SOFTECH INC
Form 10-Q
October 17, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended August 31, 2016

.**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 11, 2016 was 903,724 shares.

SOFTECH, INC.

INDEX

		Page Number
PART I.	Financial Information	
Item 1.	Financial Statements	
	Consolidated Balance Sheets August 31, 2016 (unaudited) and May 31, 2016	3
	Consolidated Statements of Operations Three Months Ended August 31, 2016 and 2015 (unaudited)	4
	Consolidated Statements of Comprehensive Loss Three Months Ended August 31, 2016 and 2015 (unaudited)	5
	Consolidated Statements of Cash Flows Three Months Ended August 31, 2016 and 2015 (unaudited)	6
	Notes to Consolidated Financial Statements (unaudited)	7
Item 2.	Management s Discussion and Analysis of Financial Condition and Results of Operations	19
Item 4.	Controls and Procedures	26
PART II.	Other Information	27
1A.	Risk Factors	27
Item 6.	Exhibits	32

PART I FINANCIAL INFORMATION

Item 1. Financial Statements.

SOFTECH, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

	(in thousands)	
	August 31, 2016	**May 31, 2016**
ASSETS	(UNAUDITED)	
Cash and cash equivalents	$ 90	$ 175
Accounts receivable (less allowance for uncollectible accounts of $18 as of August 31, 2016 and May 31, 2016)	637	477
Earn-out payments from CADRA sale, current portion	130	130
Prepaid expenses and other assets	203	207
Total current assets	1,060	989
Property and equipment, net	63	71
Goodwill	948	948
Capitalized software development costs, net	907	825
Capitalized patent costs	113	113
Related party note receivable	134	134
Other assets	35	35
TOTAL ASSETS	$ 3,260	$ 3,115
LIABILITIES, REDEEMABLE COMMON STOCK AND SHAREHOLDERS DEFICIT		
Accounts payable	$ 223	$ 178
Accrued expenses	477	323
Deferred maintenance and subscription revenue	1,322	1,531
Capital leases, current portion	24	24
Current portion of long term debt related party	1,250	900
Total current liabilities	3,296	2,956
Capital leases, net of current portion	31	39

Total liabilities		3,327		2,995
Commitments and contingencies				
Redeemable common stock, $0.10 par value, 180,000 shares issued and outstanding at both August 31, 2016 and May 31, 2016.		1,260		1,260
Shareholders deficit:				
Common stock, $0.10 par value 20,000,000 shares authorized, 723,724 issued and outstanding at both August 31, 2016 and May 31, 2016.		73		73
Additional paid in capital		27,140		27,138
Accumulated deficit		(28,257)		(28,073)
Accumulated other comprehensive loss		(283)		(278)
Total shareholders deficit		(1,327)		(1,140)
TOTAL LIABILITIES, REDEEMABLE COMMON STOCK AND SHAREHOLDERS DEFICIT	$	3,260	$	3,115

See accompanying notes to unaudited consolidated financial statements

SOFTECH, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

	(in thousands, except for share and per share data)			
	For the Three Months Ended			
	August 31, 2016		**August 31, 2015**	
Revenue:				
Products	$	63	$	54
Services		866		927
Total revenue		929		981
Cost of revenue:				
Products		36		29
Services		323		377
Total cost of revenue		359		406
Gross margin		570		575
Research and development expenses		131		154
Selling, general and administrative expenses		597		599
Gain on change in fair value of earn-out payments		-		(10)
Operating loss		(158)		(168)
Interest expense		26		13
Other expense, net		-		(7)
Net loss	$	(184)	$	(174)
Basic and diluted net loss per share:	$	(0.20)	$	(0.19)
Weighted average common and redeemable shares outstanding-basic and diluted		903,724		893,724

See accompanying notes to unaudited consolidated financial statements

SOFTECH, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF

COMPREHENSIVE LOSS (UNAUDITED)

	(in thousands, except for share and per share data)	
	For the Three Months Ended	
	August 31, 2016	**August 31, 2015**
Net loss	$ (184)	$ (174)
Other comprehensive (loss) income :		
Foreign currency translation adjustment	(5)	6
Total other comprehensive (loss) income	(5)	6
Comprehensive loss	$ (189)	$ (168)

See accompanying notes to unaudited consolidated financial statements

SOFTECH, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

	(in thousands) For the Three Months Ended	
	August 31, 2016	**August 31, 2015**
Cash flows from operating activities:		
Net loss	$ (184)	$ (174)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization expense	10	26
Stock-based compensation	2	31
Non-cash gain on foreign currency transactions	-	(7)
Change in fair value of earn-out payments	-	(10)
Change in current assets and liabilities:		
Accounts receivable	(160)	(80)
Prepaid expenses and other assets	4	63
Accounts payable, accrued expenses and other liabilities	199	171
Deferred maintenance revenue	(209)	(405)
Net cash used in operating activities	(338)	(385)
Cash flows from investing activities:		
Capital expenditures	-	(17)
Capitalized software development costs	(84)	(118)
Capitalized patent costs	-	(2)
Net cash used in investing activities	(84)	(137)
Cash flows from financing activities:		
Borrowing under debt agreements	350	250
Repayments under capital lease	(8)	(2)
Net cash provided by financing activities	342	248
Effect of exchange rates on cash	(5)	13
Decrease in cash	(85)	(261)
Cash and cash equivalents, beginning of period	175	310
Cash and cash equivalents, end of period	$ 90	$ 49
Supplemental disclosures of cash flow information:		
Interest paid	$ 23	$ 11
Taxes paid	$ 2	$ 2
Noncash investing and financing activities:		
Purchase of property and equipment under capital lease	$ -	$ 32
Accretion of redeemable common stock	$ -	$ -

See accompanying notes to unaudited consolidated financial statements

SOFTECH, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

A. DESCRIPTION OF THE BUSINESS AND BASIS OF PRESENTATION

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

In addition to the products offered to the PLM industry, in 2012, the Company filed a patent application describing an information management system for the residential property market. The Company established a wholly-owned subsidiary, HomeView, Inc. on April 7, 2015 in Massachusetts. HomeView , a technology being developed by HomeView, Inc., is a secure, intelligent home asset management and maintenance system. HomeView allows homeowners to create a virtual home manual that logs, manages and tracks personal assets and attributes about the property. Home ownership is made easier by managing user manuals, warranty periods, service records, maintenance reminders and other projects with HomeView. Our plans are to offer this technology as a hosted solution wherein the software would reside on our servers.

Since fiscal year 2015, the Company has invested a substantial amount of time in, among other things, researching this market, reviewing various business models, creating specifications for the technology and developing the technology. In January 2016, the product was introduced to the market and a free version of the app was made available on iTunes.

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

The consolidated financial statements of the Company include the accounts of SofTech, Inc. and its wholly-owned subsidiaries, Information Decisions, Inc., Workgroup Technology Corporation, HomeView, Inc., SofTech, GmbH (inactive since 2014) and SofTech, Srl. All significant intercompany accounts and transactions have been eliminated in consolidation.

The Company has sustained net operating losses and negative cash flow from operations for fiscal years 2016 and 2015 as detailed in the table below (000 s):

	Fiscal Years Ended			
	May 31, 2016		May 31, 2015	
Net loss	$	(673)	$	(1,319)
Net cash used in operating activities	$	(359)	$	(1,287)

The net loss and net cash used in operating activities for the first quarter of fiscal 2017 was $(184,000) and $(338,000), respectively, as compared to $(174,000) and $(385,000) for the same period in fiscal 2016.

The majority of the net losses and net cash used in operating activities detailed above relate to our Italian subsidiary and expenses we have incurred in launching our HomeView technology.

