SOFTECH INC
Form 10-Q
October 20, 2014

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 August 31, 2014

.**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 October 10, 2014 was 893,724 shares.

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SOFTECH, INC.

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PART I FINANCIAL INFORMATION

Item 1. Financial Statements.

SOFTECH, INC. AND SUBSIDIARIES

CONSOLIDATED CONDENSED BALANCE SHEETS (UNAUDITED)

	(in thousands)	
	August 31, 2014	**May 31, 2014**
ASSETS		
Cash and cash equivalents	$ 1,230	$ 1,209
Accounts receivable (less allowance for uncollectible accounts of $18 as of August 31, 2014 and May 31, 2014)	568	666
Holdback Payment and Earn-Out Payments from CADRA Sale	600	547
Debt issuance costs, net	87	139
Prepaid and other assets	272	204
Total current assets	2,757	2,765
Property and equipment, net	84	95
Goodwill	948	948
Capitalized software development costs, net	291	319
Capitalized patent costs	108	106
Earn-Out Payments from CADRA Sale, net of current portion	334	348
Other assets	143	143
TOTAL ASSETS	$ 4,665	$ 4,724
LIABILITIES, REDEEMABLE COMMON STOCK AND SHAREHOLDERS EQUITY		
Accounts payable	$ 196	$ 483
Accrued expenses	492	503
Other current liabilities	104	104
Deferred maintenance revenue	1,196	1,462
Capital lease, current	19	19
Debt	1,529	973
Total current liabilities	3,536	3,544

Capital lease		44		47
Long-term debt		203		-
Total liabilities		3,783		3,591
Redeemable common stock, $0.10 par value, 110,000 and 50,000 shares issued and outstanding at August 31, 2014 and May 31, 2014, respectively.		770		275
Shareholders equity :				
Common stock, $0.10 par value 20,000,000 shares authorized, 723,724 and 825,135 issued and outstanding at August 31, 2014 and May 31, 2014, respectively.		73		83
Capital in excess of par value		27,117		27,338
Accumulated deficit		(26,653)		(26,081)
Accumulated other comprehensive loss		(425)		(482)
Total shareholders equity		112		858
TOTAL LIABILITIES, REDEEMABLE COMMON STOCK AND SHAREHOLDERS EQUITY	$	4,665	$	4,724

See accompanying notes to unaudited consolidated financial statements

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SOFTECH, INC. AND SUBSIDIARIES

CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS (UNAUDITED)

	(in thousands, except for share and per share data)			
	For the Three Months Ended			
	August 31, 2014		**August 31, 2013**	
Revenue:				
Products	$	71	$	241
Services		793		1,134
Total revenue		864		1,375
Cost of revenue:				
Products		53		33
Services		355		307
Total cost of revenue		408		340
Gross margin		456		1,035
Research and development expenses		272		335
Selling, general and administrative expenses		717		881
Gain on change in fair value of Earn-Out Payments and Holdback Payment		(39)		-
Operating loss		(494)		(181)
Interest expense		63		102
Gain on change in fair value of warrant		-		(9)
Other (income) expense, net		15		(8)
Net loss	$	(572)	$	(266)
Basic and diluted net loss per share:	$	(0.64)	$	(0.30)
Weighted average common and redeemable shares outstanding-basic and diluted		896,234		901,005

See accompanying notes to unaudited consolidated financial statements

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SOFTECH, INC. AND SUBSIDIARIES

CONSOLIDATED CONDENSED STATEMENTS OF

COMPREHENSIVE INCOME (LOSS) (UNAUDITED)

	(in thousands, except for share and per share data)			
	For the Three Months Ended			
	August 31, 2014		**August 31, 2013**	
Net loss	$	(572)	$	(266)
Other comprehensive income (loss):				
Foreign currency translation adjustment		57		(20)
Total other comprehensive income (loss)		57		(20)
Comprehensive loss	$	(515)	$	(286)

See accompanying notes to unaudited consolidated financial statements

SOFTECH, INC. AND SUBSIDIARIES

CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS (UNAUDITED)

	(in thousands) For the Three Months Ended August 31, 2014	August 31, 2013
Cash flows from operating activities:		
Net loss	$ (572)	$ (266)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization expense	90	55
Stock-based compensation	27	2
Non-cash interest expense	9	2
Change in fair value of Earn-Out Payments and Holdback Payment	(39)	-
Change in fair value of warrant liability	-	(9)
Change in current assets and liabilities:		
Accounts receivable	98	190
Prepaid expenses and other assets	(68)	24
Restricted cash	-	24
Accounts payable, accrued expenses and other liabilities	(298)	82
Deferred maintenance revenue	(266)	(35)
Change in assets and liabilities held for sale	-	(318)
Net cash used in operating activities	(1,019)	(249)
Cash flows from investing activities:		
Capital expenditures	-	(29)
Capitalized software development costs	-	(39)
Capitalized patent costs	(2)	(2)
Net cash used in investing activities	(2)	(70)
Cash flows from financing activities:		
Cost of repurchase of common stock	(37)	(63)
Cost of repurchase of redeemable common stock	(275)	-
Capitalized debt issuance costs	-	(32)
Borrowing under debt agreements	750	-
Proceeds from issuance of common stock	550	-
Repayments under capital lease	(3)	(4)
Net cash provided by (used in) financing activities	985	(99)
Effect of exchange rates on cash	57	(18)
Increase (decrease) in cash and cash equivalents	21	(436)
Cash and cash equivalents, beginning of period	1,209	1,188
Cash and cash equivalents, end of period	$ 1,230	$ 752
Supplemental disclosures of cash flow information:		
Interest paid	$ 36	$ 56

Taxes paid	$	2	$	14
Noncash investing and financing activities:				
Issuance of warrants	$	-	$	51
Accretion of redeemable common stock	$	220	$	-

See accompanying notes to unaudited consolidated financial statements

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SOFTECH, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED CONDENSED 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 European sales and customer support offices in Germany and Italy. The Company also has resellers in Asia and Europe.

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

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, which is comprised of (i) $2.88 million of which was paid on the closing date; (ii) $320,000 payable on the one year anniversary (the Holdback Payment) of the closing date (subject to any indemnification claims); and (iii) up to an aggregate $750,000 over the three-year period subsequent to the closing date, based on 10% of the net revenue generated by the CADRA business (the Earn-Out Payments), subject to the terms of the Earn-Out Agreement dated August 30, 2013 (the Earn-Out Agreement).

The Company continued to offer the CADRA technology as a reseller throughout Europe (except Germany) on an exclusive basis until October 16, 2014 pursuant to a distribution agreement with Mentor (Distributorship Agreement) at which time the Distributorship Agreement will be subject to renewal by mutual agreement of the parties. The Company expects to renew the Distributorship Agreement for Europe (except Germany) for at least one year and is currently engaged in negotiations. In addition, for a one year period from the closing of the transaction the Company retained the right to market the CADRA technology to Sikorsky Aircraft, the largest CADRA user in the United States. This marketing right expired as expected on October 16, 2014. Due to the significant continued involvement in the sale and support of the CADRA product line, the transaction does not qualify for presentation as discontinued operations.

Term Loan, Stock Purchase Agreement and Partnership Agreement

On June 20, 2014, the Company entered into a securities purchase agreement (the Share Purchase Agreement) with Mr. Joseph P. Daly, an existing SofTech shareholder and a promissory note agreement (the Note) with EssigPR, Inc. (EssigPR), a Puerto Rico corporation. EssigPR is owned by the aforementioned Mr. Daly. Each of the agreements between the parties is briefly described below.

Under the Share Purchase Agreement dated June 20, 2014, Mr. Daly, Essig s CEO and owner, purchased 110,000 shares of SofTech common stock, par value $0.10 per share for $550,000, in a direct private placement. 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 purchase date.

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 will 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 as described herein. The Company is responsible for ensuring that the Mentor deferred payments are sufficient for paying down the Note or, on April 1, 2017, making up for any shortfall. Mentor deferred payments in excess of amounts due under the Note revert to the Company.

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 is due in full on April 10, 2015. EssigPR was awarded 5,000 stock options to purchase SofTech common stock at $1.00 per share. The stock options will expire on October 1, 2024 if not exercised.

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 due from Mentor related to the sale of the CADRA business 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, *Costs of Computer Software to Be Sold, Leased or Marketed.* Costs that are incurred internally 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. Such 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 technological feasibility of a product is established as well as its economic life.

During the three months ended August 31, 2013, the Company capitalized approximately $39,000 of software development costs. During the three months ended August 31, 2014, the Company did not capitalize software development costs. Amortization expense related to capitalized software development costs for the three months ended August 31, 2014 and 2013 was approximately $28,000 and $24,000, respectively.

DEBT ISSUANCE COSTS

The Company capitalizes the direct costs associated with entering into debt agreements and amortizes those costs over the life of the debt agreement. In May 2013, the Company entered into the Loan Agreement as detailed in Note D. Total direct costs incurred in establishing this debt agreement were approximately $255,000 which are being amortized over the term of the arrangement in accordance with ASC 470-50. Amortization expense related to debt issuance costs for the three months ended August 31, 2014 and 2013 were approximately $52,000 and $22,000, respectively.

Amended Loan Agreement No. 2 described in Note D hereunder was a modification per ASC 470-50, *Debt Modifications and Extinguishment,* therefore the direct costs totaling approximately $120,000 incurred in completing the modification were expensed.

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,* 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, and a fixed fee and collectability has been determined. The Company does not provide for a right of return. For multiple element arrangements, total fees are allocated to each of the 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 and a fixed fee and collectability has been determined. These conditions are no different from those when the Company licenses software. For multiple element arrangements, however, under ASC 605, total fees are allocated to each of the elements based upon the relative selling price method. Under that method the allocation of fees to the undelivered 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 statement s criteria.

