SOFTECH INC
Form 424B3
April 14, 2015

Filed Pursuant to Rule 424(b)(3)

Registration Statement No. 333-174818

PROSPECTUS SUPPLEMENT NO. 7

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

SofTech, Inc.

380,455 Shares of Common Stock

This Prospectus Supplement No. 7 supplements and amends our Prospectus dated December 28, 2011, as amended (including by Post-Effective Amendment No. 3 to Form S-1 filed with the Securities and Exchange Commission on November 24, 2014 and declared effective on November 26, 2014) and supplemented. This Prospectus Supplement No. 7 includes our attached Quarterly Report on Form 10-Q for the quarter ended February 28, 2015, as filed with the Securities and Exchange Commission on April 14, 2015.

The Prospectus and this Prospectus Supplement No. 7 relate to the disposition from time to time by the selling shareholders identified in the Prospectus, including their donees, pledgees, assignees, transferees and other successors-in-interest, of up to 380,455 shares of our common stock. We are not selling any common stock under the Prospectus and this Prospectus Supplement No. 7, and we will not receive any of the proceeds from the sale of the shares by the selling shareholders.

Our common stock is quoted on the OTCQB market maintained by OTC Market Groups, Inc. under the symbol SOFT . On April 13, 2015, the last quoted sale price for our common stock as reported on the OTCQB market was $1.32 per share.

This Prospectus Supplement No. 7 should be read in conjunction with the Prospectus and any prospectus supplements filed before the date hereof. Any statement contained in the Prospectus and any prospectus supplements filed before the date hereof shall be deemed to be modified or superseded to the extent that information in this Prospectus Supplement No. 7 modifies or supersedes such statement. Any statement that is modified or superseded shall not be deemed to constitute a part of the Prospectus except as modified or superseded by this Prospectus Supplement No. 7.

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

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if the Prospectus or this Prospectus Supplement No. 7 is truthful or complete. Any representation to the contrary is a criminal offense.

The date of this Prospectus Supplement No. 7 is April 14, 2015.

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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 February 28, 2015

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

For the transition period from _________________ to ___________________

0-10665
Commission File Number

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

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

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

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

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

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

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

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

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

The number of shares outstanding of registrant s common stock at April 10, 2015 was 893,724 shares.

SOFTECH, INC.

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PART I FINANCIAL INFORMATION

Item 1. Financial Statements.

SOFTECH, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

	(in thousands)			
	February 28, 2015 (Unaudited)		**May 31, 2014**	
ASSETS				
Cash	$	538	$	1,209
Accounts receivable (less allowance for uncollectible accounts of $18 as of February 28, 2015 and May 31, 2014)		541		666
Holdback payment and earn-out payments from CADRA sale, current portion		283		547
Debt issuance costs, net		-		139
Prepaid and other assets		235		204
Total current assets		1,597		2,765
Property and equipment, net		65		95
Goodwill		948		948
Capitalized software development costs, net		336		319
Capitalized patent costs		108		106
Earn-out payments from CADRA sale, net of current portion		362		348
Other assets		143		143
TOTAL ASSETS	$	3,559	$	4,724
LIABILITIES AND SHAREHOLDERS (DEFICIT) EQUITY				
Accounts payable	$	132	$	483
Accrued expenses		325		607
Deferred maintenance revenue		1,690		1,462
Capital lease, current		19		19
Current maturities of long-term debt		583		973
Total current liabilities		2,749		3,544

Capital lease, net of current portion		37		47
Long-term debt, net of current maturities		147		-
Other accrued liabilities		11		-
Total liabilities		2,944		3,591
Commitments and contingencies				
Redeemable common stock, $0.10 par value, 170,000 and 50,000 shares issued and outstanding at February 28, 2015 and May 31, 2014, respectively.		1,190		275
Shareholders (deficit) equity :				
Common stock, $0.10 par value 20,000,000 shares authorized, 723,724 and 825,135 issued and outstanding at February 28, 2015 and May 31, 2014, respectively.		73		83
Capital in excess of par value		27,026		27,338
Accumulated deficit		(27,388)		(26,081)
Accumulated other comprehensive loss		(286)		(482)
Total shareholders (deficit) equity		(575)		858
TOTAL LIABILITIES AND SHAREHOLDERS (DEFICIT) EQUITY	$	3,559	$	4,724