Our Italian subsidiary, SofTech, Srl, was primarily focused on marketing and supporting the CADRA technology prior to the sale of that product line in fiscal 2014. Since that time, it has been offering CADRA under a Distributorship Agreement while developing new revenue streams. The losses diminished significantly in fiscal 2016 as compared to 2015 as a result of these new initiatives. In fiscal 2016, we were awarded a contract to implement a solution at our largest European customer to, among other things, automate their bill of materials using third party technologies and professional services. This project was substantially completed during the fiscal year 2016 and we are discussing expansion of that solution with this customer. We anticipate continued improvement in operating results.

With regard to HomeView, we are continuing to develop the technology and expect multiple new releases for the foreseeable future. We began introducing this product to the market in January 2016. The Company expects that additional capital will be required to continue to introduce HomeView into the market effectively.

We believe with additional liquidity, we can significantly ramp up the marketing efforts and new account creation.

On August 24, 2016, we entered into an Asset Purchase Agreement pursuant to which we agreed to sell our ProductCenter and Connector product lines to Essig Research, Inc. (Essig) for a total of $3.25 million plus contingent payments based on revenue targets for the two twelve-month periods immediately following the transaction date (the PLM Sale). Essig is an affiliate of EssigPR, Inc., which is owned by Joseph P. Daly, a related party of the Company whose beneficial ownership was approximately 19.4% of the Company s outstanding common stock as of August 24, 2016. The assets to be acquired by Essig include the properties and assets used exclusively in the Product Lifecycle Management (PLM) operations which is composed of the ProducCenter and Connector product lines. Essig will assume the contractual liabilities associated with maintenance and subscription support services. Specifically excluded from the sale and retained by SofTech are cash, billed accounts receivable and all remaining assets and liabilities not specifically identified, including the operations of SofTech Srl and HomeView. Approximately $1.25 million of indebtedness as of August 31, 2016 owed by the Company to Essig under existing debt agreements would be repaid as part of this transaction, thereby reducing the cash paid to the Company at the closing. In addition, at the closing of the transaction, the Company has agreed to repurchase from Mr. Daly 110,000 shares of its common stock at approximately $6.50 per share. These shares are currently subject to a $7.00 put right that, absent such repurchase, would have been exercisable by Mr. Daly in fiscal 2018.

A special meeting of the Company s shareholders (the Special Meeting) was held on October 5, 2016 to consider and vote on the proposal to approve the sale of substantially all of the assets used in its ProductCenter and Connector technologies. At the Special Meeting 79.7% the shareholders voted in favor of the PLM Sale.

The closing of the PLM Sale was completed on October 14, 2016.

The sale of the ProductCenter and Connector technologies will provide the Company with the liquidity it needs to meet its existing obligations as well as increase the marketing efforts for the HomeView technology.

Management believes that with its available cash and the proceeds from the sale of the technologies described above it will have sufficient cash to meet the Company s working capital and capital expenditure requirements through at least the next twelve months. There can be no assurance, however, that the sale will be completed.

<u>CADRA SALE</u>

On October 18, 2013, the Company sold substantially all of the assets of its CADRA product line, including all intellectual property related to that technology but specifically excluding cash, billed accounts receivable and liabilities other than the deferred maintenance liability associated with CADRA customer maintenance contracts for support services (the CADRA Sale), to Mentor Graphics Corporation (Mentor), pursuant to an Asset Purchase Agreement dated August 30, 2013 (the Asset Purchase Agreement). The aggregate consideration for the CADRA Sale is up to $3.95 million. Through May 31, 2016 the Company has received a total of approximately $3.7 million from

Mentor and could receive up to an additional $223,000 based upon the CADRA revenue generated by Mentor for the period from February 1, 2016 through October 31, 2016. In accordance with the terms of the Asset Purchase Agreement the final payment would be received on or before April 1, 2017. During fiscal year 2016 and 2015 the Company received earn out payments of $200,000 and $283,000, respectively, under the terms of the Asset Purchase Agreement.

In conjunction with completing the CADRA Sale, the Company entered into a one-year, exclusive Distributorship Agreement with Mentor allowing us to market and support the CADRA technology as a reseller throughout Europe (except Germany) at a thirty percent (30%) gross margin. In March 2016 that arrangement was extended through March 24, 2017 on a non-exclusive basis. Under the new arrangement, gross margin on software remained at 30% and the gross margin on support contracts were increased to 35%.

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 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, the note receivable and deferred tax assets. Actual results could differ from those estimates.

CASH AND CASH EQUIVALENTS

The Company considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents. The Company maintains cash at certain financial institutions in amounts that at times, exceed Federal Deposit Insurance Corporation limits. Cash held in foreign bank accounts at August 31, 2016 totaled approximately $41,000. The Company does not believe it is exposed to significant credit risk related to cash and cash equivalents.

ACCOUNTS RECEIVABLE

Accounts receivable are stated at the amount management expects to collect from outstanding balances. An allowance for doubtful accounts is provided for those accounts receivable considered to be uncollectible based upon management's assessment of the collectability of accounts receivable, which considers historical writeoff experience and any specific risks identified in customer collection matters. Bad debts are written off against the allowance when identified. The Company s allowance for uncollectible accounts was approximately $18,000 at August 31 and May 31, 2016.

CONCENTRATION OF CREDIT RISK

Financial instruments that potentially subject the Company to concentration of credit risk consist primarily of cash and equivalents and accounts receivable. The Company maintains its cash and equivalents with high credit quality financial institutions. The Company believes it is not exposed to any significant losses due to credit risk on cash and cash equivalents. Accounts receivable are stated at the amount management expects to collect from outstanding balances. Consequently, the Company believes that its exposure to losses due to credit risk on net accounts receivable are limited.

PROPERTY AND EQUIPMENT

Property and equipment is stated at cost. The Company provides for depreciation on a straight-line basis over the following estimated useful lives:

Data Processing Equipment	2-5 years
Office furniture	5-10 years

Automobiles	4-6 years
Leasehold improvements	Lesser of the life of the lease or the estimated lease term

Property and equipment was composed of the following (000 s):

	August 31, 2016	May 31, 2016
Computer Software	$ 506	$ 506
Equipment	502	502
Office Furniture	116	116
Leasehold Improvements	31	31
	1,155	1,155
Less Accumulated Depreciation	(1,092)	(1,084)
	$ 63	$ 71

Depreciation expense, including amortization of assets under capital lease, was approximately $8,000 and $10,000 for the three month periods ended August 31, 2016 and 2015, respectively.

Maintenance and repairs are charged to expense as incurred; betterments are capitalized. At the time property and equipment are retired, sold, or otherwise disposed of, the related costs and accumulated depreciation are removed from the accounts. Any resulting gain or loss on disposal is credited or charged to income.

SOFTWARE DEVELOPMENT COSTS

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

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

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

.

The preliminary project stage has been completed;

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Management with the relevant authority authorizes the project;

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Management with the relevant authority commits to fund the project;

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It is probable that the project will be completed; and

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

Capitalization stops after the software is substantially complete.

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

During the three months ended August 31, 2016 and 2015, the Company capitalized approximately $84,000 and $118,000, respectively, of software development costs. Amortization expense related to capitalized software development costs for the three months ended August 31, 2016 and 2015 was approximately $2,000 and $16,000, respectively.

INCOME TAXES

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

REVENUE RECOGNITION

The Company follows the provisions of ASC 985-605, *Software Revenue Recognition,* for transactions involving the licensing of software and software support services. Revenue from software license sales is recognized when persuasive evidence of an arrangement exists, delivery of the product has been made, there is a fixed fee and collectability is reasonably assured. The Company does not provide for a right of return. For multiple element arrangements, total fees are allocated to each of the undelivered elements based upon vendor specific objective evidence (VSOE) of their fair values, with the residual amount recognized as revenue for the delivered elements, using the residual method set forth in ASC 985-605. Revenue from customer maintenance and subscription 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. Deferred revenue represents billings and payments received for which the aforementioned revenue recognition criteria have not been met.