During fiscal year 2014, the Company completed the CADRA Sale as described above. The Company attributed a portion of its total goodwill to the CADRA product line and expensed it in the derivation of the gain on the sale. The portion of the total goodwill apportioned to the CADRA product line was equal to the estimated market value of the CADRA product line as compared to the total market value of the Company.

As of May 31, 2014, 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 months ended August 31, 2014 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 $2,000 for both the three month periods ended August 31, 2014 and 2013, respectively.

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 August 31, 2014, 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, Holdback Payment, Earn-Out Payments, notes receivable, accounts payable and notes payable. The Company s estimate of the fair value of these financial instruments approximates their carrying value at August 31, 2014.

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:

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

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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;

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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 include the Holdback Payment and Earn-Out Payments associated with the Company s sale of the CADRA product line.

The following table summarizes the valuation of the Company's assets and liabilities measured at fair value on a recurring basis as of August 31, 2014:

		(in thousands)		
	Total	**Quoted prices in active markets (Level 1)**	**Significant other observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**
Assets:				
Holdback Payment and Earn-Out Payments	$ 934	$ -	$ -	$ 934
Total assets at fair value	$ 934	$ -	$ -	$ 934

The Holdback Payment and Earn-Out Payments are classified as current or non-current assets depending on their anticipated distributions to the Company.

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 three months ended August 31, 2014:

	(in thousands) **Contingent Consideration for the Three Months Ended August31, 2014**
Fair value at May 31, 2014	$ 895
Change in fair value	39
Fair value at August 31, 2014	$ 934

The fair value of the asset at August 31, 2014 was approximately $934,000. The fair value of the Holdback Payment and the Earn-Out Payments expected to be collected within one year have been classified as current assets. The fair value of the payments expected to be received beyond one year are included in long term assets in the accompanying consolidated balance sheet. The Company has estimated the fair value of the Holdback Payment and 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 asset recognized in the Consolidated Statements of Operations for the three months ended August 31, 2014 was approximately $39,000.

CHANGE IN ACCOUNTING POLICY

In our quarterly reports for the fiscal quarters ended November 30, 2013 and February 28, 2014, we accounted for the Holdback Payment and the Earn-Out Payments pursuant to ASC 450, *Contingencies* whereby the Company recorded a gain of approximately $155,000 through the nine months ended February 28, 2014 which included consideration of the Holdback Payment and reported Earn-Out Payments, but excluded consideration of up to $686,000 of potential future Earn-Out Payments.

During the fourth quarter of fiscal 2014, we changed our accounting policy with regard to these payments to account for the proceeds at the fair value of the consideration received in accordance with ASC 810-10-40-5. Pursuant to the new policy, the Company estimated the fair value of Holdback Payment and the Earn-Out Payments on the date of the transaction and recognized the fair value as a component of the gain on sale as of the transaction date. The Holdback Payment and Earn-Out Payments will be adjusted to fair value at each reporting period with changes in the fair value of the asset reported as a component of operations in the Consolidated Condensed Statement of Operations. For more information, see the Company s Form 10-K for the fiscal year ended May 31, 2014, Item 7. *Management s Discussion and Analysis of Financial Condition and Results of Operations Critical Accounting Policies and Significant Judgments and Estimates Changes in Accounting Policy.*

FOREIGN CURRENCY TRANSLATION

The functional currency of the Company s foreign operations (Germany, and Italy) is the Euro. As a result, assets and liabilities are translated at period-end exchange rates and revenues and expenses are translated at the average exchange rates. Adjustments resulting from translation of such financial statements are classified in accumulated other comprehensive income (loss). Foreign currency gains and losses arising from transactions were included in the statements of operations. For the three month periods ended August 31, 2014 and 2013, the Company recorded a net (gain) loss from foreign currency related transactions of approximately $15,000, and $(8,000), respectively, to Other (income) expense, net in the Consolidated Condensed Statements of Operations.

NET INCOME (LOSS) PER COMMON SHARE

Basic net income (loss) per share are computed by dividing the net income (loss) by the weighted-average number of common shares outstanding. Diluted net income per share is computed by dividing net income by the weighted-average number of common and equivalent dilutive common shares outstanding. For periods in which losses are reported potentially dilutive common stock equivalents are excluded from the calculation of diluted loss per share because the effect is anti-dilutive.The following table details the derivation of weighted average shares outstanding used in the calculation of basic and diluted net loss for each period:

	(Amounts in thousands, except share amounts) **For the Three Months Ended**			
		August 31, 2014		**August 31, 2013**
Net loss available to common shareholders	$	(572)	$	(266)
Weighted average number of common shares outstanding used in calculating basic earnings per share		896,234		901,005
Weighted average number of common and redeemable shares outstanding used in calculating diluted earnings per share		896,234		901,005

For the three month period ended August 31, 2014 and 2013, 129,500 and 10,000, respectively, options to purchase common shares were anti-dilutive and were excluded from the above 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 August 31, 2014, 129,500 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, 2013	10,000	2.40	8.02	-
Granted	124,500	1.84	10.00	-
Exercised	-	-	-	-
Forfeited or expired	(5,000)	1.11	-	-
Outstanding options at May 31, 2014	129,500	1.88	9.74	20,825
Granted	-	-	-	-
Exercised	-	-	-	-
Forfeited or expired	-	-	-	-
Outstanding options at August 31, 2014	129,500	$ 1.88	9.49	$ 19,600
Exercisable at August 31, 2014	26,112	$ 1.98	9.04	$ 3,267

The Company determined the volatility for options granted during the fiscal year ended May 31, 2014 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 month periods ended August 31, 2014 and 2013, the Company expensed approximately $27,000 and $2,000 of stock-based compensation, respectively.

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 (the Payment 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 following the Payment Period.

The Company first assessed the redeemable Common Stock to determine if the instrument 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 the 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 Common Stock issued pursuant to the Agreement in accordance with ASC 480-10-S99-3A, *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. The 50,000 shares of Common Stock issued pursuant to the Agreement were recorded as redeemable common stock at an initial carrying value of $163,000. This amount is equal to the gross proceeds of $250,000, less $27,000 in issuance costs related to legal fees and the $60,000 related to the total Fee due to each of the Investors, which has been included in other liabilities. The Company elected to record the Common Stock at its redemption value of $275,000 immediately and accordingly recorded accretion of $112,000 to additional paid in capital during fiscal year 2013.

During the three months ended August 31, 2014, each of the Investors exercised their Put Option and the Shares were repurchased by the Company at the agreed upon Put Option price of $5.50 per share for a total of $275,000.

During the three months ended August 31, 2014, in a transaction structured in a similar fashion to the above described Agreement, the Company issued 110,000 shares of common stock, $0.10 par value (the New Common Stock) at a purchase price of $5.00 per share to Joseph P. Daly in a private placement transaction for total proceeds of $550,000. This transaction was completed pursuant to a Securities Purchase Agreement (the New Agreement). Under the New Agreement 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. The Company analyzed the stock issuances pursuant to ASC 480 and ASC 815 and concluded that the New Common Stock is not mandatorily redeemable and the put option does meet the definition of a derivative. Therefore the shares have been classified as temporary equity pursuant to ASC 480-10-S99-3A.

The Company elected to record the New Common Stock issued pursuant to the New Agreement at their redemption value of $770,000 and accordingly recorded accretion of $220,000 to additional paid in capital.

RECENT ACCOUNTING PRONOUNCEMENTS

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 reporting periods beginning after December 15, 2016. Early application is not permitted. The Company is currently assessing the impact of this guidance.

C. SEGMENT 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 foreign offices in Germany and Italy. Components of revenue and long-lived assets (consisting primarily of intangible assets, capitalized software and property, plant and equipment) by geographic location, are as follows (in thousands):

	Three Month Periods Ended			
	August 31,		August 31,	
Revenue:	2014		2013	
North America	$	682	$	1,003
Europe		189		314
Asia		-		163
Eliminations		(7)		(105)
Consolidated Total	$	864	$	1,375

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Long Lived Assets:		As of August 31, 2014		As of May 31, 2014
North America	$	1,866	$	1,916
Europe		42		43
Consolidated Total	$	1,908	$	1,959

D. DEBT

PRIDES CROSSING CAPITAL

On May 10, 2013, the Company entered into a loan agreement (the Loan Agreement) with Prides Crossing Capital, L.P. and Prides Crossing Capital-A, L.P., (Lenders). The Loan Agreement provided for a $2.7 million, three-year term loan (the Loan) with interest only payments until October 1, 2014.

On July 9, 2013, the Loan Agreement was amended (the Amended Loan Agreement No. 1) to allow the Company to repurchase 170,000 of its shares from Greenleaf Capital (Greenleaf) (as described in Note F) and to increase the maximum ratio of indebtedness to EBITDA from 2.25:1 to 2.60:1 for the quarters ended May 31, 2013, August 31, 2013 and November 30, 2013. In consideration for entering into the Amended Loan Agreement No. 1, the Company issued the Lenders warrants to purchase 25,000 shares of common stock at an exercise price of $1.00 per share. The warrants were to vest monthly over three years, with accelerated vesting under certain circumstances including if the Loan was repaid prior to maturity, and terminate if not exercised on or before July 9, 2020.

Upon issuance, the warrants did not meet the requirements for equity classification, because such warrants provide a cash-out election allowing the holder to a one time right to require the Company to repurchase all or a portion of the warrants. Therefore these warrants were required to be accounted for as a liability. Changes in fair value are recognized as either a gain or loss in the consolidated statement of operations under the caption Other income, net.

The Company determined the fair value of the warrants using the Black-Scholes valuation model. The grant date fair value of the warrants of approximately $51,000 was recorded as a liability, with a corresponding discount recorded on the debt. The debt discount is being accreted through the remaining term of the Loan Agreement using the effective interest rate method.

