

SOFTECH INC
Form 10-K
August 29, 2016

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

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

For the Fiscal Year Ended: May 31, 2016

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

For the transition period from _____ to _____

Commission File Number: 0-10665

SofTech, Inc.
(Exact name of registrant as specified in its charter)

Massachusetts
(State or other jurisdiction of
incorporation or organization)

04-2453033
(I.R.S. Employer Identification
Number)

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

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

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

Edgar Filing: SOFTECH INC - Form 10-K

Securities registered pursuant to Section 12(g) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, \$.10 par value per share	OTC Bulletin Board
Rights to Purchase Common Stock	

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

Yes ☐ . No ☒ .

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

Yes ☐ . No ☒ .

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 ☒ . 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 during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes ☒ . No ☐ .

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

Edgar Filing: SOFTECH INC - Form 10-K

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 the definitions of large accelerated filer, 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 Act).

Yes ☐ No ☒ X.

The aggregate market value of our voting stock held by non-affiliates was approximately \$565,452 on November 30, 2015 based on the last reported sale price of our common stock on the OTC Bulletin Board on November 20, 2015.

The number of shares outstanding of the registrant's common stock on August 24, 2016 was 903,724 shares.

ANNUAL REPORT ON FORM 10-K FOR FISCAL YEAR 2016

Table of Contents

	Page
PART I.	
Item 1. Business	5
Item 1A. Risk Factors	9
Item 1B. Unresolved Staff Comments	15
Item 2. Properties	15
Item 3. Legal Proceedings	15
Item 4. Mine Safety Disclosures	15
PART II.	
Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities	16
Item 6. Selected Financial Data	17
Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations	17
Item 7A. Quantitative and Qualitative Disclosures about Market Risk	26
Item 8. Financial Statements and Supplementary Data	26
Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	26
Item 9A. Controls and Procedures	26
Item 9B. Other Information	26
PART III.	
Item 10. Directors, Executive Officers and Corporate Governance	27
Item 11. Executive Compensation	30
Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	32
Item 13. Certain Relationships and Related Transactions, and Director Independence	33
Item 14. Principal Accountant Fees and Services	34
PART IV.	
Item 15. Exhibits and Financial Statement Schedules	35
Exhibit Index	36

APPENDIX A

Reports of Independent Registered Public Accounting Firm	F-1
Consolidated Financial Statements	F-2
Notes to Consolidated Financial Statements	F-7

SPECIAL NOTE REGARDING FORWARD LOOKING STATEMENTS

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, we expect, intend, plan, anticipate, believe, estimate, project, predict, potential and 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 the forward-looking statements due to a number of factors, including those factors set forth under the caption **Risk Factors** in this Form 10-K and our ability to:

- .
generate sufficient cash flow from our operations or other sources to fund our working capital needs and growth initiatives;
- .
maintain good relationships with our lenders;
- .
comply with the covenant requirements and payment terms under our loan agreements;
- .
successfully introduce and attain market acceptance of any new products and/or enhancements of existing products, including HomeView;
- .
attract and retain qualified personnel;
- .
prevent obsolescence of our technologies;
- .
identify strategic initiatives and opportunities that are consistent with our strategic goals;

.
maintain agreements with our critical software vendors;

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

.
complete the sale of the PLM business as described herein; and

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

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

PART I

ITEM 1. BUSINESS

Our Company

SofTech, Inc., a Massachusetts corporation was formed in Massachusetts on June 10, 1969. The Company has been 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 our *CADRA* product offering and Product Data Management (PDM) and collaboration technologies, which we describe below as our *ProductCenter* offering. In addition, we offer a technology platform that allows for data exchange between various third party technology offerings which we describe as our *Connector* offering. We deliver these enterprise level PLM solutions, with comprehensive out-of-the-box capabilities, to meet the needs of manufacturers of all sizes quickly and cost-effectively. Our operations are organized geographically in the U.S. and Europe. We have sales and customer support offices in the U.S. and Italy. We also operate through resellers in North America, Europe and Asia. For geographical information about our operating revenues and assets, see Note E to the Consolidated Financial Statements included in this Form 10-K.

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. Subsequently, the Company repurchased 271,411 shares of its common stock from Greenleaf which represented all of its equity holdings in SofTech.

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 the Company s assets and to pursue new strategic initiatives, including in new industries, such as potential business combinations, sale transactions, new product development and/or strategic partnerships. The Company has completed a number of actions consistent with the implementation of this strategy, including the sale of the Company s AMT and CADRA product lines, the sale of its PLM related patents, the filing and acquisition of new patents and the development of the new product offerings, namely Connector and HomeView.

Following the sale of its CADRA product line (as described below), the Company has been focused on restructuring its business to enable it to successfully operate as a significantly smaller company and will continue to seek new sources of revenue and new strategic initiatives, including in new industries, such as eCommerce.