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 the three month period ended August 31, 2015. No patent costs were capitalized in the three month period ended August 31, 2016.

ACCOUNTING FOR GOODWILL

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

As of May 31, 2016, 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 month period ended August 31, 2016 to warrant an interim impairment test.

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, 2016, the Company does not have any long-lived assets it considers to be impaired.

FINANCIAL INSTRUMENTS

The Company s financial instruments consist of cash and cash equivalents, accounts receivable, Earn-Out Payments, related party notes receivable, accounts payable, accrued expenses, deferred maintenance and subscription revenue, long-term debt and capital lease obligations. The Company s estimate of the fair value of these financial instruments approximates their carrying amounts at August 31, 2016.

FAIR VALUE OF FINANCIAL INSTRUMENTS

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

.

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

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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;

.

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

The assets maintained by the Company that are required to be measured at fair value on a recurring basis are the Earn-Out Payments associated with the Company s sale of the CADRA product line. As of August 31, 2016, the maximum amount that could be received by the Company under the Asset Purchase Agreement totaled $223,000. The final Earn-Out Payment will be based on the CADRA revenue generated for the nine month period ended October 31, 2016. The average quarterly CADRA revenue for Mentor s most recent fiscal year was approximately $500,000.

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, 2016:

				(in thousands)				
		Total		**Quoted prices in active markets (Level 1)**		**Significant other observable inputs (Level 2)**		**Significant unobservable inputs (Level 3)**
Assets:								
Earn-Out Payments	$	130	$	-	$	-	$	130
Total assets at fair value	$	130	$	-	$	-	$	130

The following table summarizes the valuation of the Company's assets and liabilities measured at fair value on a recurring basis as of May 31, 2016:

				(in thousands)				
		Total		**Quoted prices in active markets (Level 1)**		**Significant other observable inputs (Level 2)**		**Significant unobservable inputs (Level 3)**
Assets:								
Earn-Out Payments	$	130	$	-	$	-	$	130
Total assets at fair value	$	130	$	-	$	-	$	130

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 period from May 31, 2014 through August 31, 2016:

		(in thousands)
Fair value at May 31, 2014	$	895
Payments received		(604)
Change in fair value		85
Fair value at May 31, 2015		376
Change in fair value		(46)
Payments received		(200)
Fair value at May 31, 2016		130
Change in fair value		-
Payments received		-
Fair value at August 31, 2016	$	130

The Company has estimated the fair value of the Earn-Out Payments using a discounted cash flow approach. This valuation is based upon several factors including; i) management s estimate of the amount and timing of future CADRA revenues, ii) the timing of receipt of payments from Mentor, and iii) a discount rate of 7%.

A change in any of these unobservable inputs can significantly change the fair value of the asset. The change in fair value of the Earn-Out Payments recognized in the Consolidated Statements of Operations for the three months ended August 31, 2016 and 2015 was approximately $0 and $(10,000), respectively.

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). The foreign currency gain (loss) arising from transactions were included in operations (Other expense, net in the Consolidated Statement of Operations) in three months ended August 31, 2016 and 2015 and totaled approximately $0 and $(7,000), respectively.

COMPREHENSIVE INCOME (LOSS)

Comprehensive income (loss) is a more inclusive reporting methodology that includes disclosure of certain financial information that historically has not been recognized in the calculation of net income (loss). To date, the Company s comprehensive income and expense items include only foreign translation adjustments. Comprehensive income (loss) has been included in the Consolidated Statements of Comprehensive Loss for all periods.

RESEARCH AND DEVELOPMENT COSTS

The Company expenses all research and development costs as incurred.

NET INCOME (LOSS) PER COMMON SHARE

In each of the three month periods ended August 31, 2016 and 2015, 3,448 options to purchase shares of common stock were anti-dilutive and were excluded from the basic and diluted earnings per share calculation.

STOCK-BASED COMPENSATION

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

In May 2011, the 2011 Equity Incentive Plan (the 2011 Plan) was approved by the Company s shareholders, pursuant to which 150,000 shares of our common shares are reserved for issuance. Any shares subject to any award under the 2011 Plan that expires, is terminated unexercised or is forfeited will be available for awards under the 2011 Plan. The Company may grant stock options, restricted stock, restricted stock units, stock equivalents and awards of shares of common stock that are not subject to restrictions or forfeiture under the 2011 Plan. As of August 31, 2016, 149,500 options were outstanding.

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, 2015	147,000	1.77	8.54	2,625
Granted	2,500	1.00	10.00	-
Exercised	-	-	-	-
Forfeited or expired	-	-	-	-
Outstanding options at May 31, 2016	149,500	1.75	7.56	4,325
Granted	-	-	-	-
Exercised	-	-	-	-
Forfeited or expired	-	-	-	-
Outstanding options at August 31, 2016	149,500	$ 1.75	7.56	$ 4,325
Exercisable at August 31, 2016	149,500	$ 1.75	7.56	$ 4,325

The Company determined the volatility for options granted during the fiscal year ended May 31, 2016 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.

The weighted-average fair value of each option granted in the fiscal year ended May 31, 2016 was estimated to be $1.10 on the date of grant using the Black-Scholes model with the following weighted average assumptions:

Expected life 5.00 years

Assumed annual dividend growth rate 0%

Expected volatility 133%

Risk free interest rate 1.63%

For the three month period ended August 31, 2016 and 2015, the Company expensed approximately $2,000 and $31,000, respectively, of stock-based compensation. Unamortized stock based compensation as of August 31, 2016 was approximately $5,000.

REDEEMABLE COMMON STOCK

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

During the fiscal quarter ended August 31, 2014, in a transaction structured in a similar fashion to the above described Agreement, the Company issued 110,000 shares of the Common Stock at a purchase price of $5.00 per share to Joseph P. Daly, an accredited investor and existing Company shareholder, in a private placement transaction for total proceeds of $550,000. This transaction was completed pursuant to a securities purchase agreement whereby Mr. Daly shall have the right to require the Company to repurchase some or all of the shares at $7.00 per share during the ninety (90) day period immediately following the three-year anniversary of the transaction. Upon completion of the transaction, the 110,000 shares of Common Stock issued pursuant to the security purchase agreement were recorded as redeemable common stock at its redemption value of $770,000 and accretion of $220,000 was recorded to additional paid in capital. In the event whereby the Company is unable to honor the agreement to repurchase the shares, in whole or in-part, the unpaid portion would revert into a loan obligation secured by all of the Company s assets and bearing an annual interest rate of 20%.

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

During the fiscal quarter ended November 30, 2015, the Company issued an additional 10,000 shares of the Common Stock at a purchase price of $5.00 per share to an accredited investor in private placement transactions for total proceeds of $50,000. This transaction was completed pursuant to a Securities Purchase Agreement entered into with the investor. In lieu of registration rights, the investor is entitled to a fee of $5,000 to be paid in eight equal quarterly installments during the twenty-four month period (the Payment Period) following the investment. The Securities Purchase Agreement also provides the investor with the right to require the Company to redeem the Common Stock held by such investor for $7.00 per share in cash for a 30 day period following the Payment Period. Upon completion of this transaction, the 10,000 shares of Common Stock issued pursuant to the Securities Purchase Agreement was recorded as redeemable common stock at its redemption value of $70,000 and accretion of $20,000 was recorded to additional paid in capital.

As of August 31, 2016, the redeemable common stockholders of the Company have the right to redeem shares with an aggregate redemption value of $420,000 within twelve months of the balance sheet date.