On December 5, 2013, the Company entered into the Amended Loan Agreement No. 2 between the Company, as borrower and Prides Crossing Capital Funding, L.P., as the Lender whereby the parties agreed to amend and restate the Company s existing $2.7 million Loan Agreement following the CADRA Sale. The Lender was the successor to Prides Crossing Capital, L.P. and Prides Crossing Capital-A, L.P., the Lenders under the Loan Agreement. Under the terms of the Amended Loan Agreement No. 2, the Company agreed to pay down the principal of the Loan from $2.7 million to $1.0 million using a portion of the proceeds from the CADRA Sale. In addition, the Company paid a pre-payment penalty of $81,000 and agreed to repurchase the outstanding warrants to purchase 25,000 shares of common stock at an exercise price of $1.00 per share in exchange for $19,000.

The amended and restated Term Note matures on January 1, 2015 and bears an interest rate of 14% payable in arrears on a monthly basis throughout the life of the loan commencing on January 1, 2014. The Term Note may be repaid in full at any time but partial voluntary pre-payments are not allowed.

The Company agreed to secure all of its obligations under the Term Note by granting the Lender a first priority security interest in all of the Company s assets, including the Company s intellectual property and pledges of (i) one hundred percent (100%) of the Company s equity interests in its domestic subsidiaries and (ii) sixty-five percent (65%) of the Company s equity interests in its foreign subsidiaries. In connection with the grant of the security interest in favor of the Lender in the Company s intellectual property, the Company has entered into an intellectual property security agreement with the Lender and entered into a source code escrow agreement with the Lender and an independent third party. In addition, the Company s Chief Executive Officer has provided the Lender with a personal guaranty of up to $500,000 secured by his equity interests in the Company.

The Term Note contains customary representations, warranties and covenants, including covenants by the Company limiting additional indebtedness, liens, guaranties, mergers and consolidations, substantial asset sales, investments and loans, sale and leasebacks, transactions with affiliates and fundamental changes in its business. In addition, the Term Note contains financial covenants by the Company that establish (i) a month-end minimum consolidated cash balance of $1.0 million of which no less than $750,000 must be held in the Company s main operating account that is subject to a deposit account control agreement; (ii) a minimum of $750,000 of consolidated cash at all times; (iii) a quick ratio covenant, which provides that on the last day of each fiscal quarter the ratio of the Company s cash plus accounts receivable divided by accounts payable plus accrued expenses shall not be less than 2.7:1; and (iv) a covenant that provides that the Company s earnings before interest, taxes, depreciation and amortization (EBITDA) for Q3 and Q4 of fiscal 2014 shall not exceed a loss of $200,000 for each of those fiscal quarters and shall be greater than positive EBITDA of $100,000 for each subsequent fiscal quarter. The Term Note also imposes limits on capital expenditures for each fiscal year during the term of the Term Note. The Company, the Lender and First Republic Bank entered into a deposit account control agreement pursuant to which the Lender will perfect its security interest in the assets held in the Company s main operating account at First Republic Bank.

The Term Note provides for events of default customary for credit facilities of this type, including but not limited to non-payment, defaults on other debt, misrepresentation, breach of covenants, representations and warranties, insolvency and bankruptcy. Upon an event of default relating to insolvency, bankruptcy or receivership, the amounts outstanding under the Term Note will become immediately due and payable and the Lender commitment will be automatically terminated. Upon the occurrence and continuation of any other event of default, the Lender may accelerate payment of all obligations and terminate the Lender s commitments under the Term Note.

ESSIGPR

On June 20, 2014, the Company entered into a promissory note agreement (the Note) with EssigPR, Inc. (EssigPR), a Puerto Rico corporation. The Note is a three (3) year borrowing arrangement with EssigPR as the lender. The promissory 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 will 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 as described herein. The Company is responsible for ensuring that the Mentor deferred payments are sufficient for paying down the Note or, on April 1, 2017, making up for any shortfall. Mentor deferred payments in excess of amounts due under the Note revert to the Company.

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 is due in full on April 10, 2015. EssigPR was awarded 5,000 stock options to purchase SofTech common stock at $1.00 per share. The stock options will expire on October 1, 2024 if not exercised.

E. NOTE RECEIVABLE

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 has accounted for the note as a fixed arrangement.

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 $38,000.

G. CADRA SALE

In October 2014, the Company sold substantially all of the assets of its CADRA product line, including all intellectual property related to that technology but specifically excluded cash, billed accounts receivable and liabilities other than the deferred maintenance liability associated with CADRA customer maintenance contracts for support services, to Mentor, pursuant to an Asset Purchase Agreement dated August 30, 2013. The aggregate consideration for the CADRA Sale is up to $3.95 million, which is comprised of (i) $2.88 million of which was paid on the closing date; (ii) $320,000 (representing a 10% holdback) of which will be paid on the one year anniversary of the closing date (subject to any indemnification claims), and (ii) Earn-Out Payments of up to an aggregate $750,000 over the three-year period subsequent to the closing date, 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 Company continued to offer the CADRA technology as a reseller throughout Europe (except Germany) on an exclusive basis until October 16, 2014 pursuant to a distribution agreement with Mentor (Distributorship Agreement) at which time the Distributorship Agreement will be subject to renewal by mutual agreement of the parties. The Company expects to renew the Distributorship Agreement for Europe (except Germany) for at least one year and is currently engaged in negotiations with Mentor. In addition, for a one year period from the closing of the transaction the Company retained the right to market the CADRA technology to Sikorsky Aircraft, the largest CADRA user in the United States. This marketing right expired as expected on October 16, 2014.

H. CHANGES IN EQUITY

The changes in Redeemable Common Stock for the three months ended August 31, 2014 is as follows (in thousands):

	Redeemable Common Stock		
	Shares		**Amount**
Balance as of May 31, 2014	50	$	275
Issuance of redeemable common stock	110		550
Accretion of redeemable common stock	-		220
Repurchase of redeemable common stock	(50)		(275)
Balance as of August 31, 2014	110	$	770

The changes in Shareholders Equity for the three months ended August 31, 2014 is as follows (in thousands):

	Common Stock	**Capital in excess of**	**Accumulated**	**Accumulated other**	**Total shareholders**

	Shares		Amount	par value		deficit		comprehensive loss		equity
Balance as of May 31, 2014	825	$	83 $	27,338	$	(26,081)	$	(482)	$	858
Accretion of redeemable common stock	-		-	(220)		-		-		(220)
Net loss	-		-	-		(572)		-		(572)
Foreign currency translation adjustments	-		-	-		-		57		57
Repurchase of common stock	(101)		(10)	(28)		-		-		(38)
Stock-based compensation expense	-		-	27		-		-		27
Balance as of August 31, 2014	724	$	73 $	27,117	$	(26,653)	$	(425)	$	112

I. 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 available to be issued.

In four transactions in September and October 2014, the Company raised proceeds of $300,000 from the issuance of an aggregate of 60,000 shares of the Company s common stock, par value $0.10 per share, at $5.00 per share to accredited investors in separate private placement transactions.

These transactions were completed pursuant to Securities Purchase Agreements which the Company entered into with each of the investors as described in the table below.

The material terms of the Securities Purchase Agreements are summarized below.

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Number of Shares Sold: An aggregate of 60,000 shares of the Company s common stock, par value $0.10 per share;

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Purchase Price Per Share: The shares were sold to investors at a purchase price of $5.00 per share in lots of 10,000 shares;

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Type of Offering: Direct private placement to accredited investors; no registration rights; no third party placement fees;

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Fees: In lieu of registration rights and Company costs savings related to direct negotiation with accredited investors, each $50,000 investment entitles the investor to a fee of $5,000 to be paid in eight equal quarterly installments during the twenty-four month period following the investment; and

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Purchase Put Right: Each share purchased shall also give the investors the right to require the Company to repurchase the shares at $7.00 per share for the 30 day period following the twenty-four month anniversary of the investment.

The Company does not believe that the issuance of such shares will restrict the Company s ability to utilize its net operating losses. Accordingly, the Board of Directors of the Company approved in advance the purchase of the shares in these transactions as Exempt Transactions as defined in Section 1(o) of the Company s Rights Agreement, dated February 3, 2012, between the Company and the Registrar and Transfer Company

Name of Accredited Investor	**Date of Securities Purchase Agreement**	**Amount of Investment in Transaction ($/# of Shares Purchased)**
Robert Anthonyson	September 18, 2014	$100,000 / 20,000 shares
Glenn W. Dillon	September 22, 2014	$100,000 / 20,000 shares

Thomas Doherty	September 22, 2014	$50,000 / 10,000 shares
Leonard Schrank	October 9, 2014	$50,000 / 10,000 shares

Mr. Anthonyson is the Company s Vice President and is a member of its Board of Directors. He owned 129,838 shares of the Company s common stock prior to the above described transaction.

The offer and sale of securities in the private placements described above were made to accredited investors (as defined in Rule 501(a) under the Securities Act) in reliance on the exemption from registration provided by Section 4(2) of the Securities Act of 1933 and Rule 506 thereunder.

On October 1, 2014, the Company entered into a Short Term Note (as defined above) with EssigPR 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 is due in full on April 10, 2015. EssigPR was awarded 5,000 stock options to purchase SofTech common stock at $1.00 per share. The stock options will expire on October 1, 2024 if not exercised.

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:

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

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maintain good relationships with our lenders;

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comply with the covenant requirements of our loan agreements;

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

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attract and retain qualified personnel;

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prevent obsolescence of our technologies;

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maintain agreements with our critical software vendors;

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

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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 described below as our *CADRA* product offering and Product Data Management (PDM) and collaboration technologies, which we described below as our *ProductCenter* offering. 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 for the fiscal year ended May 31, 2014.

Since the Recapitalization Transaction described in Note A to the condensed Consolidated Financial Statements in the previously filed Form 10-K, the Company has also 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.