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			
	February 28, 2015		**February 28, 2014**	
Revenue:				
Products	$	184	$	426
Services		741		916
Total revenue		925		1,342
Cost of revenue:				
Products		38		241
Services		392		325
Total cost of revenue		430		566
Gross margin		495		776
Research and development expenses		183		276
Selling, general and administrative expenses		592		835
Change in fair value of earn-out payments and holdback payment		(10)		-
Operating loss		(270)		(335)
Interest expense		31		10
Other expense (income), net		55		(6)
Net loss	$	(356)	$	(339)
Basic and diluted net loss per share:	$	(0.40)	$	(0.39)
Weighted average common and redeemable shares outstanding-basic and diluted		893,724		875,135

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 Nine Months Ended			
	February 28, 2015		**February 28, 2014**	
Revenue:				
Products	$	454	$	1,042
Services		2,362		3,089
Total revenue		2,816		4,131
Cost of revenue:				
Products		124		302
Services		1,183		897
Total cost of revenue		1,307		1,199
Gross margin		1,509		2,932
Research and development expenses		677		915
Selling, general and administrative expenses		1,953		2,582
Gain on CADRA sale		-		(649)
Change in fair value of earn-out payments and holdback payment		(70)		-
Operating (loss) income		(1,051)		84
Interest expense		158		203
Other expense (income), net		98		(28)
Net loss	$	(1,307)	$	(91)
Basic and diluted net loss per share:	$	(1.47)	$	(0.10)
Weighted average common and redeemable shares outstanding-basic and diluted		888,906		883,853

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			
	February 28, 2015		**February 28, 2014**	
Net loss	$	(356)	$	(339)
Other comprehensive income (loss):				
Foreign currency translation adjustment		113		(35)
Comprehensive loss	$	(243)	$	(374)

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 Nine Months Ended			
	February 28, 2015		**February 28, 2014**	
Net loss	$	(1,307)	$	(91)
Other comprehensive income (loss):				
Foreign currency translation adjustment		198		(80)
Comprehensive loss	$	(1,109)	$	(171)

See accompanying notes to unaudited consolidated financial statements

SOFTECH, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

	(in thousands) For the Nine Months Ended	
	February 28, 2015	**February 28, 2014**
Cash flows from operating activities:		
Net loss	$ (1,307)	$ (91)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization expense	253	170
Gain on CADRA sale	-	(649)
Stock-based compensation	85	6
Non-cash interest expense	27	15
Change in fair value of warrant liability	-	(32)
Change in fair value of earn-out payments and holdback payment	(70)	-
Change in current assets and liabilities:		
Accounts receivable	125	(243)
Prepaid expenses and other assets	(31)	179
Restricted cash	-	65
Accounts payable and accrued expenses	(617)	401
Deferred maintenance revenue	228	(135)
Net cash used in operating activities	(1,307)	(314)
Cash flows from investing activities:		
Proceeds from sale of product line, net of direct expenses	-	2,432
Capital expenditures	(2)	(39)
Capitalized software development costs	(101)	(57)
Capitalized patent costs	(2)	(4)
Net cash provided by (used in) investing activities	(105)	2,332
Cash flows from financing activities:		
Cost of repurchase of common stock	(37)	(63)
Cost of repurchase of redeemable common stock	(275)	-
Capitalized debt issuance costs	-	(32)
Borrowing under debt agreement	750	-
Repurchase of warrant liability	-	(19)
Proceeds from holdback agreement	320	-
Proceeds from issuance of common stock, net	820	-
Repayments under debt agreements	(1,020)	(1,700)
Repayments under capital lease	(10)	(11)
Net cash provided by (used in) financing activities	548	(1,825)
Effect of exchange rates on cash	193	(89)
Increase (decrease) in cash and cash equivalents	(671)	104

Cash and cash equivalents, beginning of period		1,209		1,188
Cash and cash equivalents, end of period	$	538	$	1,292
Supplemental disclosures of cash flow information:				
Interest paid	$	105	$	205
Taxes paid	$	2	$	14
Noncash investing and financing activities:				
Issuance of warrants	$	-	$	51
Purchase of property and equipment under capital lease	$	-	$	30
Accretion of redeemable common stock	$	340	$	-
Accrued investor fees	$	30	$	-

See accompanying notes to unaudited consolidated financial statements

SOFTECH, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

A. DESCRIPTION OF THE BUSINESS AND BASIS OF PRESENTATION

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

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

Our unaudited consolidated financial statements presented herein have been prepared pursuant to the rules of the Securities and Exchange Commission (the SEC) for quarterly reports on Form 10-Q and do not include all of the information and footnote disclosures required by generally accepted accounting principles in the United States of America (GAAP). These statements should be read in conjunction with the consolidated financial statements and notes thereto for the year ended May 31, 2014 included in our Annual Report on Form 10-K (Annual Report), which was filed with the SEC on October 7, 2014. In the opinion of management, the consolidated financial statements include all adjustments necessary for the fair presentation of the consolidated financial position, results of operations, and cash flows of the Company as of and for these interim periods.