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

RECENT ACCOUNTING PRONOUNCEMENTS

In February 2016, the FASB issued ASU No. 2016-02, Leases . This ASU requires entities to recognize right-to-use assets and lease liabilities on its balance sheet and disclose key information about leasing arrangements. This guidance offers specific accounting guidance for a lessee, a lessor and sale and leaseback transactions. Lessees and lessors are required to disclose qualitative and quantitative information about leasing arrangements to enable a user of the financial statements to assess the amount, timing and uncertainty of cash flows arising from leases. This guidance is effective for annual reporting periods beginning after December 15, 2018, including interim periods within that reporting period, and requires a modified retrospective adoption, with early adoption permitted. We are currently evaluating the potential impact this standard will have on our financial statements and related disclosure.

In March 2016, the FASB issued ASU No. 2016-09, Improvements to Employee Share-Based Payment Accounting , This ASU simplifies several aspects of the accounting for employee share-based payment transactions for both public and nonpublic entities, including the accounting for income taxes, forfeitures, and statutory tax withholding requirements, as well as classification in the statement of cash flows. The new guidance is effective for annual periods beginning after December 15, 2016, including interim periods within those fiscal years. We are currently evaluating the method of adoption and the potential impact this standard will have on our financial statements and related disclosure.

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

Accounting Standards Update (ASU) 2014-15, Presentation of Financial Statements-Going Concern (Subtopic 205-40) Disclosure of Uncertainties about an Entity s Ability to Continue as a Going Concern was issued by the

FASB in August 2014. The primary purpose of the ASU is to provide guidance in GAAP about management s responsibility to evaluate whether there is substantial doubt about an entity s ability to continue as a going concern and to provide related footnote disclosures. The amendments should reduce diversity in the timing and content of footnote disclosure. ASU 2014-15 is effective for the annual period ending after December 15, 2016, and for the annual periods and interim periods thereafter. Early adoption is permitted. The Company is in the process of evaluating if this guidance will have a material impact on its consolidated results of operations or financial position or disclosures.

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

In March 2016, the FASB issued ASU 2016-08, amending the new revenue recognition standard that it issued jointly with the IASB in 2014 - *Revenue from Contracts with Customers*, (Topic 606). The amendments in this ASU provide more detailed guidance to clarify certain aspects of the principal-versus-agent guidance in the original ASU. The ASU is effective for annual and interim reporting periods beginning after December 15, 2017, based on ASU 2015-14. Early application is permitted but not before the original effective date of December 15, 2016. The Company is currently assessing the impact of this guidance.

In April 2016, the FASB issued ASU 2016-10, amending the new revenue recognition standard that it issued jointly with the IASB in 2014 - *Revenue from Contracts with Customers*, (Topic 606). The amendments in this ASU provide more detailed guidance, including additional implementation guidance and examples in the key areas of 1) identifying performance obligations and 2) licenses of intellectual property. The ASU is effective for annual and interim reporting periods beginning after December 15, 2017, based on ASU 2015-14. Early application is permitted but not before the original effective date of December 15, 2016. The Company is currently assessing the impact of this guidance.

C. GEOGRAPHICAL INFORMATION

The Company operates in one reportable segment and is engaged in the development, marketing, distribution and support of computer aided design and product data management and collaboration computer solutions. The Company s operations are organized geographically with offices in the U.S. and Italy. Components of revenue and long lived assets (consisting primarily of intangible assets, capitalized software and property, plant and equipment) by geographic location, are as follows (in thousands):

	Three Month Periods Ended	
Revenue:	**August 31, 2016**	**August 31, 2015**
North America	$ 661	$ 775
Europe	273	208
Asia	-	3
Eliminations	(5)	(5)
Consolidated Total	$ 929	$ 981

Long Lived Assets:	**As of August 31, 2016**	**As of May 31, 2016**
North America	$ 2,160	$ 2,086
Europe	40	40
Consolidated Total	$ 2,200	$ 2,126

D. DEBT

<u>ESSIGPR</u>

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

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

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

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

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

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

On April 11, 2016, the Short Term Note was amended to extend the due date to July 10, 2016.

On August 12, 2016, the Short Term Note was amended to increase the borrowings by $250,000, to extend the due date to October 10, 2016 and to increase the collateral to include the PLM product lines.

On August 30, 2016, the Short term Note was amended to increase the borrowings by $100,000.

The following summary details the changes in principal amount owed under each of the debt agreements with Essig (in thousands):

	Note	Short Term Note	Total
Balance at May 31, 2014	$ -	$ -	$ -
Borrowings	750	300	1,050
Repayments	(604)	-	(604)
Balance at May 31, 2015	146	300	446
Borrowing	-	578	578
Repayments	-	(124)	(124)
Balance at May 31, 2016	146	754	900
Borrowing	-	350	350
Repayments	-	-	-
Balance at August 31, 2016	146	1,104	1,250

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

EssigPR is owned by Joseph P. Daly, a related party of the Company whose beneficial ownership was approximately 19.4% of the Company s outstanding common stock as of August 31, 2016.

SHORT TERM NOTE WITH RELATED PARTIES

Robert Anthonyson, an Officer, Director and beneficial owner of 19.9% of Company common shares as of August 24, 2016, loaned the Company $50,000 on July 29, 2015 which was repaid to Mr. Anthonyson in the second quarter of fiscal 2016. Joseph Mullaney, an Officer, Director and beneficial owner of 11.7% of Company common shares as of August 24, 2016, loaned the Company $19,300 on September 1, 2015 of which was repaid to Mr. Mullaney in the second quarter of fiscal year 2016. There was no interest charged on these short term advances.

E. NOTE RECEIVABLE, RELATED PARTY

Joseph Mullaney, the Company s CEO, was extended a non-interest bearing note in the amount of $134,000 related to a stock transaction in May, 1998. The note is partially secured by the Company stock acquired in that transaction.

F. 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.

On October 5, 2016, a Special Meeting of the SofTech shareholders was held to consider and vote on the proposal to approve the sale by SofTech of substantially all of the assets used in its ProductCenter and Connector technologies pursuant to the Asset Purchase Agreement dated August 24, 2016 described herein. The shareholders voted to approve the sale with 79.7% voting in favor of the proposal and less than .1% voting against.

On October 14, 2016, the Company completed the sale of its PLM Sale to SofTech Group Incorporated as described in Note A hereto.

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

This report includes forward-looking statements that relate to, among other matters, our business operations and plans and strategy for the future; our future financial performance and results of operations; and demand for our products and services. These forward-looking statements are often identified by words such as may, will, should, could, w expect, intend, plan, anticipate, believe, estimate, project, predict, potential and similar expressions 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 the forward-looking statements due to a number of factors, including our ability to:

.

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

.

maintain good relationships with our lender;

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comply with the covenant requirements of our loan agreement;

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

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attract and retain qualified personnel;

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prevent obsolescence of our technologies;

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identify strategic initiatives and opportunities that are consistent with our strategic goals;

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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.

These and other additional factors that may cause our actual results to differ materially from those contained in the forward-looking statements are set forth more fully under Item 1A Risk Factors of this report and the other reports we file from time to time with the SEC.

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 report to the Company, we, our, and us refer to the registrant, SofTech, Inc., and its wholly ow 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), Product Data Management (PDM) and Collaboration technologies, all of which fit under the broadly defined PLM industry. Our operations are organized geographically in the U.S. and Europe. We have sales and customer support offices in the U.S. and Italy. We also operate through resellers in North America, Europe and Asia. For geographical information about our operating revenues and assets, see Note E to the consolidated financial statements included in the Company s Form 10-K for the fiscal year ended May 31, 2016.

Over approximately the last two fiscal years, the Company developed a new data management product for the residential property market called HomeView . The solution is based on a patent filed by the Company in December 2012. HomeView was launched in January 2016 and is available to download on iTunes.