Revenue from our ProductCenter technology has been experiencing year over year revenue declines for eight consecutive fiscal years due to several factors. In July 2007, Parametric Technology Corporation PTC informed us that it would not renew its partnership agreement with us when the agreement expired in January 2008. We had been a member of the PTC partnership program for 12 years. The PTC partnership agreement, among other things, provided us with the right to distribute certain information that allowed for our technology to directly interface with PTC s proprietary CAD tools. The non-renewal has essentially prevented us from marketing our ProductCenter solution to new customers that utilize PTC s technology and has negatively impacted our product revenue from this technology offering. In addition to the PTC partnership termination, ProductCenter revenue has been negatively affected by: (i) an increased number of competitive offerings in the marketplace, (ii) elongation of purchase decisions by customers of a technology that already has a long sales cycle, and (iii) uncertain economic conditions. Since PTC s decision we have focused on offering ProductCenter to the mid-range CAD market and we are exploring other opportunities to broaden the addressable market for this product.

For more than a decade through fiscal 2010, we had also experienced revenue declines in our CADRA product line. CADRA, which we acquired in 1998, is a 2D technology that was first introduced in the early 1980 s. The revenue declines were due to the age of the product, the introduction of robust 3D solutions for less than $5,000 per unit and the dominance of AutoCAD in the 2D market, a product offered by Autodesk. However, in fiscal years 2011 and 2012 the CADRA revenue increased as compared to the immediately preceding fiscal year primarily driven by our existing non-maintenance CADRA customers that have had to repurchase licenses due to the upgrade of their operating system. Older versions of CADRA do not function properly on the Windows 7 operating system.

CADRA Sale

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 (defined below) providing for an integrated drawing production system and 3D solid modeler. The CADRA family of products includes an extensive collection of translators and software options that make it a seamless fit into today s multi-platform and multi-application organizations.

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, 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), and (ii) earn-out payments of up to an aggregate $750,000 over the three-year period subsequent to the closing date, 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).

In conjunction with completing the CADRA Sale, the Company entered into a one-year, exclusive Distributorship Agreement with Mentor that will allow us to market and support the CADRA technology as a reseller throughout Europe (except Germany) at a thirty percent (30%) gross margin. The Company expects to renew the Distributorship Agreement for at least one year on terms not materially different from the current arrangement and is currently engaged in renewal negotiations, which are likely to result in a new Distributorship Agreement. However, unless and until a definitive agreement is reached by the parties there can be no assurance with respect to whether a new Distributorship Agreement will be reached and, if so, the terms of any such agreement. The right to market the CADRA product line to Sikorsky Aircraft in North America was a one year arrangement only and expired on October 16, 2014. Due to the significant continued involvement in the sale and support of the CADRA product line, the sale of the CADRA product line did not qualify for presentation as discontinued operations.

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 will continue 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 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 2014.

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 are currently engaged in negotiations to renew this agreement. 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 and SpaceClaim 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. It is possible that our efforts will be limited to securing the patent awards and monetizing the patents as we did in fiscal year 2013 for our five patents in the PLM space. 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.

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, 2014, SofTech had approximately $20 million in federal tax attributes and approximately $7 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 a contingent earn-out payment 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. Therefore, SofTech has a direct financial interest in the continued success of the CADRA technology subsequent to the sale.

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, 2014 included in our previously filed Form 10-K. There have been no changes to the policies for the three months ended August 31, 2014.

Results of Operations

Three Months Ended August 31, 2014, as Compared to Three Months Ended August 31, 2013

As described above, the Company sold its CADRA product line to Mentor in October 2013. Due to the Company s continued involvement with the CADRA product line under the Distributorship Agreement, the transaction did not qualify for discontinued operations presentation in the financial statements. During the first quarter of fiscal 2015, the Company s revenue included the CADRA revenue from its Italian subsidiary only with margins of 30% per the Distributorship Agreement. The first quarter of the prior fiscal year was before the CADRA Sale therefore the Company s revenue included CADRA s worldwide revenue. As a result, the comparative financial statements presented below may be less meaningful due to the change in ownership in the CADRA technology.

The table below presents the comparative statements of operations for the three month periods ended August 31, 2014 and August 31, 2013 along with the dollar and percentage change amounts for each revenue and expense item (expressed in thousands, except percentages):

	August 31, 2014	August 31, 2013	Change in $	Change in %
Revenue:				
Products	$ 71	$ 241	$ (170)	(70.5)%
Services	793	1,134	(341)	(30.1)
Total revenue	864	1,375	(511)	(37.2)
Cost of revenue:				
Products	53	33	20	60.6
Services	355	307	48	15.6
Total cost of revenue	408	340	68	20.0
Gross margin	456	1,035	(579)	(55.9)
Research and development expenses	272	335	(63)	(18.8)
Selling, general and administration expenses	717	881	(164)	(18.6)
Gain on change in fair value of Earn-Out Payments and Holdback Payment	(39)	-	(39)	-
Operating loss	(494)	(181)	(313)	(172.9)
Interest expense	63	102	(39)	(38.2)
Gain on change in fair value of warrant liability	-	(9)	9	-
Other (income) expense, net	15	(8)	23	287.5
Net loss	$ (572)	$ (266)	$ (306)	(115.0)%

The table below presents the relationship, expressed as a percentage, between income and expense items and total revenue, for the three month periods ended August 31, 2014 and August 31, 2013:

	Items as a percentage of revenue	
	August 31, 2014	**August 31, 2013**
Revenue:		
Products	8.2%	17.5%
Services	91.8	82.5
Total revenue	100.0	100.0
Cost of revenue:		
Products	6.1	2.4
Services	41.1	22.3
Total cost of revenue	47.2	24.7
Gross margin	52.8	75.3
Research and development expenses	31.5	24.4
Selling, general and administrative expenses	83.0	64.1
Gain on change in fair value of Earn-Out Payments and Holdback Payment	(4.5)	-
Operating loss	(57.2)	(13.2)
Interest expense	7.3	7.4
Gain on change in fair value of warrant liability	-	(0.7)
Other (income) expense, net	1.7	(0.6)
Net loss	(66.2)%	(19.3)%

Revenue

Total revenue for the three month periods ended August 31, 2014 and 2013 was approximately $864,000 and $1.4 million, respectively. The following table summarizes total revenue by product line for the three month periods ended August 31, 2014 and August 31, 2013 (in thousands, except percentages):

	August 31,			
	2014	**2013**	**$ Change**	**% Change**
Product Line				

ProductCenter	$	656	$	737	$	(81)	(11.0)%
CADRA		156		627		(471)	(75.1)
Other		52		11		41	372.7
Total	$	864	$	1,375	$	(511)	(37.2)%

The product line revenue is further broken down by revenue type hereunder with explanations for changes in the current quarter compared to the same period in fiscal 2014.

Product Revenue

Product revenue for the three months ended August 31, 2014 was approximately $71,000, as compared to approximately $241,000 for the same period in the prior fiscal year, a decrease of about 71%. The table below details product revenue by product line for the three month periods ended August 31, 2014 and 2013 (in thousands, except percentages):

	August 31,			
	2014	2013	$ Change	% Change
Product Line				
ProductCenter	$ 52	$ 66	$ (14)	(21.2)%
CADRA	19	175	(156)	(89.1)
Total	$ 71	$ 241	$ (170)	(70.5)%

Our product revenue for ProductCenter for the first three months of fiscal year 2015 was consistent with the quarterly trend over the last eight quarters. It is our expectation based on outstanding proposals that the product revenue trend experienced over the last eight fiscal quarters will improve over the remainder of fiscal 2015.

Product revenue from the CADRA technology decreased by approximately 89% during the quarter ended August 31, 2014. This decrease is the direct result of the CADRA Sale during the second quarter of the prior fiscal year. We continued to offer this technology under the terms of the aforementioned Distributorship Agreement in limited markets.

Service Revenue

Our service revenue is composed of both annual software maintenance contracts for previously licensed technology for both of our product lines and consulting revenue generated primarily from our ProductCenter technology. The table below summarizes service revenue by product line for the three months ended August 31, 2014 and 2013, (in thousands, except percentages):

	2014	2013	$ Change	% Change
Product Line				
ProductCenter	$ 604	$ 671	$ (67)	(10.0)%
CADRA	137	452	(315)	(69.7)
Other	52	11	41	372.7
Total	$ 793	$ 1,134	$ (341)	(30.1)%

Maintenance revenue was approximately $635,000 for the three months ended August 31, 2014, as compared to $934,000 for the same period in the prior fiscal year, a decline of about 32%. ProductCenter maintenance revenue was down approximately 1% for the three month period ended August 31, 2014 compared to the same period in the prior fiscal year. The CADRA Sale, which was completed at the mid-point of the second quarter of the prior fiscal year, was primarily responsible for the current period maintenance revenue decline.

Consulting revenue was approximately $158,000 for the three months ended August 31, 2014, a decrease of approximately 21% from the same period in the prior fiscal year due to delays in the procurement process for several large projects that we expect will be awarded in the coming months.

Gross Margin

Gross margin as a percentage of revenue was 52.8% for the three month period ended August 31, 2014 as compared to 75.3% in the same period in the prior fiscal year. The decrease in gross margin was due to a an increase in cost associated with reselling the CADRA product line and an 37.2% reduction in total revenue in the three month period ending August 31, 2014 as compared to the same periods in the prior fiscal year.

Research and Development Expenses

Research and development expenses were approximately $272,000 for the three month period ended August 31, 2014 as compared to approximately $335,000 in the comparable period in fiscal 2014, a decrease of $63,000. The CADRA Sale and the resulting headcount reductions accounted for the majority of the decrease in R&D expenses.