On August 23, 2016, the Company entered into an Asset Purchase Agreement to sell its ProductCenter and Connector technologies as described herein in furtherance of the strategy detailed above. Completion of the transaction is contingent on approval of the transaction by SofTech shareholders and the satisfaction of other customary closing conditions.

Products and Services

ProductCenter

Our ProductCenter technology manages the engineering data and electronic files of discrete parts designed in various widely used third party proprietary design technologies. ProductCenter is a proven enterprise-wide, collaborative PLM solution delivering a unique and powerful combination of document management, design integration, configuration control, change management, bill of materials management and integration capability with other enterprise-wide systems. ProductCenter is designed to help companies rapidly optimize the product development process. ProductCenter provides for the secure management of product information and allows engineers and the entire design chain to manage, share, modify and track product data and documents throughout the product development lifecycle. ProductCenter supports engineering change management and bill of materials management for automating business processes. ProductCenter's web-based collaboration capabilities allow employees, customers, suppliers, and other globally dispersed team members to securely exchange product information while maintaining a centralized database of critical product data. ProductCenter also enables integration with other business applications such as enterprise resource planning, supply chain management and customer relationship management for continuous data exchange across the product lifecycle.

Connector Platform

In 2012, the Company entered into a technology partnership with Aras Corporation (Aras) wherein we agreed to develop, market and support a technology that allows for a direct interface between Aras' s Innovator solution and multiple, proprietary CAD products. Our Connector platform is offered under an annual subscription revenue model.

Pending Sale of ProductCenter and Connector Technologies

On August 23, 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 PLM operations which is composed of the ProductCenter 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 \$1.15 million of indebtedness as of August 24, 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. The closing of the PLM Sale, which is subject to approval by the SofTech shareholders and the satisfaction of other customary closing conditions (including a holdback of a portion of the purchase price to secure any indemnification claims arising under the Asset Purchase Agreement), is expected to occur by October 2016. The transaction is not subject to any financing condition.

The Company expects that the sale of the ProductCenter and Connector technologies will provide the Company with the liquidity it needs to repay all of its existing debt obligations, provide working capital to meet its near term needs and increase the marketing efforts for the HomeView technology.

HomeView

HomeView 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 home attributes. Home ownership is made easier by managing user manuals, warranty periods, service records, maintenance reminders and other projects with HomeView. This product was launched in January 2016 and is available for download from iTunes. The

dedicated website for this technology is www.homeview.com.

Since January 2016 we have participated in about a dozen trade and home shows. In addition, we have developed content supporting the use of the technology and targeted audiences using Facebook primarily. We expect to continue to invest in the marketing of this technology over the coming year.

CADRA

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 Graphics Corporation (Mentor), pursuant to an Asset Purchase Agreement dated August 30, 2013. The aggregate consideration for the CADRA Sale is up to \$3.95 million, which is comprised of (i) \$3.2 million, \$2.88 million of which was paid on the closing date and \$320,000 (representing a 10% holdback) of which was paid on the one year anniversary of the closing date, and (ii) earn-out payments of up to an aggregate \$750,000 over the three-year period subsequent to the closing date, based on 10% of the net revenue generated by the CADRA business, subject to the terms of the Earn-Out Agreement dated August 30, 2013 (the Earn-Out Agreement). Through May 31, 2016, the Company had received approximately \$527,000 under the terms of the Earn-Out Agreement and is due a final payment on April 1, 2017 based on the CADRA revenue for the nine month period ending October 31, 2016.

In conjunction with completing the CADRA Sale, the Company entered into a one-year, exclusive Distributorship Agreement with Mentor that allowed us to market and support the CADRA technology as a reseller throughout Europe (except Germany) at a gross margin ranging between thirty (30%) and thirty-five percent (35%). In addition, for the one year period from the closing of the transaction the Company retained the right to market the CADRA technology to Sikorsky Aircraft, the largest CADRA user in the United States. 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. The Distributorship Agreement for Europe (except Germany) was extended on a non-exclusive basis with gross margins of between thirty percent (30%) and forty percent (40%) percent (dependent of the type of revenue and annual volumes) through January 31, 2016. 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. On March 25, 2016, the Distributorship Agreement was extended through March 24, 2017 with gross margins on product at thirty percent (30%) and gross margins on services at thirty-five percent (35%).

Consulting

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.

Marketing and Distribution

We market and distribute our products and services primarily through a direct sales force and through our service organization in North America and Europe. In addition, we market and support the technology offerings of our partners through distribution agreements. We have also contracted with resellers in North America, Europe and Asia to reach areas not covered by our direct sales presence and to supplement our existing sales force; however, to date, the revenue generated from this indirect distribution has not been material.