CADRA SALE

On October 18, 2013, the Company sold substantially all of the assets of its CADRA product line, including all intellectual property related to that technology but specifically excluding cash, billed accounts receivable and liabilities other than the deferred maintenance liability associated with CADRA customer maintenance contracts for support services (the CADRA Sale), to Mentor Graphics Corporation (Mentor), pursuant to an Asset Purchase Agreement dated August 30, 2013 (the Asset Purchase Agreement). The aggregate consideration for the CADRA Sale is up to $3.95 million, which is comprised of (i) $2.88 million paid on the closing date; (ii) $320,000 payable on the one year anniversary (the Holdback Payment) of the closing date (subject to any indemnification claims); and (iii) up to an aggregate $750,000 over the three-year period subsequent to the closing date, based on 10% of the net revenue generated by the CADRA business (the Earn-Out Payments), subject to the terms of the Earn-Out Agreement dated August 30, 2013 (the Earn-Out Agreement). The Holdback Payment of $320,000 was received on October 20, 2014. The Company has received Earn-Out Payments totaling $327,000 related to the period from October 18, 2013 through

January 31, 2015.

Subsequent to the CADRA Sale, the Company continues to offer the CADRA technology as a reseller throughout Europe (except Germany) pursuant to a distribution agreement (the Distributorship Agreement) with Mentor. Due to the significant continued involvement in the sale and support of the CADRA product line, the transaction does not qualify for presentation as discontinued operations.

RECLASSIFICATIONS

Certain accounts in the financial statements for the three and nine month periods ended February 28, 2014 have been reclassified for comparative purposes to conform to the presentation in the current periods financial statements.

B. SIGNIFICANT ACCOUNTING POLICIES

USE OF ESTIMATES

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

SOFTWARE DEVELOPMENT COSTS

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

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

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

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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 February 28, 2015, the Company capitalized approximately $101,000 of software development costs related to the development of its ecommerce product. No software development costs were capitalized during the three months ended February 28, 2014. For the nine months ended February 28, 2015, software development costs totaled approximately $101,000 as compared to $57,000 in the same period in fiscal 2014. Amortization expense related to capitalized software development costs for the three and nine months ended February 28, 2015 was approximately $28,000 and $84,000, respectively, as compared to approximately $23,000 and $71,000 for the comparable periods in the prior fiscal year.

DEBT ISSUANCE COSTS

The Company capitalizes the direct costs associated with entering into debt agreements and amortizes those costs over the life of the debt agreement. In May 2013, the Company entered into the Loan Agreement as detailed in Note D. Total direct costs incurred in establishing this debt agreement were approximately $255,000, which was amortized over the term of the arrangement in accordance with ASC 470-50. Amortization expense related to debt issuance costs for the three and nine months ended February 28, 2015 was approximately $26,000 and $149,000, respectively, as compared to approximately $22,000 and $81,000 for the comparable periods in the prior fiscal year. The debt issuance costs were fully amortized during the three month period ended February 28, 2015.

The Loan Agreement was amended several times after May 31, 2013 as described in our Annual Report and in our Form 10-Q filed on January 14, 2015 with the SEC. The costs related to completing these amendments were expensed as incurred in conformity with ASC 470-50, *Debt Modifications and Extinguishment.*

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, and a fixed fee and collectability has been determined. The Company does not provide for a right of return. For multiple element arrangements, total fees are allocated to each of the undelivered elements based upon vendor specific objective evidence (VSOE) of their fair values, with the residual amount recognized as revenue for the delivered elements, using the residual method set forth in ASC 985-605. Revenue from customer maintenance support agreements is deferred and recognized ratably over the term of the agreements, typically one year. Revenue from engineering, consulting and training services is recognized as those services are rendered using a proportional performance model.

The Company follows the provisions of ASC 605, *Revenue Recognition* for transactions that do not involve the licensing of software or software support services as in the case of the recent sale of its patents. Revenue from the sale of patents is recorded when persuasive evidence of an arrangement exists, delivery has taken place and a fixed fee and collectability has been determined. These conditions are no different from those when the Company licenses software. For multiple element arrangements, however, under ASC 605, total fees are allocated to each of the elements based upon the relative selling price method. Under that method the allocation of fees to the undelivered elements is based on VSOE, or if it doesn t exist, then based on third party evidence of selling price. If neither exists, then the allocation is based on management s best estimate of the selling price.