In March 2011, the current management team (CEO and VP of Business Development) completed a transaction (the Recapitalization Transaction) in which a group of eight investors purchased 39% of the Company s common stock, arranged for debt facilities of $3.2 million and negotiated for a $7.6 million debt reduction from Greenleaf Capital, Inc. (Greenleaf), at that time, the Company s sole lender and largest shareholder. Subsequent to the Recapitalization Transaction the Company purchased all of Greenleaf s 271,411 shares in Company common stock and retired them.

A core tenet of the management team s strategy following the Recapitalization Transaction 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, development of new product offerings, filing of new patent ideas and strategic partnerships.

Since the Recapitalization Transaction, the Company has taken the following actions consistent with this strategy:

.

Sold the AMT product line in May 2011 in exchange for cash;

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Sold the existing CAD and PLM patents in June and September 2012 in exchange for cash and a percent of future funds recovered;

.

Filed three patents and acquired the rights to another;

.

Developed and launched the Connector product line described hereunder;

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Sold the CADRA product line in October 2013 in exchange for cash and a percent of future revenues;

.

Developed a new data management product for the residential property market called HomeView; and

.

On August 24, 2016, entered into an agreement to sell the ProductCenter and Connector technologies in an asset sale subject to shareholder approval.

The above actions have allowed the Company to improve its liquidity by reducing its outstanding debt. The proposed transaction to sell the ProductCenter and Connector technologies would allow the Company to be debt free for the first time in decades, provide working capital to meet its near term needs and the liquidity to increase marketing efforts related to the HomeView technology. The product line sales and patent sales generated taxable income that was sheltered from both federal and state income taxes through utilization of the Company s tax assets. We anticipate the realized capital gain from the sale of the ProductCenter and Connector technologies would also be substantially sheltered from both federal and state income taxes through utilization of tax assets.

The sale of the CADRA product line, described below, was the most significant of the above described completed events.

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 was up to $3.95 million, comprised of (i) $2.88 million of which was paid on the closing date; (ii) $320,000 which was paid on the one year anniversary (the Holdback Payment) of the closing date; 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 during the three-year period immediately following the transaction, (the Earn-Out Payments) subject to the terms of the Earn-Out Agreement dated August 30, 2013 (the Earn-Out Agreement).

The Company recorded a gain on the sale of the CADRA product line of $649,000 in fiscal year 2014 which included non-cash expenses related to intangible assets of approximately $3.3 million. It also included an estimate of the market value of deferred contingent payments of $922,000 related to the Holdback Payment and the Earn-Out Payments. Through May 31, 2016 the Company collected $847,000 of deferred contingent payments from Mentor and could receive up to an additional $223,000 in April 2017 based on revenue generated by the CADRA product line for the period from February 1, 2016 to October 31, 2016.

The Company continued to offer the CADRA technology as a reseller throughout Europe (except Germany) on an exclusive basis until October 18, 2014 pursuant to a distribution agreement with Mentor (the Distributorship Agreement). This arrangement was extended on a non-exclusive basis through March 31, 2017 and is subject to annual renewals by mutual agreement thereafter. Due to the significant continued involvement in the sale and support of the CADRA product line, the transaction did not qualify for presentation as discontinued operations.

On August 24, 2016, the Company entered into an Asset Purchase Agreement pursuant to which it agreed to sell its ProductCenter and Connector technologies (PLM Business) to Essig Research, Inc. (Essig) in exchange for aggregate consideration of $3.25 million plus contingent payments. The Company s indebtedness to Essig ($1.25 million as of August 31, 2016) will be repaid in this transaction and the Company will repurchase 110,000 shares of its common stock from Essig at approximately $6.50 per share.

In addition, the Company may earn two additional contingent payments based on revenue of the PLM Business (PLM Revenue) for the two twelve month periods immediately following the transaction.

For the first 12 month period the contingent payment will be derived as follows:

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If PLM Revenue is less than $3.2 million then zero.

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If PLM Revenue is more than $3.2 million then $75,000 plus 12.5% of the amount in excess of $3.275 million.

For the second 12 month period the contingent payment will be derived as follows:

.

If PLM Revenue is less than $3.75 million then zero.

.

If PLM Revenue is more than $3.75 million then $75,000 plus 12.5% of the amount in excess of $3.825 million.

The revenue for the PLM Business for the twelve month period ended May 31, 2016 was approximately $3.434 million including about $218,000 of consulting revenue performed for a SofTech, Srl customer.

U.S. revenue is defined as U.S. GAAP except that no purchase accounting adjustments shall be applied. It shall include license, maintenance, subscription and consulting revenue. Essig will be required to report revenue within 30 days of the period end with payment due within 60 days of period end.

The proposed transaction has been unanimously approved by the Company s Board of Directors. At a special meeting of the Company s shareholders held on October 5, 2016, the PLM Sale was approved by 79.7% of the outstanding shares. On October 14, 2016 the transaction was completed.

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, 2016 included in our previously filed Form 10-K. There have been no changes to the policies for the three months ended August 31, 2016.

Results of Operations

The table below presents the comparative statements of operations for the three month periods ended August 31, 2016 and August 31, 2015 along with the dollar and percentage change amounts for each revenue and expense item (expressed in thousands, except percentages):

	August 31, 2016	August 31, 2015	Change in $	Change in %
Revenue:				
Products	$ 63	$ 54	$ 9	16.7%
Services	866	927	(61)	(6.6)
Total revenue	929	981	(52)	(5.3)
Cost of revenue:				
Products	36	29	7	24.1
Services	323	377	(54)	(14.3)
Total cost of revenue	359	406	(47)	(11.6)
Gross margin	570	575	(5)	(.9)
Research and development expenses	131	154	(23)	(14.9)
Selling, general and administration expenses	597	599	(2)	(.3)
Gain on change in fair value of Earn-Out Payments	-	(10)	10	(100.0)
Operating loss	(158)	(168)	10	(6.0)
Interest expense	26	13	13	100.0
Other income, net	-	(7)	7	(100.0)
Net loss	$ (184)	$ (174)	$ (10)	5.7%

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, 2016 and August 31, 2015:

	Items as a percentage of revenue	
	August 31, 2016	August 31, 2015

Revenue:		
Products	6.8%	5.5%
Services	93.2	94.5
Total revenue	100.0	100.0
Cost of revenue:		
Products	3.9	3.0
Services	34.8	38.4
Total cost of revenue	38.6	41.4
Gross margin	61.4	58.6
Research and development expenses	14.1	15.7
Selling, general and administrative expenses	64.3	61.1
Gain on change in fair value of Earn-Out Payments	-	(1.0)
Operating loss	(17.1)	(17.1)
Interest expense	2.8	1.3
Other income, net	-	(0.7)
Net loss	(19.8)%	(17.7)%

Revenue

Total revenue for the three month periods ended August 31, 2016 and 2015 was approximately $929,000 and $981,000, respectively. The following table summarizes total revenue by product line for the three month periods ended August 31, 2016 and August 31, 2015 (in thousands, except percentages):

	August 31,					
	2016		2015		$ Change	% Change
Product Line						
ProductCenter	$	662	$	741	$ (79)	(10.7)%
Connector		64		59	5	8.5
CADRA		183		115	68	59.1
Other		20		66	(46)	(69.7)
Total	$	929	$	981	$ (52)	(5.3)%

Product Revenue

Product revenue for the three months ended August 31, 2016 was approximately $63,000, as compared to approximately $54,000 for the same period in the prior fiscal year. The table below details product revenue by product line for the three month periods ended August 31, 2016 and 2015 (in thousands, except percentages):

	August 31,					
	2016		2015		$ Change	% Change
Product Line						
ProductCenter	$	20	$	34	$ (14)	(41.2)%
CADRA		43		11	32	290.9
Other		-		9	(9)	(100.0)
Total	$	63	$	54	$ 9	16.7%

The product revenue in the current quarter was typical for activity levels for the first quarter of fiscal years 2015 and 2016. Generally, the summer months are not conducive to purchasing activity.

