1.7)% | (36.9)% |

The table below presents the relationship, expressed as a percentage, between income and expense items and total revenue, for the six month periods ended November 30, 2015 and November 30, 2014:

| | Items as a percentage of revenue | |
|---|---|---|
| | **November 30, 2015** | **November 30, 2014** |
| Revenue: | | |
| Products | 17.9% | 14.3% |
| Services | 82.1 | 85.7 |
| Total revenue | 100.0 | 100.0 |
| | | |
| Cost of revenue: | | |
| Products | 2.0 | 4.6 |
| Services | 35.2 | 41.8 |
| Total cost of revenue | 37.2 | 46.4 |
| | | |
| Gross margin | 62.8 | 53.6 |
| | | |
| Research and development expenses | 12.7 | 26.1 |
| Selling, general and administrative expenses | 54.0 | 72.0 |
| Change in fair value of earn-out payments and holdback payment | 2.2 | (3.2) |
| | | |
| Operating loss | (6.1) | (41.4) |
| | | |
| Interest expense | 1.8 | 6.7 |
| Other expense | 0.7 | 2.3 |
| | | |
| Net loss | (8.6)% | (50.3)% |

*Revenue*

The following table summarizes total revenue by product line for the three month periods ended November 30, 2015 and November 30, 2014 (in thousands, except percentages):

| | November 30, | | | |
|---|---|---|---|---|
| | **2015** | **2014** | **$ Change** | **% Change** |
| **Product Line** | | | | |
| ProductCenter | $ 1,003 | $ 862 | $ 141 | 16.4% |
| Connector | 57 | 32 | 25 | 78.1 |
| CADRA | 121 | 130 | (9) | (6.9) |

| | | | | | |
|---|---|---|---|---|---|
| Other third party products | | 123 | | 3 | | 120 | 4000.0 |
| Total | $ | 1,304 | $ | 1,027 | $ | 277 | 27.0% |

The following table summarizes total revenue by product line for the six month periods ended November 30, 2015 and November 30, 2014 (in thousands, except percentages):

| | | November 30, | | | | | |
|---|---|---|---|---|---|---|---|
| | | **2015** | | **2014** | | **$ Change** | **% Change** |
| **Product Line** | | | | | | | |
| ProductCenter | $ | 1,744 | $ | 1,518 | $ | 226 | 14.9% |
| Connector | | 116 | | 81 | | 35 | 43.2 |
| CADRA | | 236 | | 286 | | (50) | (17.5) |
| Other third party products | | 189 | | 6 | | 183 | 3050.0 |
| Total | $ | 2,285 | $ | 1,891 | $ | 394 | 20.8% |

The product line revenue is further broken down by revenue type hereunder with explanations for changes in the three and six month periods ended November 30, 2015 as compared to the same periods in fiscal 2015.

*Product Revenue*

Product revenue for the three and six months ended November 30, 2015 was approximately $354,000 and $408,000, as compared to approximately $199,000 and $270,000 for the same period in the prior fiscal year, an increase of about 77.9% and 51.1%, respectively. The table below details product revenue by product line for the three month periods ended November 30, 2015 and 2014 (in thousands, except percentages):

| | November 30, | | | |
|---|---|---|---|---|
| | 2015 | 2014 | $ Change | % Change |
| **Product Line** | | | | |
| ProductCenter | $ 344 | $ 193 | $ 151 | 78.2% |
| CADRA | 10 | 6 | 4 | 66.7 |
| Total | $ 354 | $ 199 | $ 155 | 77.9% |

The table below details product revenue by product line for the six month periods ended November 30, 2015 and 2014 (in thousands, except percentages):

| | November 30, | | | |
|---|---|---|---|---|
| | 2015 | 2014 | $ Change | % Change |
| **Product Line** | | | | |
| ProductCenter | $ 378 | $ 245 | $ 133 | 54.3% |
| CADRA | 21 | 25 | (4) | (16.0) |
| Other third party products | 9 | – | 9 | – |
| Total | $ 408 | $ 270 | $ 138 | 51.1% |

The revenue increase for ProductCenter product revenue during the second quarter resulted from several existing customers expanding their use of the technology. These orders from existing customers in the first half of the current fiscal year resulted in volume in excess of annual licensing activity for this product line for fiscal years 2011 through 2014 and the best quarterly production since fiscal 2009. We believe the pipeline of qualified proposals signals continued product revenue growth relative to the prior fiscal year for this product line although estimating the quarter in which these proposals may generate purchase orders, if at all, cannot be accurately forecasted.