Competition

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

Our CAD and PLM technology offerings compete against product offerings from companies such as Parametric Technology Corporation (PTC), Dassault Systemes SolidWorks (SolidWorks), Siemens, Inc. (Siemens) and Autodesk, Inc. (Autodesk) that together dominate the PLM market. In addition to these billion dollar revenue companies, there are numerous other technologies offered by smaller entities that we also compete against.

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

Our HomeView technology competes with several small technology offerings from start-ups in this emerging market. There are a significant number of technology companies that are competing in the residential property market especially related to home automation products and services as well as the Internet of Things, a way of describing connecting such things as appliances and other assets and items to the internet. There are many software applications available for download that allow a consumer to organize the things they own and even some that alert the homeowner to maintenance needs.

Personnel

As of May 31, 2016, we employed 27 persons, 25 on a full time basis and 2 part time.

Backlog

Backlog as of May 31, 2016 was approximately \$526,000 as compared to \$645,000 as of May 31, 2015. Deferred revenue, consisting primarily of software maintenance services to be performed over the subsequent twelve month period, totaled approximately \$1,531,000 and \$1,732,000 at May 31, 2016 and 2015, respectively.

Research and Development

We have 7 product development engineers in our research and development groups located in Massachusetts and Michigan. In fiscal years 2016 and 2015, we incurred research and development expense of approximately \$633,000 and \$894,000, respectively, related to the development of our technology and products. In fiscal years 2016 and 2015, we capitalized approximately \$438,000 and \$202,000, respectively, of direct costs related to the development of new products.

Intellectual Property

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

Since the Recapitalization Transaction, we filed three new U.S. patents. In addition to our patents, we have secured registration on a number of trademarks which we consider important to the protection of our brands.

Governmental Regulation

We export our products throughout the world, and thus we are subject to Federal Export Regulations. We believe we comply with all such regulations. Although our non-U.S. based revenue was approximately 22.3% of total revenue in 2016, we do not view these regulations as particularly onerous nor are the compliance costs material to our operations.

Seasonality

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

Available Information

We maintain an Internet site at <http://www.softech.com> on which we make available, free of charge, our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and all amendments to the foregoing as soon as reasonably practicable after these reports are electronically filed with, or furnished to, the Securities and Exchange Commission (SEC). In addition, stockholders may access these reports and documents on the SEC 's web site at www.sec.gov. Our principal offices are located at 650 Suffolk Way, Suite 415, Lowell, Massachusetts 01854, and our telephone number is (978) 513-2700.

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 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 Our Business

Following the PLM Sale, we will be substantially dependent on our HomeView business.

Immediately following the PLM Sale, our operations will be composed of SofTech Srl, a value added reseller and systems integration business, and our HomeView business. SofTech Srl has recorded operating losses for two consecutive fiscal years and is dependent on distribution agreements for much of its revenue. HomeView has been in the marketplace for less than one year and is not yet producing revenue. Our HomeView related cash expenditures over the last two fiscal years totaled approximately \$1.5 million. While our analysis of the HomeView marketplace and our interaction with potential partners support the need for this kind of technology in the residential property market, there can be no assurance that HomeView will gain the number of users required to warrant continued investment in the technology. Failure to gain market acceptance may lead to write offs of the investment made in HomeView through a charge to income.

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

We generated positive cash flow as measured by EBITDA (defined as net income (loss) plus non-cash expenses, taxes and interest expense), a non-GAAP measure, every fiscal year from 2002 through 2014. The sale of the CADRA product line in fiscal 2014 together with the investment made in 2015 and 2016 to develop a new product for the residential property market has resulted in cash losses in those two fiscal years that have been funded by our balance sheet, sales of common stock and limited additional borrowings. 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.

Following the sale of the CADRA business in October 2013 and our pending PLM Sale, we have been and will continue to restructure and refocus our business to enable us to successfully operate as a significantly smaller company and to seek new sources of revenue and new strategic initiatives. Our operating results subsequent to the sale of the PLM business may not be profitable, and we may be unsuccessful in expanding our eCommerce business or developing other new business opportunities.

The PLM business was responsible for about 83% of our consolidated revenue in fiscal 2016 and contributed positively in reducing our losses from HomeView and SofTech, Srl. The importance of the PLM business to the consolidated results in fiscal 2016 was similar in at least the two immediately preceding fiscal years. Our HomeView technology has not generated any revenue. The Company will likely need to raise additional capital in the coming years to continue to pursue the adoption and growth in the HomeView technology.

We have substantial repurchase obligations relating to securities we sold in various private placements, which may be put to us starting in September 2016. If we are unable to meet these financial obligations, which are approximately \$1,260,000 in the aggregate, or re-negotiate their terms, our financial condition would be materially adversely affected.