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, 2016 and 2015 (in thousands, except percentages):

		2016		2015		$ Change	% Change
Product Line							
ProductCenter	$	642	$	707	$	(65)	(9.2)%
Connector		64		59		5	8.5
CADRA		140		104		36	34.6
Other		20		57		(37)	(64.9)
Total	$	866	$	927	$	(61)	(6.6)%

Maintenance and subscription revenue was approximately $682,000 for the three months ended August 31, 2016, as compared to $647,000 for the same period in the prior fiscal year, an increase of about 5.4%. For the three months ended August 31, 2016, ProductCenter maintenance revenue and Connector subscription revenue were essentially unchanged from the same period in fiscal 2016.

The CADRA maintenance revenue was approximately $140,000 for the three month period ended August 31, 2016, an increase of 38.6% compared to the prior fiscal year. In the current quarter we received a CADRA maintenance order from our largest European customer that had been delayed for several months. This allowed us to record maintenance revenue of about $42,000 for services that had been provided in previous quarters.

Consulting revenue included in the above summary totaled approximately $184,000 for the three months ended August 31, 2016, a decrease of 34.3% compared to the prior fiscal year. During the first quarter of fiscal 2016 we started a large consulting project at AgustaWestland, a European CADRA customer, that was essentially completed in the fourth quarter of fiscal 2016. We anticipate additional consulting services from this customer but not until the second half of our fiscal year. In addition, our ProductCenter consulting revenue declined by 28.8% as compared to the same period in fiscal 2016. This change was due to a peak of consulting activity in Q4 fiscal 2015 that carried over to the first quarter of fiscal 2016. We consistently generate between $120,000 and $200,000 per quarter in consulting projects from the ProductCenter customer base. The current quarter activity levels were within that expected range.

Gross Margin

Gross margin as a percentage of revenue was 61.4% for the three month period ended August 31, 2016 as compared to 58.6% in the same period in the prior fiscal year. Our non-cash amortization of software costs decreased in the current fiscal year which accounted for a portion of the margin improvement. In addition, our cost of services provided declined due to the completion of the aforementioned AgustaWestland contract in the fourth quarter of fiscal year 2016.

Research and Development Expenses

Research and development expenses were approximately $131,000 for the three month period ended August 31, 2016 as compared to approximately $154,000 in the comparable period in fiscal 2016, a decrease of $23,000. The capitalized software development costs were $84,000 in the three month period ended August 31, 2016 as compared to $118,000 for the same period in the prior fiscal year.

Selling, General and Administrative Expenses

Selling, general and administrative (SG&A) expenses were approximately $597,000 for the three month period ended August 31, 2016 as compared to approximately $599,000 for the comparable period in fiscal year 2015, essentially unchanged.

Gain on sale of product line

During the three month period ended August 31, 2015, the fair value of the Earn-Out Payments increased by approximately $10,000 based on an independent valuation. For the three month period ended August 31, 2016 there was no change in the fair value of Earn-Out Payments. The final payment which is due on or about April 1, 2017 is based on the actual CADRA revenue for the nine month period ended October 31, 2016. Based on the royalty reports received from Mentor for the six months ended July 31, 2016, the Company believes the balance sheet amount of $130,000 represents fair value.

Interest Expense

Interest expense for the three month period ended August 31, 2016 was approximately $26,000, as compared to approximately $13,000 for the comparable period in the prior fiscal year. The Company increased its borrowings during the first quarter of fiscal 2016 to meet its working capital needs.

Net Loss

The net loss for the three month period ended August 31, 2016 was approximately ($184,000) or ($0.20) per share as compared to approximately ($174,000) or ($0.19) per share for the comparable period in the prior fiscal year.

Liquidity and Capital Resources

During the three month period ended August 31, 2016 the net cash used in operating activities totaled approximately $338,000 as compared to approximately $385,000 in the comparable prior period. The net loss for the quarter adjusted for non-cash expenditures used approximately $172,000 as compared to approximately $134,000 in the comparable prior period. The net change in current assets and liabilities used $166,000 during the current quarter composed primarily of a reduction in the deferred maintenance liability, an increase in accounts receivable and an increase in 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 stable.

Net cash used in investing activities for the three months ended August 31, 2016 was approximately $84,000 compared to approximately $137,000 composed of capitalized software development costs related to new products.

Net cash provided by financing activities totaled approximately $342,000 composed primarily of an increase of $350,000 in the short term borrowing arrangement with EssigPR, Inc., a Puerto Rico corporation (EssigPR Note) and Joe Daly, its owner.

Capital Resource Activity with Essig

EssigPR Note. On June 20, 2014, the Company entered into a three (3) year promissory note agreement (the Note) with EssigPR, Inc. (EssigPR), a Puerto Rico corporation and a related party of the Company, 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 was to be repaid from the Holdback Payment and Earn-Out Payments in connection with Mentor s purchase of the CADRA product line from SofTech pursuant to the Asset Purchase Agreement.

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 could be repaid at any time without penalty and was due in full on April 10, 2015. EssigPR was awarded 5,000 fully vested stock options to purchase SofTech common stock at $1.00 per share. The stock options will expire on October 1, 2024 if not exercised. The Short Term Note arrangement did not increase the total principal amount of debt owed to EssigPR. Rather, the arrangement had the effect of establishing new payoff terms for that portion of the debt owed to EssigPR under the Note.

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

On July 15, 2015, the Short Term Note was amended again to extend the due date by three months from July 10, 2015 to October 10, 2015. EssigPR was awarded 2,500 fully vested stock options to purchase SofTech common stock at $1.00 per share. The stock options will expire on July 15, 2025 if not exercised.

On October 16, 2015, the Short Term Note was amended again to increase the borrowings from $300,000 to $700,000 and to extend the due date from October 10, 2015 to January 10, 2016. On November 30, 2015, the Short Term Note was again amended to increase the borrowings from $700,000 to $754,000.

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

On April 11, 2016, the Short Term Note was amended to extend the due date to July 10, 2016.

On August 12, 2016, the Short Term Note was amended to increase the borrowings by $250,000, to extend the due date to October 10, 2016 and to increase the collateral to include the PLM product lines.

On August 30, 2016, the Short term Note was amended to increase the borrowings by $100,000.

The Asset Purchase Agreement to sell the ProductCenter and Connector technologies anticipates a repayment of these obligations to EssigPR as part of the transaction.

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

EssigPR is owned by Joseph P. Daly, an affiliate of the Company whose beneficial ownership was approximately 19.4% of the Company s outstanding common stock as of August 24, 2016. EssigPR is an affiliate of SofTech Group Incorporated, the purchaser of our PLM Business, and each is owned by Joseph P. Daly, a related party of the Company.

BlueVine Capital, Inc.

In September 2015, the Company obtained a credit line of up to $80,000 from BlueVine Capital, Inc. (BlueVine). This facility allows for short term advances of up to 85% of the face value of customer invoices that meet certain parameters specified and approved by BlueVine. As of August 31, 2016 there were no outstanding borrowings under this debt facility.

Capital Requirements for Business

As detailed above, under the caption Overview Developing HomeView Technology , the Company has made a significant investment since fiscal year 2015 in the development of a new technology addressing the residential property market. We launched the solution in January 2016 and made it available for downloads on iTunes. The Company expects that additional capital will be required to fund this launch effectively.