*Service Revenue*

Our service revenue is composed of annual software maintenance and subscription contracts and consulting revenue generated primarily from our ProductCenter technology. The table below summarizes service revenue by product line for the three months ended November 30, 2015 and 2014, (in thousands, except percentages):

| | 2015 | 2014 | $ Change | % Change |
|---|---|---|---|---|
| **Product Line** | | | | |
| ProductCenter | $ 659 | $ 669 | $ (10) | (1.5)% |
| Connector | 57 | 32 | 25 | 78.1 |
| CADRA | 111 | 124 | (13) | (10.5) |
| Other | 123 | 3 | 120 | 4000.0 |
| Total | $ 950 | $ 828 | $ 122 | 14.7% |

The table below summarizes service revenue by product line for the six months ended November 30, 2015 and 2014 (in thousands, except percentages):

| | 2015 | 2014 | $ Change | % Change |
|---|---|---|---|---|
| **Product Line** | | | | |
| ProductCenter | $ 1,366 | $ 1,273 | $ 93 | 7.3% |
| Connector | 116 | 81 | 35 | 43.2 |
| CADRA | 215 | 261 | (46) | (17.6) |
| Other | 180 | 6 | 174 | 2900.0 |
| Total | $ 1,877 | $ 1,621 | $ 256 | 15.8% |

Maintenance and subscription revenue was approximately $657,000 and $1,304,000 for the three and six month periods ended November 30, 2015, as compared to $614,000 and $1,249,000 for the same period in the prior fiscal year, an increase of approximately 7.0% and 4.4%, respectively. For the three months ended November 30, 2015 compared to the same period in the prior fiscal year, maintenance revenue from ProductCenter and CADRA were generally unchanged while subscription revenue from the Connector and from third party products we distribute contributed equally to the $43,000 increase. For the six month period ended November 30, 2015 compared to the same period in the prior fiscal year ProductCenter maintenance revenue increased 1.6%, CADRA maintenance revenue declined 15.0% primarily due to the weakness in the Euro relative to the USD and Connector subscription revenue increased 79.6%. During the same six month period, maintenance and subscription revenue related to third party products we distribute increased to $43,000 from just $6,000 in the prior fiscal year.

Our Connector technology is offered only as an annual subscription. Under these arrangements the subscriber pays upfront for the use of the technology for the subsequent twelve month period and the revenue is amortized evenly during the use period. For the three months ended November 30, 2015 our Connector subscription billings were approximately $48,000 as compared to $9,000 in the same period in the prior year. For the six month period ended November 30, 2015 our Connector subscription billings were approximately $88,000 as compared to $45,000 in the same period in the prior fiscal year. In the first half of the current fiscal year we added six new subscribers. Given the Aras Innovator installed base and what we perceive to be continuing market momentum for this technology we expect our Connector subscription business to continue to grow, although there can be no assurances that the revenue increase in the most recent quarter is sustainable.

Consulting revenue was approximately $293,000 and $573,000 for the three and six months ended November 30, 2015, respectively, an increase of approximately 36.9% and 54.0%, from the same period in the prior fiscal year. These professional services are generated primarily from our existing ProductCenter customers. However, the Connector technology and the third party PLM solutions we are distributing present us with consulting opportunities that we might not otherwise be aware of and we expect these opportunities to be a growing portion of the consulting group s activity.

The increased consulting revenue in the current quarter and for the six month period ended November 30, 2015 relative to the same period in the prior fiscal year was primarily due to a unique project we were awarded in May 2015 from our largest European customer. The project involves the implementation of several third party technologies in a test environment to create a central repository for engineering bill of materials for the customer s complex products. The creation of the central repository will allow for improvement in querying parts and vastly improved viewing of finished products.

*Gross Margin*

Gross margin as a percentage of revenue was 66.0% and 62.8% for the three and six month periods ended November 30, 2015, respectively, as compared to 54.3% and 53.6% in the same periods in the prior fiscal year. The increase in

overall gross margin in each of these periods is due primarily to the increase in product revenue of approximately 78% and 51% in the three and six month periods ended November 30, 2015 as compared to the same periods in the prior fiscal year, respectively, while incurring reduced product cost of revenue The reduced cost was related to lower non-cash expenses from capitalized software costs in previous periods becoming fully amortized. The Company also improved its gross margin on its services offerings in each of the three and six month periods ended November 30, 2015 as compared to the same periods in the prior fiscal year which also contributed to the overall gross margin improvement.

*Research and Development Expenses*

Research and development expenses were approximately $137,000 and $291,000 for the three and six month periods ended November 30, 2015, respectively, as compared to approximately $222,000 and $494,000 in the comparable periods in fiscal 2015. During the three and six month period ended November 30, 2015 approximately $113,000 and $231,000 of software development costs related to the development of new products were capitalized. During the three and six month period ended November 30, 2014, no development costs were capitalized.

*Selling, General and Administrative Expenses*

Selling, general and administrative ( SG&A ) expenses were approximately $634,000 and $1,233,000 for the three and six month periods ended November 30, 2015, respectively, as compared to approximately $645,000 and $1,362,000 for the comparable periods in fiscal year 2015, a decrease of approximately 1.7% and 9.5%. The revenue increase for the three and six month periods ended November 30, 2015 as compared to the same periods in the prior fiscal year resulted in increased variable expenses related to bonuses and commissions. These increased variable expenses were offset by reduced professional fees related to litigation that ended in the prior fiscal year.



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*Gain on sale of product line*

During the three month period ended November 30, 2015, the Company wrote down the fair value of the Earn-Out Payments by $61,000 based on an independent valuation. The write down was required due to a material decline in the CADRA revenue as reported to the Company by Mentor. Under the terms of the Earn-Out Agreement, the Company is due 10% of the