Selling, General and Administrative Expenses

Selling, general and administrative (SG&A) expenses were approximately $717,000 for the three month period ended August 31, 2014 as compared to approximately $881,000 for the comparable period in fiscal year 2013, a decrease of $164,000. The CADRA Sale accounted for approximately $145,000 of the reduced SG&A expenses.

Gain on sale of product line

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 excluded cash, billed accounts receivable and liabilities other than the deferred maintenance liability associated with CADRA customer maintenance contracts for support services. The purchase price was $3.2 million of which the Company received $2.88 million at the close and an additional $320,000 is payable in October 2014 subject to offset for any indemnification claims Mentor may have under the Asset Purchase Agreement. In addition, the Company will receive royalty payments of up to $750,000 based on 10% of the revenue generated by Mentor during the three-year period immediately following the completion of the transaction. During the three months ended August 31, 2014, the Company recorded a change in the fair value of the Earn-Out Payments and Holdback Payment of approximately $39,000.

Interest Expense

Interest expense for the three month period ended August 31, 2014 was approximately $63,000, as compared to approximately $102,000 for the comparable period in the prior fiscal year. The average debt outstanding for the quarter ended August 31, 2014 was $1.7 million as compared to $2.7 million for the quarter ended August 31, 2013, a decrease of 38%.

Net Loss

The net loss for the three month period ended August 31, 2014 was approximately ($572,000) or ($0.64) per share as compared to approximately ($266,000) or ($0.30) per share for the comparable period in the prior fiscal year.

Liquidity and Capital Resources

During the three month period ended August 31, 2014 the net cash used in operating activities totaled approximately $1.0 million as compared to approximately $249,000 in the comparable prior period. The net loss for the quarter adjusted for non-cash expenditures used approximately $485,000 as compared to approximately $216,000 in the comparable prior period. The net change in current assets and liabilities used $534,000 during the current quarter composed primarily of a reduction in the deferred maintenance liability and accounts payable. The decline in the deferred maintenance liability is cyclical with the majority of the annual maintenance contracts being billed in the third and fourth quarters of the fiscal year. The ProductCenter maintenance contracts renewal rates have been very stable. The reduction in accounts payable during the first quarter of the current fiscal year was primarily due to the normal payment on certain invoices from third party vendors that were accrued at fiscal year end and due in June 2014.

Net cash used in investing activities for the three months ended August 31, 2014 was approximately $2,000 compared to approximately $70,000 primarily composed of capitalized software development costs related to new products and capital expenditures in the prior period.

Net cash provided by financing activities totaled approximately $985,000 composed primarily of $750,000 of borrowing under a new three-year term loan with EssigPR, Inc., a Puerto Rico corporation (EssigPR Note) and $550,000 in proceeds from the issuance of common stock under the terms of a Securities Purchase Agreement with Mr. Joseph P. Daly, an existing SofTech shareholder (the Daly Purchase Agreement), offset by the costs associated with the buyback of approximately 151,000 shares. EssigPR, Inc. is owned by the aforementioned Mr. Daly. Each of the agreements is briefly described below.

EssigPR Note. Under the terms of the EssigPR Note, SofTech entered into a three (3) year borrowing arrangement with EssigPR as the lender. The EssigPR 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 EssigPR Note will be paid from the Holdback Payment and Earn-Out Payments due over the next three years from Mentor in connection with their purchase of the CADRA product line from SofTech pursuant to the Asset Purchase Agreement. Specifically, the Holdback Payment and Earn-Out Payments, which may constitute up to $1.02 million, are described as follows:

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$320,000 due in October 2014, the one-year anniversary of the sale of the CADRA product line. This Holdback Payment of 10% of the purchase price was to ensure non-breach of the Asset Purchase Agreement and is subject to offset by Mentor should they have any indemnity claims under the Asset Purchase Agreement; and

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Up to an additional $706,000 (maximum Earn-Out Payments of $750,000 less initial payment of approximately $44,000 received in March 2014) due in three installments on each of April 1, 2015, 2016 and 2017. The actual amount due on each of those payment dates shall be equal to 10% of the actual revenue generated by Mentor from the CADRA product line during their fiscal years ended January 31, 2015, 2016 and 2017.

In the event whereby the total payments received from Mentor from the above described Holdback Payments and Earn-Out Payments are insufficient to fully satisfy all amounts due under the EssigPR Note including principal and interest, the Company shall pay the remaining balance on April 1, 2017. In the event whereby these payments exceed the amounts due under the EssigPR Note, such excess shall be the sole property of the Company.

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 is due in full on April 10, 2015. EssigPR was awarded 5,000 stock options to purchase SofTech common stock at $1.00 per share. The stock options will expire on October 1, 2024 if not exercised.

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

Daly Purchase Agreement. Under the Daly Purchase Agreement dated June 20, 2014, Mr. Daly purchased 110,000 shares of SofTech common stock, par value $0.10 per share, in a direct private placement. The terms of the Daly Purchase Agreement are as follows:

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Number of Shares Sold: 110,000 shares of the Company s common stock, par value $.10 per share

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Purchase Price Per Share: $5.00 per share

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Type of Offering: Direct private placement to an accredited investor; no registration rights; no third party placement fees

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Purchase Put Right: 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 Closing Date.

The Company does not believe that the issuance of such shares will restrict the Company s ability to utilize its net operating losses to reduce tax liabilities that might otherwise be due. Accordingly, the Board of Directors of the Company approved in advance the purchase of the shares in this transaction as an Exempt Transaction as defined in Section 1(o) of the Company s Rights Agreement, dated February 3, 2012, between the Company and the Registrar and Transfer Company.

Mr. Daly had purchased 25,000 of the 50,000 shares of common stock sold with the Put Option during fiscal year 2013 under the Securities Purchase Agreement described above. Along with the other Investors, he exercised the right to have the Company repurchase the common stock at $5.50 per share in June 2014.

Upon completion by Mr. Daly of the exercise of the Put Option and the purchase of the new shares issued under the Daly Purchase Agreement, he owns 167,279 shares of Company common stock which represents approximately 20.1% of the 833,724 total common shares outstanding as of August 31, 2014.

Additional Shares Sold Subsequent to Quarter End. In four transactions subsequent to the end of the fiscal quarter, the Company raised proceeds of $300,000 from the issuance of an aggregate of 60,000 shares of the Company s common stock, par value $0.10 per share, at $5.00 per share to accredited investors in separate private placement transactions.

These transactions were completed pursuant to Securities Purchase Agreements which the Company entered into with each of the investors as described in the table below.

The material terms of the Securities Purchase Agreements are summarized below.

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Number of Shares Sold: An aggregate of 60,000 shares of the Company s common stock, par value $0.10 per share;

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Purchase Price Per Share: The shares were sold to investors at a purchase price of $5.00 per share in lots of 10,000 shares;

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Type of Offering: Direct private placement to accredited investors; no registration rights; no third party placement fees;

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Fees: In lieu of registration rights and Company costs savings related to direct negotiation with accredited investors, each $50,000 investment entitles the investor to a fee of $5,000 to be paid in eight equal quarterly installments during the twenty-four month period following the investment; and

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Purchase Put Right: Each share purchased shall also give the investors the right to require the Company to repurchase the shares at $7.00 per share for the 30 day period following the twenty-four month anniversary of the investment.

Our Loan Agreement with Prides Crossing Capital

In addition to the EssigPR Note described above, as of August 31, 2014, we had $1.0 million of outstanding indebtedness under our loan agreement with Prides Crossing Capital (Prides Loan). The terms of the Prides Loan are detailed in Note D to the financial statements herein. The Prides Loan is due on or before January 1, 2015. The above described EssigPR Note, Daly Purchase Agreement and the sale of additional shares subsequent to the end of the fiscal quarter were completed in order to provide the Company with the liquidity to pay off the Prides Loan in full. The Company believes it has an excellent working relationship with Prides and is currently discussing an amendment to the Prides Loan that would result in repayment over the next several months. We anticipate completing this arrangement in the coming weeks.

We believe that our cash together with our credit facilities, proceeds from stock sales subsequent to the end of the fiscal quarter and cash provided by operations will be sufficient to meet our capital needs for at least the next twelve months.

Off-Balance Sheet Arrangements

The Company has no off-balance sheet arrangements as defined in Item 303(a)(4)(ii) of the SEC s Regulation S-K.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

This Item is not applicable because we are a smaller reporting company, as defined by applicable SEC regulation.

Item 4. Controls and Procedures

Evaluation of 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 Chief Executive Officer 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 the end of the period covered by this report (August 31, 2014), we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and our Chief Financial Officer, of the effectiveness of the design and operation of the disclosure controls and procedures, as defined in Rule 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective.

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.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

On July 19, 2013, SolidWorks filed a complaint (the Complaint) against the Company in the United States District Court for the Eastern District of Texas Tyler Division alleging fraud and false assurances. The Complaint is connected to a patent infringement suit brought by Auto-Dimensions against SolidWorks in December 2012. The Company owned those patents in question and sold them to Auto-Dimensions in June 2012. SolidWorks is seeking reimbursement from the Company of attorneys fees and any judgments or settlement monies it may incur under the infringement suit, as well as punitive and multiple damages. In October, 2013, SolidWorks motion for change of venue from East Texas to Massachusetts was granted. The Company believes the Complaint is without merit and is vigorously defending itself in this action.