As detailed in the proxy materials sent to the SofTech shareholders, the signing of the Asset Purchase Agreement with Essig on August 24, 2016 to sell the ProductCenter and Connector technologies would provide the necessary capital to both meet the Company s working capital needs and to continue to develop the HomeView technology and to pursue the market opportunity.

The Company had a cash balance of approximately $90,000 as of August 31, 2016. Management believes that with its available cash and the cash generated from the sale of the ProductCenter and Connector technologies, it will have sufficient cash to meet the Company s working capital and capital expenditure requirements through at least the next twelve months. There can be no assurance, however, that the Company will not require additional financing in the future if funds from future operations or estimated expenses differ materially from those amounts estimated by management. If we were required to obtain additional financing in the future, there can be no assurance that sources of capital would be available on terms favorable to us, if at all.

Capital Requirements for Redeemable Common Stock

Following the closing of the sale of the PLM Business, certain shareholders of the Company have a contractual right to require the Company to repurchase from them up to an aggregate of 70,000 shares of common stock, at an aggregate repurchase price of $490,000, or $7.00 per share, upon the exercise by such shareholders of such put right. Mr. Robert Anthonyson, an executive officer and director of the Company, holds 30,000 of those shares. Such put rights will be exercisable in the second quarter of fiscal years 2017 (with respect to 60,000 of such shares) and 2018 (with respect to 10,000 of such shares). If such put rights are exercised, we will be required to use a portion of our cash on hand, including net proceeds from the sale of the PLM Business, to satisfy our repurchase obligations.

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 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, 2016), 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 1A. RISK FACTORS

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 this report, our Annual Report on Form 10-K 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 SofTech Following the Sale of the PLM Business

Over the last two fiscal years, the PLM Business we propose to sell to Essig has been responsible for the majority of our revenue and has reduced our losses incurred in the development of HomeView and the operations of SofTech Srl.

The PLM Business was responsible for a majority of our consolidated revenue in fiscal 2016. This has been the case since we sold the CADRA Business in October 2013. We will retain SofTech Srl, our subsidiary in Italy that is a value added reseller of CAD and PLM technologies and services. However, that entity has incurred operating losses for three consecutive fiscal years. HomeView, our newly released data management solution for the residential property market, is a pre-revenue technology. HomeView and other 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. If we are unable to generate revenue from our remaining businesses or from other sources following the closing of the sale of the PLM Business (the Asset Sale), our financial condition will be materially adversely affected and ultimately we may be unable to maintain our operations.

We have discretion in the use of the net proceeds from the Asset Sale and may not use them effectively.

If the Asset Sale is consummated, the cash purchase price for the PLM Business will be paid directly to the Company. Our management will have discretion in the application of the net proceeds from the Asset Sale and could spend the proceeds in ways that do not improve our results of operations or enhance the value of our common stock. The failure by our management to apply these funds effectively could result in financial losses that could have a material adverse effect on our business and cause the price of our common stock to decline. Pending their use, we may invest the net proceeds in a manner that does not produce income or that loses value. We currently intend to utilize the net proceeds from the sale of the PLM Business to launch the HomeView product and for other working capital purposes. The Company s Board of Directors will also continue to evaluate other activities aimed at enhancing shareholder value, including potentially share buybacks, dividends, merger, acquisitions and/or other targeted investments.

Additionally, following the closing of the Asset Sale, certain shareholders of the Company have a contractual right to require the Company to repurchase from them up to an aggregate of 70,000 shares of common stock, at an aggregate repurchase price of $490,000, or $7.00 per share, upon the exercise by such shareholders of such put right. Mr. Robert Anthonyson, an executive officer and director of the Company, holds 30,000 of those shares. Such put rights will be exercisable in the second quarter of fiscal years 2017 (with respect to 60,000 of such shares) and 2018 (with respect to 10,000 of such shares). If such put rights are exercised, we may use a portion of the net proceeds to satisfy our repurchase obligations.

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

After the Asset Sale, we will continue to be required to comply with the applicable reporting requirements of the Securities Exchange Act of 1934, as amended (the Exchange Act), 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 PLM Business. We intend to evaluate the merits of remaining a public company after evaluating the market s reaction to the transaction, the opportunities for HomeView, potential partnerships, merger and/or acquisition opportunities and other pertinent factors.

Our HomeView business is somewhat dependent on certain employees who we expect will be hired by Essig in connection with the Asset Sale.

Certain employees of our PLM Business who we expect will be hired by Essig in connection with the Asset Sale have provided their expertise to the development and launch of HomeView. Essig has agreed to make those employees available to us on a part-time basis for a 12-month transition period following the closing of the Asset Sale at agreed-upon rates. These functions provided by these employees include quality assurance testing of the code, customer support and marketing.

There can be no assurance that this arrangement will be satisfactory in that it is possible that employees   loyalty gets directed primarily or exclusively to their employer or those employees either do not accept employment with Essig or leave the employ of Essig following the closing of the Asset Sale.

Risks Related to the Asset Purchase Agreement

The announcement and pendency of the Asset Sale, whether or not consummated, may adversely affect our business.

The announcement and pendency of the Asset Sale, whether or not consummated, may adversely affect the trading price of our common stock, our business and/or our relationships with customers, partners, suppliers and employees. In addition, pending the completion of the Asset Sale, our management s focus and attention and employee resources may be diverted from operational matters during the pendency of the Asset Sale.

In the event that the Asset Sale is not completed, the announcement of the termination of the Asset Purchase Agreement may also adversely affect the trading price of our common stock, our business or our relationships with customers, partners, suppliers and employees.

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

Under the Asset Purchase Agreement, Buyer is not assuming all of the liabilities associated with the PLM Business. Certain liabilities will remain with SofTech post-closing. For example, Buyer is only assuming customer support obligations and obligations for performance under the certain assigned contracts that arise after the closing, and is not assuming liability for any obligation or breach by SofTech 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 the Buyer for certain breaches of representations, warranties or covenants made by us in the Asset Purchase Agreement. Significant indemnification claims by the Buyer could materially and adversely affect our business, financial condition and results of operations.

Under the Asset Purchase Agreement, we may potentially earn up to two contingent payments, but there can be no guarantee we will earn such payments.

Under the Asset Purchase Agreement, the Company will earn two additional contingent payments if the revenue of the PLM Business in the first 12-month period following the closing of the Asset Sale equals at least $3.2 million and if the revenue in the second 12-month period following the closing of the Asset Sale equals at least $3.75 million. In each period the additional payment would equal $75,000 plus 12.5% of the amount in excess of the minimum revenue threshold for each period plus $75,000. For example, if the revenue of the PLM Business for the first 12-month period is $3.5 million, the contingent payment due would be $103,125 calculated as $75,000 plus 12.5% times $3.5 million less $3.275 million. There can be no assurance that the revenue generated by the PLM Business will at least equal the minimum revenue threshold in each period or that we would earn any of the contingent payments.

Risks Related to Our Business

We will need additional capital to continue to develop and launch our HomeView technology and product.

We will require additional capital to support the ongoing development and launch of our HomeView technology and product. There can be no assurance that the capital needed will be available or if the terms will be reasonable. If the Company is unable to raise the necessary capital, its plans for maximizing the return on the capital invested in the new product and for establishing a new revenue source may be materially negatively impacted.

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, 2016, we had approximately $22 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. We previously maintained a tax benefits preservation plan with respect to our NOLs, which expired in February 2015.

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. 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. 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.

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 years ended May 31, 2016 and 2015, North America accounted for approximately 79% and 81%, Europe for approximately 22% and 19% and Asia for approximately zero percent of our revenue. 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.

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 fluctuating 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.

Our common stock may be considered penny stock , further reducing its liquidity.