Pursuant to the terms of prior private placements, we have outstanding 180,000 shares of our common stock that were sold at a purchase price of \$5.00 per share and each investor may, beginning on various dates in fiscal 2017 and fiscal 2018, require us to repurchase such investor's shares at \$7.00 per share, as indicated below:

Repurchase Period	No. of Shares Subject to Repurchase	Purchase Price (per share)	Repurchase Price (per share)	Aggregate Repurchase Price
9/18/16 10/18/16	20,000	\$5.00	\$7.00	\$140,000
9/22/16 10/22/16	30,000	\$5.00	\$7.00	\$210,000
10/9/16 11/8/16	10,000	\$5.00	\$7.00	\$70,000
6/20/17 9/18/17	110,000	\$5.00	\$7.00	\$770,000
9/21/17 10/21/17	10,000	\$5.00	\$7.00	\$70,000
Total:	180,000			\$1,260,000

If we are unable to honor the put right with respect to 110,000 of such shares (a financial obligation of \$770,000), the unpaid portion converts into a loan obligation secured by all our assets and bearing interest at an annual rate of 20%. If we default on our obligations under such note, the holder of such note may assert any rights it has as a secured creditor, including rights to foreclose on our assets. The Asset Purchase Agreement we signed on August 23, 2016 to sell the ProductCenter and Connector technologies contemplates repurchasing these 110,000 shares at a discount of approximately \$6.50 per share.

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

Revenue from our ProductCenter technology declined for eight straight fiscal years from fiscal year 2006 through fiscal year 2014 before increasing by 14.7% in fiscal 2015. In fiscal year 2016, ProductCenter revenue remained constant compared to the prior fiscal year. The revenue declines from fiscal 2006 through 2014 described above were due to several factors. In July 2007, PTC informed us that it would not renew its partnership agreement with us when the agreement expired in January 2008. We had been a member of the PTC partnership program for 12 years. The PTC partnership agreement, among other things, provided us with the right to distribute certain information that allowed for our technology to directly interface with PTC's proprietary CAD tools. The non-renewal has essentially prevented us from marketing our ProductCenter solution to new customers that utilize PTC's technology and has negatively impacted our product revenue from this technology offering. In addition to the PTC partnership termination, ProductCenter revenues have been negatively affected by: (i) an increased number of competitive offerings in the marketplace, (ii) elongation of purchase decisions by customers of a technology that already has a

long sales cycle, and (iii) uncertain economic conditions. The improved revenue over the last two fiscal years was due to expansion in the use of this technology at several long time customers, increased maintenance renewal rates and increased consulting services related to the expansions.

Subscription revenue from our Connector technology increased by 41.6% from fiscal 2015 to 2016. We added eight (8) new customers and we hope to continue to build on that momentum. This solution is offered only as a subscription which makes revenue growth a more likely event year-over-year as compared to the perpetual license model employed with our ProductCenter technology. The customers for our Connector technology are Aras Innovator (a third party PLM solution) users that have already made the investment in that technology and are now trying to get more functionality from that investment. It is our understanding that Aras Innovator continues to grow at a much faster rate than the overall PLM market which provides us with an opportunity to continue to grow our Connector revenue.

While the recent revenue trend for ProductCenter is encouraging and the market acceptance for our Connector technology is building, we do not have enough broad based momentum from either technology to yet be able to definitively conclude that the historical revenue declines we experienced from 2006 to 2014 are behind us.

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

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

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

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

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

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.

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

Our quarterly revenue and operating results are difficult to predict and may fluctuate significantly from quarter to quarter. Our quarterly revenue may fluctuate significantly for several reasons including: the timing and success of introductions of any new products or product enhancements or those of our competitors; uncertainty created by changes in the market; variations in the size and timing of individual orders; competition and pricing; seasonality; and customer order deferrals or cancellations as a result of general economic conditions or industry decline. Furthermore, we have often recognized a substantial portion of our product revenues in the last month of a quarter, with these revenues frequently concentrated in the last weeks or days of a quarter. As a result, product revenues in any quarter are substantially dependent on orders booked and shipped in the latter part of that quarter and revenues from any future quarter are not predictable with any significant degree of accuracy. We typically do not experience order backlog. For these reasons, we believe that period-to-period comparisons of our results of operations are not necessarily meaningful and should not be relied upon as indications of future performance.

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

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

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

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

We are a small company especially for one that is publicly held. Our technologies are complex and have been developed over many years. While we enjoy the benefit of a very experienced, long-tenured employee group, we are dependent on many of those employees for the familiarity, expertise and unique insight they have developed with our products that would be extremely difficult and time consuming to replace. The loss of services of any of our key personnel could make it difficult for us to meet important objectives, such as timely and effective product introductions and financial goals.