Item 1A. Risk Factors

In addition to the other information set forth in this report and the risk factors below, you should carefully consider the factors discussed in Part I, Item 1A, Risk Factors" in our Annual Report on Form 10-K for the year ended May 31, 2014, which could materially affect our business, financial condition or future results. Our business is subject to numerous risks. We caution you that the following important factors, among others, could cause our actual results to differ materially from those expressed in forward-looking statements made by us or on our behalf in filings with the SEC, press releases, communications with investors and oral statements. Any or all of our forward-looking statements in the Quarterly Report on Form 10-Q and in any other public statements we make may turn out to be wrong. They can be affected by inaccurate assumptions we might make or by known or unknown risks and uncertainties. Any factors mentioned in the discussion below will be important in determining future results. Consequently, no forward-looking statement can be guaranteed. Actual future results may differ materially from those anticipated in forward-looking statements. We undertake no obligation to update any forward-looking statements, whether as a result of new information, future events or otherwise. You are advised, however, to consult any further disclosure we *make in our reports filed with the SEC.*

Risks Related to Our Business

Following the sale of the CADRA business in October 2013, we will need to restructure our business to enable us to successfully operate as a significantly smaller company and to seek new sources of revenue and new strategic initiatives. SofTech operating results subsequent to the sale of the CADRA business may not be profitable, and we may be unsuccessful in developing new business opportunities.

The CADRA business was responsible for about half of the consolidated revenue in fiscal 2013 and the majority of the profitability and cash flow. The importance of the CADRA business to the consolidated results in fiscal 2013 was similar in at least the two immediately preceding fiscal years. The remaining product lines following the CADRA Sale, namely ProductCenter and the Connector technologies, are product lines that have historically been less profitable than the CADRA business, have fewer customers and have a more complex sales cycle. It is likely that the Company will need to reduce spending in order to achieve profitability, and ultimately will need to find new strategic directions and new sources of revenue in order to meaningfully increase the size of its business. The new product ideas that the management team has interest in pursuing as described in the patent filings over the last few years are speculative in that the products are still in development and the management team may not have the depth of experience required to be successful in those new markets.

Continued revenue declines in our product lines may have a material adverse impact upon our business and overall financial performance.

We have experienced consolidated revenue declines for nearly a decade.

Our ProductCenter technology, which we acquired in 2003, manages the engineering data and electronic files of discrete parts designed in third party proprietary design technologies offered primarily by SolidWorks, PTC and Autodesk. Revenue from our ProductCenter technology has been declining due to several factors. In July 2007, PTC informed us that it would not renew its partnership agreement with us when the agreement expired in January 2008. We had been a member of the PTC partnership program for 12 years. The PTC partnership agreement, among other things, provided us with the right to distribute certain information that allowed for our technology to directly interface with PTC s proprietary CAD tools. The non-renewal has essentially prevented us from marketing our ProductCenter solution to new customers that utilize PTC s technology and has negatively impacted our product revenue from this technology offering. In addition to the PTC partnership termination, ProductCenter revenues have been negatively affected by: (i) an increased number of competitive offerings in the marketplace, (ii) elongation of purchase decisions by customers of a technology that already has a long sales cycle, and (iii) uncertain economic conditions.

Significant future declines in our total revenues may have a material adverse impact upon our business and overall financial performance.

We compete against numerous technology companies in the mature PLM industry that are significantly larger and have vastly greater financial resources at their disposal.

Many of our competitors, including PTC, SolidWorks, Siemens and Autodesk, have substantially greater financial, technological, marketing, managerial and research and development resources and experience than we do and represent significant competition for us. Our competitors may succeed in developing competing technologies or products which may gain market acceptance more rapidly than our products. Existing or proposed products of our competitors may render our existing or proposed products noncompetitive or obsolete. If we are unable to compete successfully in the future, the competitive pressures that we face could adversely affect our profitability or financial performance.

Our agreements with certain software vendors may be terminated at will by the vendors.

We utilize third party vendors to provide certain software and utilities which enable us to continue to develop and support ProductCenter customers with their integrations from ProductCenter to their respective CAD solutions. These agreements are subject to termination at will by the vendors, 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 adverse effect on future performance. For example, in July 2007, we were informed that our agreement with one such vendor, PTC, was not going to be extended beyond its renewal date of January 31, 2008. Thus the agreement with PTC has since expired. A significant number of our current ProductCenter customers utilize PTC s proprietary CAD technology. We continue to support our current customers who are utilizing PTC s CAD solution with a customer specific consulting solution. While this customer specific consulting solution has allowed us to retain the majority of our customers utilizing PTC s CAD tool, it has precluded us from proposing our solution to new customers using that CAD technology. Our inability to offer our solution to new customers utilizing PTC s technology or similar restrictions that could result from any future terminations of similar agreements with other vendors could have an adverse effect on our future revenues.

We may not be able to generate sufficient positive cash flow in the future to fund our operations.

In addition to our bank financing, we are dependent upon cash flows from our business to fund our operations. It is our expectation that we can improve our cash flows; however, there can be no assurances that we will be able to do so. If we are unable to fund our operations from future cash flows, we will need to seek additional debt and/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.

Failure to comply with financial covenants in our loan agreement could adversely affect us.

As of August 31, 2014, we had $1 million of outstanding indebtedness under our loans with Prides Crossing Capital. This indebtedness is secured by all of our assets. Our loan agreement includes financial covenants which require us to maintain compliance with certain financial ratios during the term of the agreement. Failure to comply with the financial covenants is an event of default under the loan agreement. In an event of default, the lender has the right to accelerate repayment of all sums due and take any and all action, at its sole option, to collect monies owed to it, including to enforce and foreclose on its security interest on all of our assets. If our lender were to accelerate our debt payments, our assets may not be sufficient to fully repay the debt and we may not be able to obtain capital from other sources at favorable terms or at all.

Prior to the Recapitalization Transaction, we defaulted on our previous debt arrangement with Greenleaf Capital (Greenleaf). Specifically, in June 2010, we failed to make the scheduled loan payments in accordance with our loan and revolving line of credit with Greenleaf, our sole debt provider at the time, which triggered the default. In 1999, we defaulted on our loan facility with Imperial Bank for failure to meet required profit and cash flow thresholds. Subsequent to each of the aforementioned debt defaults, satisfactory repayment agreements were reached with each lender.

Our loan agreement imposes restrictions on our ability to take certain corporate actions and raise additional capital. In addition, the loan agreement contains certain affirmative financial covenants related to quarterly EBITDA performance and month-end liquidity.

Our loan agreement contains numerous restrictions that limit our ability to undertake certain activities without the express prior written approval of the lender. These include, but are not limited to, restricting our ability to:

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incur additional indebtedness;

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pay or declare dividends;

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enter into a business substantially different from existing operations;

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issue or authorize any additional or new equity that will result in a change of control; and

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take any corporate action outside the ordinary course of the business without the prior written approval of our lender.

These restrictions could significantly hamper our ability to raise additional capital. Our ability to receive the necessary approvals is largely dependent upon our relationship with our lender and our financial performance, and no assurances can be given that we will be able to obtain the necessary approvals in the future. Our inability to raise additional capital could lead to working capital deficits that could have a materially adverse effect on our operations in future periods.

In addition to the restrictions, the loan agreement contains certain affirmative financial covenants regarding quarterly performance and end of month liquidity. If the Company were to fail to meet any of those financial covenants it could be declared in default under the loan agreement thereby requiring immediate repayment of loan principal.

Our ability to use our federal and state net operating loss carryforwards (NOLs) to reduce taxable income generated in the future could be substantially limited or eliminated.

As of May 31, 2014, we had approximately $20 million of federal NOLs available to offset future taxable income, which expire in varying amounts beginning in 2022, if unused. We may not generate taxable income in time to use these NOLs prior to their expiration, and the Internal Revenue Service may not agree with the amount or timing of prior losses, thereby limiting the value of our NOLs. Furthermore, our ability to use our NOLs is subject to an annual limitation due to ownership changes that may have occurred or that could occur in the future, as determined by Section 382 of the Internal Revenue Code of 1986, as amended, as well as similar state regulations. Depending on the actual amount of any limitation on our ability to use our NOLs, our future taxable income could be subject to federal and/or state income tax, creating federal and/or state income tax liabilities. On February 3, 2012, we entered into a Rights Agreement (Rights Agreement), as described below, in an effort to prevent an ownership change, as defined under Section 382, from occurring and thereby protect the value of our NOLs. This Rights Agreement expires on February 15, 2015, unless extended by our board of directors. There can be no assurance, however, that the Rights Agreement will prevent an ownership change from occurring or protect the value of our NOLs.

We adopted a tax benefits preservation plan, designed to preserve the value of our deferred tax assets, primarily related to NOLs, which may discourage acquisition and sale of large blocks of our stock and may result in significant dilution for certain stockholders.

Our board of directors adopted the Rights Agreement to preserve stockholder value and the value of certain income tax assets primarily associated with NOLs, by seeking to prevent any person from acquiring beneficial ownership of 4.99% or more of our outstanding common stock without the approval of the board of directors.

In connection with the Rights Agreement, the board of directors of the Company declared a dividend of one common share purchase right (a Right) for each outstanding share of common stock. The dividend was payable on February 15, 2012 to the stockholders of record on February 15, 2012. Pursuant to the Rights Agreement and at the discretion of our board of directors, if any person or group becomes the beneficial owner (subject to certain restrictions) of 4.99% or more of the outstanding shares of our common stock the Right may become exercisable. Upon exercise of a Right and payment of the purchase price of $5.00 (the Purchase Price), the holder will be entitled to receive a number of shares of our common stock having a market value equal to two times the Purchase Price.

The Rights Agreement may discourage existing 5% stockholders from selling their interest in a single block which may impact the liquidity of our common stock, may deter institutional investors from investing in our common stock, and may deter potential acquirers from making premium offers to acquire SofTech, all factors which may depress the market price of our stock or prevent stockholders from receiving a premium in a change in control transaction. The Rights Agreement expires, unless otherwise extended, on February 15, 2015.

Our quarterly results may fluctuate making our future revenue and financial results difficult to predict.

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; variations in the size and timing of individual orders; competition and pricing; seasonality; and customer order deferrals or cancellations as a result of general economic conditions or industry decline. Furthermore, we have often recognized a substantial portion of our 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.

Our financial condition could be adversely affected if significant errors or defects are found in our software.