Our common stock may be considered penny stock , which will further reduce the liquidity of our common stock. Trading in penny stocks is limited because broker-dealers are required to provide their customers with disclosure documents prior to allowing them to participate in transactions involving the common stock. These disclosure requirements are burdensome to broker-dealers and may discourage them from allowing their customers to participate in transactions involving our common stock, thereby further reducing the liquidity of our common stock.

Penny stocks are equity securities with a market price below $5.00 per share other than a security (i) that is registered on a national exchange or included for quotation on the NASDAQ system, (ii) whose issuer has net tangible assets of more than $2,000,000 if it has been in continuous operation for greater than three years, or net tangible assets of more than $5,000,000 if it has been in continuous operation for less than three years or (iii) whose issuer has average revenue of at least $6,000,000 for the last three fiscal years.

Rules promulgated by the Securities and Exchange Commission under Section 15(g) of the Exchange Act require broker-dealers engaging in transactions in penny stocks, to first provide to their customers a series of disclosures and documents including:

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a standardized risk disclosure document identifying the risks inherent in investment in penny stocks;

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all compensation received by the broker-dealer in connection with the transaction;

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current quotation prices and other relevant market data; and

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a monthly account statement reflecting the fair market value of the securities.

These rules also require that a broker-dealer obtain financial and other information from a customer, determine that transactions in penny stocks are suitable for such customer and deliver a written statement to such customer setting forth the basis for this determination.

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

As of August 24, 2016, the three members of our board of directors beneficially owned approximately 35.7% of our outstanding shares and two other shareholders together beneficially own approximately 33.5% 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. Accordingly, you may have to sell some or all of your common stock in order to generate cash flow from your investment.

We are a smaller reporting company and the reduced disclosure requirements applicable to us may make our common stock less attractive to investors.

We are currently a smaller reporting company , meaning that we are not an investment company, an asset-backed issuer, or a majority-owned subsidiary of a parent company that is not a smaller reporting company and have a public float of less than $75 million and annual revenues of less than $50 million during the most recently completed fiscal year. Smaller reporting companies are able to provide simplified executive compensation disclosures in their filings; are exempt from the provisions of Section 404(b) of the Sarbanes-Oxley Act requiring that independent registered public accounting firms provide an attestation report on the effectiveness of internal control over financial reporting; and have certain other decreased disclosure obligations in their SEC filings, including, among other things, only being required to provide two years of audited financial statements in annual reports. We have taken advantage of some of these reduced disclosure obligations, and thus the information we provide shareholders may be different from what you might receive from other public companies in which you hold shares.

Risks Related to the CADRA Sale

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

Up to $750,000 of the total purchase price from the CADRA Sale is based on the revenues generated by the CADRA business during the three-year period following the asset sale. Specifically, the Company will be paid earn-out payments equal to 10% of CADRA revenue generated by Mentor up to the $750,000 maximum. Through May 31, 2016 we have received a total of $527,000 of the maximum earn-out payments for the revenue recorded by Mentor through January 31, 2016. The Company is due one additional earn-out payment based on CADRA revenues generated between February 1, 2016 and October 31, 2016 (the Remaining Earn-Out Period). 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 earn-out payments.

CADRA royalty payments were recorded at the transaction date based on fair value of the expected royalty payments as described in the financial statements. As of August 31, 2016, the Company estimated the fair value of the one remaining future payment at $130,000 which is subject to adjustment each fiscal quarter based on an independent third party valuation. There can be no assurance that the Company will receive all of the royalty payments it has recorded on its balance sheet as of August 31, 2016. If the actual CADRA revenue results are lower than the forecasted results the Company may have to adjust the royalty asset through a charge to earnings.

Mentor did not assume any of the excluded liabilities under the Asset Purchase Agreement.

Under the Asset Purchase Agreement, Mentor did not assume all of the liabilities associated with the CADRA business. Certain liabilities remained with the Company post-closing. For example, Mentor only assumed customer support obligations related to certain assigned contracts and obligations for performance under contracts that arise after the closing, and did not assume liability for any obligation or breach by the Company that occurred or arose 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.

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 has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

SOFTECH, INC.

Date: October 17, 2016

/s/ Joseph P. Mullaney
Joseph P. Mullaney
President, Chief Executive Officer and Chief Financial 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).
2.3	Asset Purchase Agreement, dated August 24, 2016, between Softech Group Incorporated and the Company (incorporated by reference to Exhibit 2.1 to the Company s Form 8-K, filed on August 29, 2016).
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	Amendment No.3 to Loan, Pledge and Security Agreement by and between Prides Crossing Capital Funding L.P. and SofTech, Inc. dated August 8, 2014 (incorporated by reference to Exhibit 10.18 to the Company s Form 10-Q filed on January 14, 2015).

10.12	Amendment No.4 to Loan, Pledge and Security Agreement by and between Prides Crossing Capital Funding L.P. and SofTech, Inc. dated October 29, 2014 (incorporated by reference to Exhibit 10.18 to the Company s Form 10-Q filed on January 14, 2015).
10.13	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).
10.14	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).
10.15	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).
10.16	Stock Purchase Agreement by and between Greenleaf Capital and SofTech, Inc. dated July 24, 2014 (incorporated by reference to Exhibit 10.14 to the Company s Form 10-K filed on October 7, 2014).
10.17	Short Term Loan Agreement by and between SofTech, Inc. and EssigPR, Inc. dated October 1, 2014 (incorporated by reference to Exhibit 10.15 to the Company s Form 10-K filed on October 7, 2014).
10.18	Amendment Term Loan Agreement by and between SofTech, Inc. and EssigPR, Inc. dated April 2, 2015 (incorporated by reference to Exhibit 10.18 to the Company s Form 10-Q filed on April 14, 2015).
10.19	Amendment No. 2 Term Loan Agreement by and between SofTech, Inc. and EssigPR, Inc. dated July 15, 2015 (incorporated by reference to Exhibit 10.19 to the Company s Form 8-K filed on July 21, 2015).
10.20	Amendment No. 3 Term Loan Agreement by and between SofTech, Inc. and EssigPR, Inc. dated October 16, 2015 (incorporated by reference to Exhibit 10.20 to the Company s Form 8-K filed on October 16, 2015).
10.21	Amendment No. 4 Term Loan Agreement by and between SofTech, Inc. and EssigPR, Inc. dated November 30, 2015, (incorporated by reference to Exhibit 10.21 to the Company s Form 10-Q filed on January 14, 2016).
10.22	Amendment No. 5 Term Loan Agreement by and between SofTech, Inc. and EssigPR, Inc. dated January 8, 2016, (incorporated by reference to Exhibit 10.22 to the Company s Form 10-Q filed on January 14, 2016).
10.23	Amendment No. 6 Term Loan Agreement by and between SofTech, Inc. and EssigPR, Inc. dated April 11, 2016, (incorporated by reference to Exhibit 10.23 to the Company s Form 10-Q filed on April 14, 2016).
10.24	Amendment No. 7 Term Loan Agreement by and between SofTech, Inc. and EssigPR, Inc. dated August 12, 2016 (incorporated by reference to Exhibit 10.24 to the Company s Form 10-K filed on August 29, 2016).
10.25	Amendment No. 8 Term Loan Agreement by and between SofTech, Inc. and EssigPR, Inc. dated August 30, 2016, filed herewith.
10.26	Form of Securities Purchase Agreement by and between SofTech, Inc. and certain purchasers, dated September 18, 2014, September 22, 2014 and October 9, 2014 (incorporated by reference to Exhibit 10.18 to the Company s Form 10-Q filed on January 14, 2015).
10.27	Form of Securities Purchase Agreement by and between SofTech, Inc. and Robert Anthonyson, dated September 21, 2015 (incorporated by reference to Exhibit 10.21 to the Company s Form 10-Q filed on October 15, 2015).
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 Executive Officer and Principal Financial 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 Executive Officer and Principal Financial 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