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 February 28, 2015, the Company does not have any long-lived assets it considers to be impaired.

FINANCIAL INSTRUMENTS

The Company s financial instruments consist of cash, accounts receivable, holdback payment, earn-out payments, notes receivable, accounts payable and notes payable. The Company s estimate of the fair value of these financial instruments approximates their carrying value at February 28, 2015.

FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

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

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

The assets maintained by the Company that are required to be measured at fair value on a recurring basis include the Holdback Payment and Earn-Out Payments associated with the Company s sale of the CADRA product line. As of February 28, 2015, the maximum amount that could be received by the Company under the Asset Purchase Agreement totaled $706,000. The actual amount to be received is dependent on the amount of CADRA revenue produced by Mentor for their fiscal years ended January 31, 2015, 2016 and 2017.

The following table summarizes the valuation of the Company's assets and liabilities measured at fair value on a recurring basis as of February 28, 2015:

				(in thousands)				
		Total		**Quoted prices in active markets (Level 1)**		**Significant other observable inputs (Level 2)**		**Significant unobservable inputs (Level 3)**
Assets:								
Earn-Out Payments	$	645	$	-	$	-	$	645
Total assets at fair value	$	645	$	-	$	-	$	645

The Holdback Payment and Earn-Out Payments are classified as current or non-current assets depending on their anticipated receipt by the Company. Subsequent to the end of the fiscal quarter ended February 28, 2015, Mentor paid the Company approximately $283,000 in Earn-Out Payments related to their fiscal year ended January 31, 2015 activity. This brings total Earn-Out Payments for the first fifteen full months since the CADRA Sale to approximately $327,000 of the maximum $750,000.

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 nine month period ended February 28, 2015:

		(in thousands)
Fair value at May 31, 2014	$	895
Change in fair value		70
Receipt of the Holdback Payment		(320)
Fair value at February 28, 2015	$	645

The fair value of the asset at February 28, 2015 was approximately $645,000. The fair value of the Earn-Out Payments expected to be collected within one year have been classified as current assets. The fair value of the payments expected to be received beyond one year are included in long term assets in the accompanying consolidated balance sheet. The Company has estimated the fair value of the Holdback Payment and Earn-Out Payments using a discounted cash flow approach. This valuation is based upon several factors including; i) management s estimate of the amount and timing of future CADRA revenues, ii) the timing of receipt of payments from Mentor, and iii) a discount rate of 7%.

A change in any of these unobservable inputs can significantly change the fair value of the asset. The change in fair value of the asset recognized in the unaudited Consolidated Statements of Operations for the three and nine months ended February 28, 2015 was approximately $10,000 and $70,000, respectively.

CHANGE IN ACCOUNTING POLICY

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

During the fourth quarter of fiscal 2014, we changed our accounting policy with regard to these payments to account for the proceeds at the fair value of the consideration received in accordance with ASC 810-10-40-5. The effects of this change have been made retrospectively to the current period consolidated financial statements in accordance with ASC 250, *Accounting Changes and Error Corrections*. Pursuant to the new policy, the Company estimated the fair value of Holdback Payment and the Earn-Out Payments on the date of the transaction and recognized the fair value as a component of the gain on sale as of the transaction date. The Holdback Payment and Earn-Out Payments will be adjusted to fair value at each reporting period with changes in the fair value of the asset reported as a component of operations in the unaudited Consolidated Statement of Operations. For more information, refer to the Company s annual audited consolidated financial statements included in the Company s Annual Report.

FOREIGN CURRENCY TRANSLATION

The functional currency of the Company s foreign operations is the Euro. As a result, assets and liabilities are translated at period-end exchange rates and revenues and expenses are translated at the average exchange rates. Adjustments resulting from translation of such financial statements are classified in accumulated other comprehensive loss. Foreign currency gains and losses arising from transactions were included in the statements of operations. For the three and nine month periods ended February 28, 2015, the Company recorded net losses from foreign currency related transactions of approximately $55,000, and $98,000, respectively, as compared to net gains of approximately ($6,000) and ($28,000), respectively, for the comparable periods in the prior fiscal year, to Other expense (income), net in the unaudited Consolidated Statements of Operations.