Sophisticated software can sometimes contain errors, defects or other performance problems. If errors or defects are discovered in our current or future products, we may need to expend significant financial, technical and management resources, or divert some of our development resources, in order to resolve or work around those defects, and we may not be able to correct them in a timely manner or provide an adequate response to our customers.

Errors, defects or other performance problems in our products could cause us to delay new product releases or customer deployments. Any such delays could negatively impact our ability to realize revenue from the licensing and shipment of new or enhanced products and give our competitors a greater opportunity to market competing products. Such difficulties could also cause us to lose customers. Technical problems or the loss of customers could also damage our business reputation and cause us to lose new business opportunities.

We are dependent on key personnel whose loss could impair our operations, our product development or our sales efforts.

We are a small company especially for one that is publicly held. Our technologies are complex and have been developed over many years. While we enjoy the benefit of a very experienced, long-tenured employee group, we are dependent on many of those employees for the familiarity, expertise and unique insight they have developed with our products that would be extremely difficult and time consuming to replace. We maintain key-man life insurance on our Chief Executive Officer, Mr. Mullaney in the amount of $3,000,000. Mr. Mullaney s policy was required as part of the debt facility. The proceeds from the life insurance, in the event of his demise, would be used to satisfy the outstanding debt obligation with our lender and the excess, if any, would revert to his estate. The loss of services of any of our key personnel could make it difficult for us to meet important objectives, such as timely and effective product introductions and financial goals.

We may be sued for infringing on the intellectual property rights of others.

Our ProductCenter technology was launched in the early 1990 s. Over the decades that our technologies have been in the marketplace, a significant number of patents have been filed by competitors. It is difficult if not impossible for us to monitor these patent awards to become familiar with their claims and we do not attempt to do so. Third parties may assert that we are employing their proprietary technology without authorization. There can be no assurance that we do not or will not infringe on the patent or proprietary rights of others. Parties making claims against us may be able to obtain injunctive or other equitable relief that could effectively block our ability to further develop, commercialize and sell products, and such claims could result in the award of substantial damages against us. In the event of a successful claim of infringement against us, we may be required to pay damages and obtain one or more licenses from third parties. We may not be able to obtain these licenses at a reasonable cost, if at all. In that event, we could encounter delays in product introductions while we attempt to develop alternative methods or products or be required to cease offering affected products and our operating results would be harmed.

Our sales and operations are globally dispersed, which exposes us to additional operating and compliance risks.

We sell and deliver software and services, and maintain support operations in multiple countries whose laws and practices differ from one another. For the fiscal year ended May 31, 2014, North America accounted for approximately 67%, Europe for approximately 23% and Asia for approximately 10% of our revenue which was not materially different from the percentages for fiscal year 2013. Managing these geographically dispersed operations requires significant attention and resources to ensure compliance with laws. Accordingly, while we maintain a compliance program, we cannot guarantee that an employee, agent or business partner will not act in violation of our policies or U.S. or other applicable laws. Such violations can lead to civil and/or criminal prosecutions, substantial fines and the revocation of our rights to continue certain operations and also cause business and reputation loss.

We are obligated to maintain proper and effective internal control over financial reporting. We may not complete our analysis of our internal control over financial reporting in a timely manner, or these internal controls may not be determined to be effective, which may adversely affect investor confidence in our company and, as a result, the value of our common stock.

From August 16, 2010 to December 27, 2011 we were not required to file periodic reports and other reports with the SEC. In December 2011, we filed a Form 8-A with the SEC in connection with the effectiveness of our registration statement (333-174818), subjecting us again to the reporting requirements under the Exchange Act. As a public company, we are required, pursuant to Section 404 of the Sarbanes-Oxley Act, to furnish a report by management on, among other things, the effectiveness of our internal control over financial reporting. This assessment includes disclosure of any material weaknesses identified by our management in our internal control over financial reporting. We may not be able to remediate future material weaknesses, or to complete our evaluation, testing and any required remediation in a timely fashion. During the evaluation and testing process, if we identify one or more material weaknesses in our internal control over financial reporting, we will be unable to assert that our internal controls are effective. If we are unable to assert that our internal control over financial reporting is effective, we could lose investor confidence in the accuracy and completeness of our financial reports, which would have a material adverse effect on the price of our common stock.

Because we are a relatively small company, the requirements of being a public company, including compliance with the reporting requirements of the Exchange Act and the requirements of the Sarbanes-Oxley Act, may strain our resources, increase our costs and distract management; and we may be unable to comply with these requirements in a timely or cost-effective manner.

As a public company, we need to comply with certain laws, regulations and requirements, certain corporate governance provisions of the Sarbanes-Oxley Act and related regulations of the SEC. If we list our securities on an exchange, the exchange will impose additional requirements on listed companies, including enhanced corporate governance practices. For example, the NASDAQ listing requirements require that listed companies satisfy certain corporate governance requirements relating to independent directors, audit committees, distribution of annual and interim reports, shareholder meetings, shareholder approvals, solicitation of proxies, conflicts of interest, shareholder voting rights and codes of business conduct. Complying with the SEC statutes, regulations and requirements will occupy a significant amount of time of our board of directors and management and could increase our costs and expenses.

From time to time we may make acquisitions. The failure to successfully integrate future acquisitions could harm our business, financial condition and operating results.

As a part of our business strategy, we have in the past and may make acquisitions in the future. We may also make significant investments in complementary companies, products or technologies. Acquisitions present many risks, and we may not realize the financial and strategic goals that were contemplated at the time of any transaction. We cannot provide assurance that we will be able to successfully integrate any business, products, technologies or personnel that we may acquire in the future, and our failure to do so could harm our business, financial condition and operating results.

Weakness in the United States and international economies may continue to adversely affect our business.

The past few years have been characterized by weak global economic conditions. Because we market, sell and license our products throughout the world, in addition to the ongoing adverse effects on our business of continued weakness in the U.S. economy, we could be significantly affected by continuing weak economic conditions in foreign and domestic markets that could reduce demand for our products.

Risks Related to the Market for our Common Stock

Our stock price has been and is likely to continue to be volatile, and an investment in our common stock could decline in value.

Since the Recapitalization Transaction, the closing stock price has ranged from a low price of $1.00 per share to a high price of $4.95 per share. A contributing factor to the price fluctuation is the low average daily volume, which over the last three fiscal years has averaged fewer than 1,000 shares per day. Given the lack of market makers in the stock and the low demand, a shareholder s attempt to sell a large number of shares relative to the average daily volume in a short period of time will likely have a material negative impact on the share price.

A small number of shareholders own a large number of shares thereby potentially exerting significant influence over us.

After considering the equity transactions described in Note M to the Consolidated Financial Statements included in this Annual Report, the three members of our board of directors own approximately 28.8% of our outstanding shares. Two other shareholders together own 33.1% of outstanding shares. This concentration of ownership could significantly influence all matters requiring shareholder approval and could delay, deter or prevent a change in control of the Company or other business combinations that might otherwise be beneficial to our other shareholders. Accordingly, this concentration of ownership may harm the market price of our common stock. In addition, the interest of our significant shareholders may not always coincide with the interest of the Company s other shareholders. In deciding how to vote on such matters, they may be influenced by interests that conflict with our other shareholders.

Our stock is thinly traded, so you may be unable to sell at or near ask prices or at all.

The shares of our common stock are traded on the OTC Bulletin Board. Shares of our common stock are thinly traded, meaning that the number of persons interested in purchasing our common stock at or near ask prices at any given time may be relatively small or non-existent. This situation is attributable to a number of factors, including the fact that we are a small company that is relatively unknown to stock analysts, stockbrokers, institutional investors and others in the investment community who generate or influence sales volume. Even in the event that we come to the attention of such persons, they would likely be reluctant to follow an unproven company such as ours or purchase or recommend the purchase of our shares until such time as we become more seasoned and viable. As a consequence, our stock price may not reflect an actual or perceived value of the business. Also, there may be periods of several days or more when trading activity in our shares is minimal or non-existent, as compared to a seasoned issuer that has a large and steady volume of trading activity that will generally support continuous sales without an adverse effect on share price. A broader or more active public trading market for our common shares may not develop or if developed, may not be sustained. Due to these conditions, you may not be able to sell your shares at or near ask prices or at all if you need money or otherwise desire to liquidate your shares.

We do not presently intend to pay any cash dividends or repurchase any shares of our common stock.

We do not presently intend to pay any cash dividends on our common stock. Any payment of future dividends will be at the discretion of the board of directors and will depend on, among other things, our earnings, financial condition, capital requirements, level of indebtedness, statutory and contractual restrictions applying to the payment of dividends, and other considerations that our board of directors deems relevant. Cash dividend payments in the future may only be made out of legally available funds and, if we experience substantial losses, such funds may not be available. In addition, our loan agreement prohibits us from paying dividends, making distributions or payments or redeeming, retiring or purchasing any of our capital stock. Accordingly, you may have to sell some or all of your common stock in order to generate cash flow from your investment.

Risks Related to the CADRA Sale

A portion of the purchase price was deferred and we may not receive those payments.

A portion of the purchase price, an amount equal to $320,000, was held back by Mentor to secure any indemnification claims under the Asset Purchase Agreement. If indemnification claims are asserted, we may not receive all or any of the $320,000 payable to us.

In addition, up to $750,000 of the total purchase price will be based on the revenues generated by the CADRA business during the three-year period following the asset sale. Specifically, the Company will be paid 10% of CADRA revenue generated by Mentor up to the $750,000 maximum. The Company has no obligation subsequent to the transaction date with regard to royalty payments. In March 2014, the Company received the first payment of approximately $44,000 under this deferred arrangement related to the period from the transaction date to January 31, 2014. The Asset Purchase Agreement also allows Mentor to withhold monies due under the Earn-Out Agreement if indemnification claims are asserted. Mentor has broad discretion to operate its post-closing business, and may choose to do so in a manner which may or may not result in the payment of all of the CADRA royalties pursuant to the Earn-Out Agreement.