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

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

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

We sell and deliver software and services, and maintain support operations in multiple countries whose laws and practices differ from one another. For the fiscal years ended May 31, 2016 and 2015, North America accounted for approximately 78% 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 weak global economic conditions. Because we market, sell and license our products throughout the world, in addition to the ongoing adverse effects on our business of continued weakness in the U.S. economy, we could be significantly affected by continuing weak economic conditions in foreign and domestic markets that could reduce demand for our products.

Risks Related to the Market for our Common Stock

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

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

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:

.

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

.

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

current quotation prices and other relevant market data; and

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 May 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 May 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 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

We are headquartered in Lowell, MA and maintain a sales and support office in Milan, Italy all of which are leased facilities. We believe that our current office space is adequate for current and anticipated levels of business activity.

ITEM 3. LEGAL PROCEEDINGS

None.

ITEM 4. MINE SAFETY DISCLOSURES

None.

PART II**ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES**

Our common stock is quoted on the OTCQB® market maintained by OTC Markets Group, Inc. under the symbol "SOFT". The following table sets forth the high and low closing price for our common stock for the periods indicated, which reflect inter-dealer prices, without retail mark-up, mark-down or commission and may not necessarily represent actual transactions.

		High	Low
Fiscal Year Ended May 31, 2016			
First Quarter	\$	1.40	\$ 1.25
Second Quarter		2.10	1.45
Third Quarter		1.85	1.20
Fourth Quarter		1.75	1.40
Fiscal Year Ended May 31, 2015			
First Quarter	\$	2.40	\$ 1.25
Second Quarter		2.80	1.40
Third Quarter		1.93	1.45
Fourth Quarter		1.55	1.10

On August 24, 2016, the last reported sale price of our common stock was \$1.80 per share. As of August 24, 2016, there were 903,724 shares of our common stock outstanding held by approximately 102 holders of record, and we had outstanding options to purchase an aggregate of 149,500 shares of common stock, with a weighted average exercise price of \$1.75 per share.

Dividend Policy

We have not paid any cash dividends on our common stock since 1997, and we have no present intention to pay any cash dividends again in the future.

Equity Compensation Plan Information

The following table provides information, as of May 31, 2016, regarding our 2011 Equity Incentive Plan (2011 Plan):

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in second column)
Equity compensation plans approved by security holders ⁽¹⁾	149,500	\$ 1.75	500
Equity compensation plans not approved by security holders	-	-	-
Total	149,500	\$ 1.75	500

(1)

As of May 31, 2016, 143,653 options were exercisable. For additional information, see EXECUTIVE COMPENSATION SofTech Equity Incentive Plans .

Recent Sale of Unregistered Securities

Not Applicable

Issuer Purchases of Equity Securities

During the fourth quarter of fiscal year 2016, we did not purchase any shares of our common stock.

ITEM 6. SELECTED FINANCIAL DATA

We are a Smaller Reporting Company, as defined by the SEC, and are not required to provide the information required by this Item.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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 this Form 10-K. This discussion includes forward-looking statements that involve risks and uncertainties. As a result of many factors, such as those set forth in this Form 10-K under Risk Factors, actual results may differ materially from those anticipated in these forward-looking statements.

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.

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;

.

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;

.

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 23, 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 23, 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 (\$1.15 million as of August 24, 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, resulting in an expected cash payment of approximately \$1.4 million being paid to the Company at the closing.

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:

.

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

.

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 and is subject to SofTech shareholder approval.

Critical Accounting Policies and Significant Judgments and Estimates

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 herein. We believe that the following accounting policies require the application of our most difficult, subjective or complex judgments:

Revenue Recognition

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

Estimating Allowances for Doubtful Accounts Receivable

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

Valuation of Long-lived and Intangible Assets

We periodically review the carrying value of all intangible assets and other long-lived assets. If indicators of impairment exist, we compare the undiscounted cash flows estimated to be generated by those assets over their estimated economic life to the related carrying value of those assets to determine if the assets are impaired. If the carrying value of the asset is greater than the estimated undiscounted cash flows, the carrying value of the assets would be decreased to their fair value through a charge to operations. As of May 31, 2016 and 2015, we do not have any long-lived assets we consider to be impaired.

Goodwill

We account for goodwill pursuant to ASC 350, *Intangibles – Goodwill and Other*. This statement requires that goodwill and other indefinite lived intangible assets be reviewed annually, or more frequently as a result of an event or change in circumstances, for possible impairment. As of May 31, 2016, we conducted our 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 our one reporting unit. We concluded that the fair value of the reporting unit exceeded the carrying amount of the underlying assets and liabilities, therefore no impairment existed as of the testing date.