NET LOSS PER COMMON SHARE

For the three and nine month periods ended February 28, 2015, 1,991 and 995 options to purchase common shares, respectively, were anti-dilutive and were excluded from the basic and diluted earnings per share calculation. For the three and nine month periods ended February 28, 2014, 9,306 options to purchase common shares were anti-dilutive and were excluded from the above calculation.

STOCK-BASED COMPENSATION

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

In May 2011, the 2011 Equity Incentive Plan (the 2011 Plan) was approved by the Company s shareholders, pursuant to which 150,000 shares of our common shares are reserved for issuance. Any share subject to any award under the 2011 Plan that expires, is terminated unexercised or is forfeited will be available for future 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 February 28, 2015, 144,500 stock options were awarded.

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

	Number of Options		Weighted Average Exercise Price Per Share	Weighted-Average Remaining Life (in years)		Aggregate Intrinsic Value
Outstanding options at May 31, 2013	10,000		2.40	8.02		-
Granted	124,500		1.84	10.00		-
Exercised	-		-	-		-
Forfeited or expired	(5,000)		1.11	-		-
Outstanding options at May 31, 2014	129,500		1.88	9.74		20,825
Granted	27,500		1.33	10.00		-
Exercised	-		-	-		-
Forfeited or expired	(12,500)		1.84	-		-
Outstanding options at February 28, 2015	144,500	$	1.78	8.77	$	13,000
Exercisable at February 28, 2015	59,677	$	1.82	8.09	$	5,125

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

For the three and nine month periods ended February 28, 2015, the Company expensed approximately $25,000 and $85,000 of stock-based compensation, respectively, as compared to approximately $2,000 and $6,000 in the comparable prior periods.

REDEEMABLE COMMON STOCK

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

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

During the three months 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. The $30,000 related to the total New Investors Fees has been included in other liabilities.

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

Accounting Standards Update (ASU) 2014-17, Business Combinations (Topic 805) Pushdown Accounting was issued by the FASB in November 2014. The primary purpose of the ASU is to provide guidance on whether and at what threshold an acquired entity that is a business or nonprofit activity can apply pushdown accounting in its separate financial statements. The amendments should reduce diversity in the timing and content of footnote disclosure. ASU 2014-17 is effective after November 18, 2014. The Company does not believe that this guidance will have a material impact on its consolidated results of operations or financial position or disclosures.

Accounting Standards Update (ASU) 2014-16, Derivatives and Hedging (Topic 815) Determining Whether the Host Contract in a Hybrid Financial Instrument Issued in the Form of a Share Is More Akin to Debt or to Equity was issued by the FASB in November 2014. The primary purpose of the ASU is to eliminate the use of different methods in practice and thereby reduce existing diversity under GAAP in the accounting for hybrid financial instruments issued in the form of a share. ASU 2014-16 is effective for public business entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. The Company does not believe that this guidance will have a material impact on its consolidated results of operations or financial position or disclosures.

Accounting Standards Update (ASU) 2014-15, Presentation of Financial Statements-Going Concern (Subtopic 205-40) Disclosure of Uncertainties about an Entity s Ability to Continue as a Going Concern was issued by the FASB in August 2014. The primary purpose of the ASU is to provide guidance in GAAP about management s responsibility to evaluate whether there is substantial doubt about an entity s ability to continue as a going concern and to provide related footnote disclosures. The amendments should reduce diversity in the timing and content of footnote disclosure. ASU 2014-15 is effective for the annual period ending after December 15, 2016, and for the annual periods and interim periods thereafter. Early adoption is permitted. The Company does not believe that this guidance will have a material impact on its consolidated results of operations or financial position or disclosures.

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

ASU 2013-11, Income Taxes (Topic 740) - Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists was issued by the FASB in July 2013. The amendments in this ASU are effective for fiscal years, and interim periods within those years, beginning after December 15, 2013. The amendments should be applied prospectively to all unrecognized tax benefits that exist at the effective date. Retrospective application is permitted. The adoption of this ASU has not had a material impact on the Company s consolidated financial statements.

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

ASU No. 2014-08, Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity , was issued by the FASB in April 2014. The Amendment in this update changes the criteria for reporting discontinued operations and requires additional disclosures about discontinued operations. ASU 2014-08 requires that an entity report as a discontinued operation only a disposal that represents a strategic shift in operations that has a major effect on its operations and financial results. ASU 2014-08 is effective for public business entities for annual periods, and interim periods within those annual periods, beginning on or after December 15, 2014. Early adoption is permitted, but only for a disposal (or classification as held for sale) that has not been reported in financial statements previously issued or made available for issuance. The ASU must be applied prospectively. The Company does not believe this guidance will have a material impact on its consolidated results of operations or financial position.