We will continue to incur the expenses of complying with public company reporting requirements following the closing of the CADRA Sale.

After the CADRA Sale, we will continue to be required to comply with the applicable reporting requirements of the Securities Exchange Act of 1934, as amended, even though compliance with such reporting requirements is economically burdensome and will represent an even greater percentage of our expenses post-closing as we will be a significantly smaller company following the sale of the CADRA business.

Closure of the office located in Germany

Our office located in Germany was focused exclusively on selling and supporting the CADRA product line. During fiscal year 2014, the Company closed this office and ceased operating in that country. We believe we have satisfied all material obligations related to that closure including satisfying all employment related obligations to our former employees, however, the risk of identification of additional liabilities does exist.

Buyer is not assuming any of the excluded liabilities under the Asset Purchase Agreement.

Under the Asset Purchase Agreement, Mentor is not assuming all of the liabilities associated with the CADRA business. Certain liabilities will remain with the Company post-closing. For example, Mentor is only assuming customer support obligations related to certain assigned contracts and obligations for performance under contracts that arise after the closing, and is not assuming liability for any obligation or breach by the Company occurring or arising prior to the closing. While the Company believes that it has adequately accrued for these liabilities or is adequately insured against certain of the risks associated with such excluded liabilities, there can be no assurances that additional expenditures will not be incurred in resolving these liabilities.

The Asset Purchase Agreement may expose us to contingent liabilities.

We have agreed to indemnify Mentor for certain breaches of representations, warranties or covenants made by us in the Asset Purchase Agreement up to $3.95 million. Significant indemnification claims by the Mentor could materially and adversely affect our business, financial condition and results of operations.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Issuer Purchases of Equity Securities

During the three months ended August 31, 2014, pursuant to agreements described herein, we repurchased a total of 151,411 shares of our common stock for an aggregate purchase price of $312,522, consisting of (i) 101,411 shares repurchased from Greenleaf as described in the Company s Form 10-K for the fiscal year ended May 31, 2013 in Note K *Subsequent Events* and (ii) 50,000 shares repurchased from certain investors upon the exercise by such investors of their put rights under an existing securities purchase agreement with such investors. The following table provides information about such repurchases:

Period	Total Number of Shares Repurchased	Average Price Paid per Share	Total Number of Shares Repurchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that May Yet be Repurchased Under the Plans or Programs
June 1-30, 2014	30,000	$ 5.50	-	$ -
July 1-31, 2014	20,000	5.50	-	-
August 1-31, 2014	101,411	0.37	-	-
Total First Quarter	151,411	$ 2.06	-	$ -

Item 3. Defaults Upon Senior Securities

None

Item 4. Mine Safety Disclosures

Not Applicable

Item 5. Other Information

Not Applicable

Item 6. Exhibits

See Exhibit Index immediately following the signature page hereto, which Exhibit Index is incorporated herein by reference.

SIGNATURES

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

SOFTECH, INC.

Date: October 20, 2014 *\/s/ Amy E. McGuire*
Amy E. McGuire
Chief Financial Officer

Date: October 20, 2014 */s/ Joseph P. Mullaney*
Joseph P. Mullaney
President & Chief Executive Officer

EXHIBIT INDEX

Exhibit No.	Description of Document
2.1	Asset Purchase Agreement, dated as of August 30, 2013, between Mentor Graphics Corporation and the Company (incorporated by reference to Exhibit 2.1 to the Company s Form 8-K, filed on September 6, 2013).
2.2	Earn-Out Agreement, dated August 30, 2013, between Mentor Graphics Corporation and the Company (incorporated by reference to Exhibit 2.2 to the Company s Form 8-K, filed on September 6, 2013).
3.1	Articles of Organization, as amended through October 12, 1988 (incorporated by reference to Exhibit 3.1 to the Company s Quarterly Report on Form 10-Q for the quarter ended February 29, 2008, filed on April 14, 2008).
3.1.1	Articles of Amendment to Articles of Organization, dated April 15, 2011 (incorporated by reference to Exhibit 3.1.1 to the Company s Registration Statement filed on Form S-1 on June 9, 2011).
3.1.2	Articles of Amendment to Articles of Organization, effective June 7, 2011 (incorporated by reference to Exhibit 3.1.1 to the Company s Registration Statement filed on Form S-1 on June 9, 2011).
3.2	By-laws (incorporated by reference to Exhibit 3.2 to the Company s Quarterly Report on Form 10-Q for the quarter ended February 29, 2008, filed on April 14, 2008).
4.1	Rights Agreement, dated as of February 3, 2012 between the Company and Registrar and Transfer Company, as Rights Agent, together with the following Exhibits thereto; Exhibit A Form of Right Certificate; Exhibit B- Summary of Rights (incorporated by reference to Exhibit 4.1 to the Company s Current Report on Form 8-K, filed on February 3, 2012).
10.1	Securities Purchase Agreement by and among the Company and the Purchasers named therein dated March 8, 2011 (Incorporated by reference to Exhibit 10.1 to the Company s Registration Statement filed on Form S-1 on June 9, 2011).
10.2	Registration Rights Agreement by and among the Company and the Purchasers named therein dated March 8, 2011 (incorporated by reference to Exhibit 10.11 to the Company s Registration Statement filed on Form S-1 on June 9, 2011).
10.3	SofTech, Inc. 2011 Equity Incentive Plan (incorporated by reference to Exhibit 10.13 to the Company s Registration Statement filed on Form S-1 on June 9, 2011).
10.4	Form of Notice of Grant of Incentive Stock Option and Option Agreement under 2011 Equity Incentive Plan (incorporated by reference to Exhibit 10.14 to the Company s Registration Statement filed on Form S-1 on June 9, 2011).
10.5	Form of Notice of Grant of Nonqualified Stock Option and Option Agreement under 2011 Equity Incentive Plan (incorporated by reference to Exhibit 10.15 to the Company s Registration Statement filed on Form S-1 on June 9, 2011).
10.6	Form of Notice of Grant of Restricted Stock and Restricted Stock Agreement under 2011 Equity Incentive Plan (incorporated by reference to Exhibit 10.16 to the Company s Registration Statement filed on Form S-1 on June 9, 2011).
10.7	Form of Notice of Grant of Restricted Stock and Restricted Stock Agreement under 2011 Equity Incentive Plan (Non-Employee Directors) (incorporated by reference to Exhibit 10.17 to the Company s Registration Statement filed on Form S-1 on June 9, 2011).
10.8	Form of Notice of Grant of Nonqualified Stock Option and Option Agreement under 2011 Equity Incentive Plan (Non-Employee Directors) (incorporated by reference to Exhibit 10.18 to the Company s Registration Statement filed on Form S-1 on June 9, 2011).
10.9	

	Loan Pledge and Security Agreement by and between SofTech Inc and Prides Crossing Capital dated May 10, 2013 (incorporated by reference to Exhibit 10.27 to the Company s 8-K filed on July 12, 2013).
10.9.1	Amendment to Loan Pledge and Security Agreement by and between SofTech Inc and Prides Crossing Capital dated July 9, 2013 (incorporated by reference to Exhibit 10.27.1 to the Company s 8-K filed on July 12, 2013).
10.9.2	Amended and Restated Loan, Pledge and Security Agreement, dated December 5, 2013, by and among Prides Crossing Capital Funding, L.P. and the Company (Incorporated by reference to Exhibit 10.2 to the Company s quarterly report on Form 10-Q for the quarter ended November 30, 2013 filed on January 14, 2014).
10.10	Consent to the Sale of Assets and Amendment to Loan, Pledge and Security Agreement, dated October 17, 2013, between Prides Crossing Capital, L.P., Prides Crossing Capital-A, L.P., Joseph P. Mullaney and the Company. (Incorporated by reference to Exhibit 10.2 to the Company s quarterly report on Form 10-Q for the quarter ended November 30, 2013 filed on January 14, 2014).
10.11	Securities Purchase Agreement by and between Joseph Daly and SofTech, Inc. dated June 20, 2014 (Incorporated by reference to Exhibit 10.1 to the Company s Form 8-K filed on June 26, 2014).

10.12	Promissory Note by and between EssigPR, Inc. and SofTech, Inc. dated June 20, 2014 (Incorporated by reference to Exhibit 10.2 to the Company s Form 8-K filed on June 26, 2014).
10.13	Partnership Agreement by and between Essig Research, Inc. and SofTech, Inc. dated June 20, 2014 (Incorporated by reference to Exhibit 10.3 to the Company s Form 8-K filed on June 26, 2014).
10.14	Stock Purchase Agreement by and between Greenleaf Capital and SofTech, Inc. dated July 24, 2014 (Incorporated by reference to the Company s Form 10-K filed on October 7, 2014).
10.15	Short Term Loan Agreement by and between SofTech, Inc. and EssigPR, Inc. dated October 1, 2014 (Incorporated by reference to the Company s Form 10-K filed on October 7, 2014).
21.1	Subsidiaries of the Registrant (incorporated by reference to Exhibit 21.1 to the Company s Registration Statement filed on Form S-1 on June 9, 2011).
31.1	Certification of the Principal Financial Officer pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934, as amended.
31.2	Certification of the Principal Executive Officer pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934, as amended.
32.1	Certification of the Principal Financial Officer and Principal Executive Officer pursuant to U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS**	XBRL Instance Document
101.SCH**	XBRL Taxonomy Extension Schema Document
101.CAL**	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF**	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB**	XBRL Taxonomy Extension Label Linkbase Document
101.PRE**	XBRL Taxonomy Extension Presentation Linkbase Document

**XBRL (Extensible Business Reporting Language) information is furnished and not filed or a part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, is deemed not filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and otherwise is not subject to liability under these sections.