Valuation of Deferred Tax Assets

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

RESULTS OF OPERATIONS***Fiscal Year Ended May 31, 2016 as compared to Fiscal Year Ended May 31, 2015***

The table below presents the comparative income statements for the fiscal years ended May 31, 2016 and 2015 along with the dollar and percentage change amounts for each revenue and expense item (expressed in thousands, except percentages):

			Change in	Change in
	2016	2015	\$	%
Revenues:				
Products	\$ 515	\$ 535	\$ (20)	(3.7)%
Services	3,661	3,407	254	7.5
Total revenues	4,176	3,942	234	5.9
Cost of revenues:				
Products	67	151	(84)	(55.6)
Services	1,455	1,539	(84)	(5.5)
Total cost of revenues	1,522	1,690	(168)	(9.9)
Gross margin	2,654	2,252	402	17.9
Research and development expenses	633	894	(261)	(29.2)
Selling, general and administration expenses	2,555	2,481	74	3.0
Change in fair value of Earn-Out Payments	46	(85)	131	(154.1)
Operating loss	(580)	(1,038)	458	(44.1)
Interest expense	96	165	(69)	(41.8)
Other (income) expense	(5)	114	(119)	(104.4)
Loss before income taxes	\$ (671)	\$ (1,317)	\$ 646	(49.1)%

The table below presents the relationship, expressed as a percentage, between revenue and expense items and total revenue, for the twelve month periods ended May 31, 2016 and 2015:

	Items as a percentage of revenue	
	2016	2015
Revenues:		

Edgar Filing: SOFTECH INC - Form 10-K

Products	12.3%	13.6%
Services	87.7	86.4
Total revenues	100.0	100.0
Cost of revenues:		
Products	1.6	3.8
Services	34.8	39.0
Total cost of revenues	36.4	42.9
Gross margin	63.6	57.1
Research and development expenses	15.2	22.7
Selling, general and administrative expenses	61.2	62.9
Change in fair value of Earn-Out Payments	1.1	(2.2)
Operating loss	(13.9)	(26.3)
Interest expense	2.3	4.2
Other (income) expense	(.1)	2.9
Loss before income taxes	(16.1)%	(33.4)%

Revenue

Total revenue for fiscal year 2016 was approximately \$4.2 million, an increase of about \$234,000 or 5.9% as compared to fiscal 2015. The following table summarizes revenue by product line for the fiscal years ended May 31, 2016 and 2015 (in thousands, except percentages):

	2016	2015	\$ Change	% Change
Product Line				
ProductCenter	\$ 3,152	\$ 3,149	\$ 3	-%
Connector	229	248	(19)	(7.7)
CADRA	389	527	(138)	(26.2)
Other	406	18	388	2,155.6
Total	\$ 4,176	\$ 3,942	\$ 234	5.9%

Product Revenue

Product revenue for the fiscal year ended May 31, 2016 was approximately \$515,000 as compared to approximately \$535,000 for fiscal year 2015, a 3.7% decrease. The table below details product revenue by product line for the fiscal years ended May 31, 2016 and 2015 (in thousands, except percentages):

	2016	2015	\$ Change	% Change
Product Line				
ProductCenter	\$ 478	\$ 482	\$ (4)	(.8)%
CADRA	28	49	(21)	(42.9)
Other	9	4	5	125.0
Total	\$ 515	\$ 535	\$ (20)	(3.7)%

Our product revenue for ProductCenter for the fiscal year ended May 31, 2016 was essentially unchanged as compared to fiscal 2015. The product revenue from this product line has been significantly higher over the last two fiscal years as compared to fiscal years 2013 and 2014 due to several existing customers expanding their usage of ProductCenter. Our outlook for fiscal 2017 based on the existing pipeline of qualified prospects is for performance similar to that of the last two fiscal years. The decline in product revenue for the CADRA technology in fiscal 2016 as compared to fiscal 2015 is due to the age of this technology. We will continue to offer this product in Europe through our Distributorship Agreement with Mentor but we do not expect it to be a significant element of our revenue.

Service Revenue

Our service revenue is composed of annual maintenance contracts for previously licensed ProductCenter and CADRA technology, subscription revenue for our Connector technology and consulting revenue generated primarily from our ProductCenter technology and third party PLM solutions we distribute. The table below summarizes service revenue by product line for the fiscal years ended May 31, 2016 and 2015, respectively (in thousands, except percentages):

Product Line	2016	2015	\$ Change	% Change
ProductCenter	\$ 2,674	\$ 2,666	\$ 8	.3%
Connector	229	248	(19)	(7.7)
CADRA	361	478	(117)	(24.5)
Other	397	15	382	2,546.7
Total	\$ 3,661	\$ 3,407	\$ 254	7.5%

Total maintenance and subscription revenue included in the above summary totaled approximately \$2.58 million for the twelve months ended May 31, 2016, an increase of 2.7% from fiscal year 2015.