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:	**February 28, 2015**	**February 28, 2014**
North America	$ 809	$ 1,077
Europe	146	318
Asia	-	-
Eliminations	(30)	(53)
Consolidated Total	$ 925	$ 1,342

	Nine Month Periods Ended	
Revenue:	February 28, 2015	February 28, 2014
North America	$ 2,350	$ 3,335
Europe	512	922
Asia	-	493
Eliminations	(46)	(619)
Consolidated Total	$ 2,816	$ 4,131

	As of February 28,	As of May 31,
Long Lived Assets:	2015	2014
North America	$ 1,921	$ 1,916
Europe	41	43
Consolidated Total	$ 1,962	$ 1,959

D. DEBT

ESSIGPR

On June 20, 2014, the Company entered into a promissory note agreement (the Note) with EssigPR, Inc. (EssigPR), a Puerto Rico corporation. The Note is a three (3) year borrowing arrangement with EssigPR as the lender. The Note is a $750,000 term loan maturing on April 1, 2017, that accrues interest at a 9.5% interest rate, paid quarterly in arrears. The principal on the Note will be paid from the deferred payments (Holdback Payment and Earn-Out Payments) due over the next three years from Mentor in connection with their purchase of the CADRA product line as described herein. The Company is responsible for ensuring that the Mentor deferred payments are sufficient for paying down the Note or, on April 1, 2017, making up for any shortfall. Mentor deferred payments in excess of amounts due under the Note revert to the Company.

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

EssigPR is owned by Joseph P. Daly an affiliate of the Company who owns approximately 18.7% of the outstanding shares.

PRIDES CROSSING CAPITAL

On May 10, 2013, the Company entered into a loan agreement (the Loan Agreement) with Prides Crossing Capital, L.P. and Prides Crossing Capital-A, L.P., (Lenders). The Loan Agreement provided for a $2.7 million, three-year term loan (the Loan) with interest only payments until October 1, 2014. The terms of the Loan Agreement, including the amendment thereto, are described in our Annual Report and in our Form 10-Q filed on January 14, 2015 with the SEC. The final principal payment under the Loan Agreement was made on December 31, 2014 in accordance with its terms and all liens and encumbrances were released.

E. NOTE RECEIVABLE

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

F. STOCK PURCHASE AGREEMENT

In June 2013, the Company purchased 170,000 shares of common stock from Greenleaf, The Ronda E. Stryker and William D. Johnston Foundation, and The L. Lee Stryker 1974 Irrevocable Trust fbo Ronda E. Stryker, for a purchase price of $62,900 or $0.37 per share as detailed in Note K to the consolidated financial statements included in our Annual Report. On August 8, 2014 the Company repurchased Greenleaf s remaining 101,411 shares at $0.37 per share for a total of approximately $38,000.

G. CHANGES IN EQUITY

The changes in redeemable common stock for the nine months ended February 28, 2015 is as follows (in thousands):

	Redeemable Common Stock		
	Shares		Amount
Balance as of May 31, 2014	50	$	275
Issuance of redeemable common stock	170		850
Accretion of redeemable common stock	-		340
Repurchase of redeemable common stock	(50)		(275)
Balance as of February 28, 2015	170	$	1,190

H. SUBSEQUENT EVENTS

On April 2, 2015, the Short Term Note between the Company and EssigPR was amended to extend the due date by three months from April 10, 2015 to July 10, 2015. The Company awarded EssigPR 2,500 stock options to purchase common shares with an exercise price of $1.00 per share and a ten year life. Such options were fully vested upon execution of the amendment.

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.

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

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

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

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raise new capital necessary to fund the development and launch of new product;

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

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maintain good relationships with our lender;

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

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attract and retain qualified personnel;

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prevent obsolescence of our technologies;

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maintain partnership and distribution agreements with our critical software vendors;

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

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secure new business, both from existing and new customers.

The forward-looking statements speak only as of the date on which they are made, and, except to the extent required by federal securities laws, we undertake no obligation to update any forward-looking statement to reflect events or circumstances after the date on which the statement is made or to reflect the occurrence of unanticipated events. In addition, we cannot assess the impact of each factor on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements. References in this 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), which we describe below as the *CADRA* product offering and Product Data Management (PDM) and collaboration technologies, which we describe below as the *ProductCenter* offering and our Connector technology. The CADRA technology is marketed by the Company in Europe (other than Germany) under the terms of a distribution agreement (the Distributorship Agreement) with Mentor Graphics Corporation (Mentor), which acquired that technology from us in October 2013. In addition, we offer a technology platform that allows for data exchange between various third party technology offerings which we describe as our *Connector* offering. We deliver these enterprise level PLM solutions, with comprehensive out-of-the-box capabilities, to meet the needs of manufacturers of all sizes quickly and cost-effectively. Our operations are organized geographically in the U.S. and Europe. We have sales and customer support offices in the U.S. and Italy. We also operate through resellers in North America, Europe and Asia. For geographical information about our operating revenues and assets, see Note E to the consolidated financial statements included in the Company s form 10-K for the fiscal year ended May 31, 2014.

Since the Recapitalization Transaction described in Note A to the consolidated financial statements included in the Company s 10-K for the fiscal year ended May 31, 2014 (the Recapitalization Transaction), the Company has also been actively engaged in acquiring and filing new patent applications, evaluating alternatives for monetizing its existing patents and investigating the acquisition of specific patents already awarded that might enhance our value. It is expected that this kind of activity will become an increasing area of focus and investment over the coming years.

Developing HomeView   Technology

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

ProductCenter

From fiscal years 2006 through 2014 our ProductCenter technology experienced year over year revenue declines. We identified multiple causes for this negative revenue trend including: (i) an increased number of competitive offerings in the marketplace, (ii) elongation of purchase decisions by customers of a technology that already had a long sales cycle, and (iii) uncertain economic conditions. During the third quarter of fiscal year 2015, ProductCenter revenue increased for the second straight quarter when compared with the same period in the prior fiscal year. For the nine months ended February 28, 2015, ProductCenter revenue increased 8.6% from the same period in the prior fiscal year.

The increased ProductCenter revenue has come from existing customers expanding the use of the technology. Specifically, we received purchase orders in fiscal 2015 totaling approximately $562,000 from two existing customers that have utilized the ProductCenter technology for more than a decade. For the nine months ended February 28, 2015, we have earned and recorded into revenue approximately $271,000 from those purchase orders and the remainder will be earned over the coming months. In addition to the aforementioned purchase orders, the ProductCenter maintenance renewal rates have improved as compared to the last few years. We had expected consulting revenue to increase based on the number and size of identified projects at the end of fiscal 2014, however, several of those projects have been delayed causing a year over year decline in that element of revenue.

It is uncertain whether the fiscal 2015 ProductCenter revenue increase is sustainable.

CADRA Sale

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

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

In conjunction with completing the CADRA Sale, the Company entered into a one-year, exclusive Distributorship Agreement with Mentor allowing us to market and support the CADRA technology as a reseller throughout Europe (except Germany) at a thirty percent (30%) gross margin. That arrangement was extended through January 31, 2016 on a non-exclusive basis. Under the new arrangement gross margin on software remained at 30% and the gross margin on support contracts increased from 30% to 35%. The right to market the CADRA product line to Sikorsky Aircraft in North America was a one year arrangement only and expired on October 16, 2014. Due to the significant continued involvement in the sale and support of the CADRA product line, the sale did not qualify for presentation as discontinued operations.

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

Activities following the CADRA Sale

PLM Business

Subsequent to the completion of the CADRA Sale, we have continued to offer our ProductCenter and Connector technologies to design and manufacturing companies. Our ProductCenter technology manages the engineering data and electronic files of discrete parts designed in third party proprietary design technologies offered primarily by SolidWorks, PTC and Autodesk. The Connector platform is a technology that allows for a direct interface between Aras Innovator, a PLM solution which features modern, web-based technology, and various well-established CAD technologies. The Aras technology is offered under a subscription revenue model as is our Connector technology. We entered into a partnership agreement with Aras in 2012, pursuant to which we provide distribution and consulting services, as further described below. For a description of the risks related to our PLM business, see Risk Factors Risks Related to Our Business in our Form 10-K for fiscal year 2014.

Distribution Activity

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

Consulting

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

Exploring Strategic Initiatives

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

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

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

As detailed above, under the caption Overview Developing HomeView Technology, during fiscal year 2015 we have invested a substantial amount of time in pursuing a data management offering for the residential property market. The product idea was detailed in a patent filing in 2012 that has yet to be awarded. We expect to begin beta testing this technology during our fourth fiscal quarter with two entities involved in this market.