Our maintenance revenue for ProductCenter grew approximately \$41,000 or 2.1% during fiscal year 2016, the third consecutive fiscal year of maintenance revenue growth for this product line. Renewal rates for annual maintenance contracts for this product line were as follows for the last five fiscal years: FY2016: 96%; FY2015: 100%; FY2014: 90%; FY2013: 89%; and FY2012: 93%. The improved renewal rates and sales associated with our increased product revenue in fiscal 2015 and 2016 as compared to the two immediately preceding fiscal years were responsible for ProductCenter's maintenance revenue growth.

Our Connector technology is offered only as an annual subscription. Under these arrangements the subscriber pays in advance for the use of the technology for the subsequent twelve month period and the revenue is amortized evenly during the use period. Connector subscription billings for fiscal 2016 were approximately \$176,000, an increase of 7.9% from fiscal 2015. During fiscal 2016 we received subscription orders from eight (8) new customers and three (3) customers chose not to renew their subscription. In most instances of non-renewal, delays in the implementation of the ARAS Innovator solution is the cause for the non-renewal for our Connector technology. The Connector renewal rate for fiscal 2016 was 76.5% as compared to 55.6% in the prior fiscal year.

The CADRA service revenue is primarily composed of maintenance revenue. The decline of nearly 25% in service revenue for this product line is due in equal measures to reduced renewals for this aging technology and weakness of the U.S. dollar relative to the Euro during fiscal 2016 as compared to the prior fiscal year. We expect to continue to support this technology under the Distributorship Agreement with Mentor but do not expect this to be a significant contributor to our operating results in fiscal 2017 and beyond.

Consulting revenue included in the above summary totaled approximately \$1.08 million for the twelve months ended May 31, 2016, an increase of 20.7% compared to the prior fiscal year. The significant increase in consulting revenue was due to the previously announced (February 12, 2016 press release) contract award from AgustaWestland whereby we were responsible for the integration of multiple third party technologies for improving AgustaWestland's Advanced Configuration Management processes for managing common parts across product platforms. We are discussing with this customer an expansion of this solution.

Revenue by Geographic Area

Revenue generated in the U.S. accounted for approximately 78% of total revenue for the twelve months ended May 31, 2016 as compared to approximately 80% of total revenue in the comparable prior period. Revenue generated in Europe was approximately 22% of total revenue for the twelve months ended May 31, 2016 as compared to approximately 20% of total revenue in the comparable prior period. There was minimal revenue generated from Asia for the twelve months ended May 31, 2016 and 2015.

Gross Margin

Gross margin as a percentage of revenue was 63.6% and 57.1% for the twelve month periods ended May 31, 2016 and 2015, respectively. Gross margin on product revenue was 87.0% in fiscal year 2016 as compared to 71.8% in the prior fiscal year. Gross margin on service revenue was 60.3% in fiscal year 2016 as compared to 54.8% in the prior fiscal year. The increased gross margin on product revenue in fiscal 2016 as compared to 2015 is due primarily to reduced non-cash expenses associated with the amortization of capitalized software costs. The increased gross margin on service revenue is due to increased maintenance and subscription revenue on our ProductCenter and Connector

revenue as detailed above with no increase in headcount to support that revenue.

Research and Development Expenses

Research and development expenses were approximately \$633,000 for the fiscal year ended May 31, 2016, a decrease of approximately \$261,000 or 29.2% from the comparable twelve month period in fiscal year 2015. During fiscal year 2016 approximately \$438,000 of software development costs related to the development of our HomeView technology were capitalized as compared to approximately \$202,000 in the comparable prior period thereby accounting for the majority of the decrease in R&D expenses.

Selling, General and Administrative Expenses

Selling, general and administrative (SG&A) expenses were approximately \$2.56 million for the fiscal year ended May 31, 2016, an increase of approximately 3% from the comparable twelve month period in fiscal year 2015. Our SG&A expenses related to the product launch of HomeView doubled to approximately \$423,000 during fiscal 2016 while our SG&A expenditures related to our ProductCenter and Connector technologies declined by about 7% as compared to fiscal 2015.

Interest Expense

Interest expense for the fiscal year ended May 31, 2016 was approximately \$96,000, as compared to approximately \$165,000 for the comparable prior period. The average outstanding debt amount during fiscal 2016 decreased by more than 20% as compared to fiscal 2015 which was responsible for the majority of the decrease in interest expense. In addition, in fiscal 2015, a portion of the debt carried an interest rate of 14% as compared to the 9.5% rate on the fiscal 2016 debt.

Loss Before Income Taxes

Loss before income taxes for fiscal year 2016 was approximately \$671,000 as compared to approximately \$1,317,000 for the comparable prior period.

Loss Per Share

Net loss per share for fiscal year 2016 was approximately \$.75, as compared to \$1.48 in fiscal year 2015. The weighted average number of shares outstanding was 902,529 in fiscal 2016 as compared to 890,120 in fiscal 2015.