Strategic Transactions. We will continue to evaluate business combinations and other sale opportunities. We believe that, in addition to our remaining businesses and prospects described above, our status as a publicly traded company and tax attributes could make us an attractive strategic partner. As of May 31, 2014, SofTech had approximately $20 million in federal tax attributes and approximately $7 million in state tax attributes. We will continue to seek strategic transactions for the benefit of our shareholders, but there can be no assurances in this regard.

Other

Deferred CADRA Purchase Price. The sale of the CADRA assets includes contingent Earn-Out Payments equal to 10% of Mentor s revenue derived from the CADRA technology up to a maximum of $750,000 over the three year period following completion of the transaction (ending October 31, 2016). Therefore, SofTech has a direct financial interest in the continued success of the CADRA technology subsequent to the sale. For the period from October 16, 2013 through January 31, 2015, Mentor has reported Earn-Out Payments of approximately $327,000, all of which has been paid in accordance with the Earn-Out Agreement.

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

Critical Accounting Policies and Significant Judgments and Estimates

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

Our significant accounting policies are described in Note B to the consolidated financial statements included in the Company s Form 10-K for the fiscal year ended May 31, 2014. There have been no changes to the policies for the three and nine months ended February 28, 2015.

Results of Operations

Three and Nine Months Ended February 28, 2015, as Compared to Three and Nine Months Ended February 28, 2014

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

During the fourth quarter of fiscal 2014, the Company changed its accounting policy with regard to certain deferred payments related to the CADRA Sale. As a result of that change in accounting policy, the Company has restated the operating results for the three and nine month periods ended February 28, 2014 in accordance with ASC 810-10, *Consolidations*.

The table below presents the comparative statements of operations for the three month periods ended February 28, 2015 and February 28, 2014 along with the dollar and percentage change amounts for each revenue and expense item (expressed in thousands, except percentages):

	February 28, 2015	February 28, 2014	Change in $	Change in %
Revenue:				
Products	$ 184	$ 426	$ (242)	(56.8)%
Services	741	916	(175)	(19.1)
Total revenue	925	1,342	(417)	(31.1)
Cost of revenue:				
Products	38	241	(203)	(84.2)
Services	392	325	67	20.6
Total cost of revenue	430	566	(136)	(24.0)
Gross margin	495	776	(281)	(36.2)
Research and development expenses	183	276	(93)	(33.7)
Selling, general and administration expenses	592	835	(243)	(29.1)
Change in fair value of earn-out payments and holdback payment	(10)	–	(10)	–
Operating loss	(270)	(335)	(65)	(19.4)
Interest expense	31	10	21	210.0
Other expense (income), net	55	(6)	61	1016.7
Net loss	$ (356)	$ (339)	$ (17)	(5.0)%

The table below presents the comparative statements of operations for the nine month periods ended February 28, 2015 and February 28, 2014 along with the dollar and percentage change amounts for each revenue and expense item (expressed in thousands, except percentages):

	February 28, 2015	February 28, 2014	Change in $	Change in %
Revenue:				
Products	$ 454	$ 1,042	$ (588)	(56.4)%
Services	2,362	3,089	(727)	(23.5)
Total revenue	2,816	4,131	(1,315)	(31.8)

Cost of revenue:						
Products		124		302	(178)	(58.9)
Services		1,183		897	286	31.9
Total cost of revenue		1,307		1,199	108	9.0
Gross margin		1,509		2,932	(1,423)	(48.5)
Research and development expenses		677		915	(238)	(26.0)
Selling, general and administration expenses		1,953		2,582	(629)	(24.4)
Gain on CADRA Sale		–		(649)	649	–
Change in fair value of earn-out payments and holdback payment		(70)		–	(70)	–
Operating (loss) income		(1,051)		84	(1,135)	(1351.2)
Interest expense		158		203	(45)	(22.2)
Other expense (income), net		98		(28)	126	450.0
Net loss	$	(1,307)	$	(91)	$ (1,216)	(1336.3)%

The table below presents the relationship, expressed as a percentage, between income and expense items and total revenue, for the three month periods ended February 28, 2015 and February 28, 2014:

	Items as a percentage of revenue	
	February 28, 2015	**February 28, 2014**
Revenue:		
Products	19.9%	31.7%
Services	80.1	68.3
Total revenue	100.0	100.0
Cost of revenue:		
Products	4.1	17.9
Services	42.4	24.2
Total cost of revenue	46.5	42.2
Gross margin	53.5	57.8
Research and development expenses	19.8	20.6
Selling, general and administrative expenses	64.0	62.2
Change in fair value of earn-out payments and holdback payments	(1.1)	–
Operating loss	(29.2)	(25.0)
Interest expense	3.4	