LIQUIDITY AND CAPITAL RESOURCES

At May 31, 2016, our primary source of liquidity comes from our cash of approximately \$175,000 which included approximately \$91,000 held by our European subsidiaries. Approximately 70% of our annual maintenance and subscription billings are invoiced and/or collected in the second half of our fiscal year. This uneven billing and collection of the most significant element of our revenue results in liquidity challenges in our first two quarters of the fiscal year.

During the twelve month periods ended May 31, 2016 and 2015, the net cash used in operating activities totaled approximately \$(359,000) and \$(1,287,000), respectively. The net loss for the twelve month period ended May 31, 2016 adjusted for non-cash expenditures used approximately \$(441,000) as compared to approximately \$(869,000) in the comparable prior period. The net change in current assets and liabilities provided cash of approximately \$82,000 during fiscal year 2016 composed primarily of a reduction in accounts receivable and prepaid assets and an increase in accounts payable and accrued liabilities provided cash which was partially offset by a reduction in deferred revenue which used cash.

Net cash provided by (used in) investing activities during fiscal year 2016 and 2015 was approximately \$(264,000) and \$363,000, respectively. In fiscal year 2016 the Company capitalized approximately \$438,000 of development costs related HomeView, its data management technology for the residential property market, which was partially offset by \$200,000 in deferred contingent payments received in fiscal 2016 related to the sale of the CADRA product line in fiscal 2014. In fiscal year 2015, the Company received a total of \$604,000 in deferred and contingent payments related to the sale of the CADRA product line which was partially offset by \$202,000 in capitalized software development costs related to the HomeView product line.

Net cash provided by (used in) financing activities during fiscal year 2016 totaled approximately \$486,000 as compared to approximately \$(60,000) during the prior fiscal year. In fiscal 2016, we received \$454,000 from net borrowings under our debt agreements and \$50,000 in net proceeds from the issuance of common stock which were partially offset by payments of \$18,000 related to capital leases of equipment. In fiscal 2015, we received approximately \$750,000 from term loan borrowings and \$820,000 in net proceeds from the sale of common stock. These sources of cash were partially offset by our repurchase of approximately 151,000 shares of our common stock for \$312,000 and principal payments of approximately \$1.3 million on our outstanding term loans.

Sources of Cash

As of May 31, 2016, we had cash on hand of approximately \$175,000, a decrease of approximately \$135,000 from May 31, 2015. The decrease in cash was related to approximately \$(359,000) used in operating activities and \$(264,000) used in investing activities which were partially offset by approximately \$486,000 in net cash provided by financing activities. Each of these changes is fully described above.

From fiscal year 2002 through fiscal year 2014, the Company generated positive cash flow (defined as net income (loss) derived on a GAAP basis with non-cash expenses added back). The aggregate positive cash flow during this period was approximately \$12.1 million. In fiscal 2015, the Company incurred negative cash flow of \$(869,000). Approximately \$(400,000) of the negative cash flow was related to the investment the Company made in developing HomeView, its new product offering for the residential property market. In addition, the Company incurred negative cash flow of approximately \$(350,000) at its wholly-owned subsidiary in Milan, Italy as that entity pursued new revenue initiatives beyond the distribution of the CADRA technology. In fiscal year 2016 our negative cash flow was (\$441,000), a significant improvement as compared to fiscal 2015. Our HomeView activities were responsible for \$(423,000) of that negative cash flow in fiscal 2016 and our Italian subsidiary generated negative cash flow of (\$167,000). These were partially offset by positive cash flow generated from our ProductCenter and Connector technologies.

Factors Affecting Sources of Liquidity

Internally Generated Funds. The key factors affecting our internally generated funds are demand for our products and services, competition, economic conditions in the markets in which we operate and industry trends. The significant investment we have made since fiscal 2015 as detailed above in our HomeView technology also impacts our liquidity. The revenue plans for this technology require that we first attract account holders willing to share their information. Therefore, we expect additional investment will be required to aggressively market the technology and to pursue potential partnerships with other entities in the residential property market. Our Italian subsidiary is continuing to show improved operating performance as compared to fiscal 2015 and we expect that entity can attain positive cash flow by the end of fiscal 2017 given the expectation of additional consulting projects from AgustaWestland.

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, as the lender and a related party of the Company. The *EssigPR Note* is a \$750,000 term loan maturing on April 1, 2017, that accrues interest at a 9.5% interest rate, paid quarterly in arrears. The principal on the *EssigPR Note* will be paid from the Holdback Payment and Earn-Out Payments in connection with Mentor's purchase of the CADRA product line from SofTech pursuant to the Asset Purchase Agreement. Specifically, the Holdback Payment and Earn-Out Payments, which may constitute up to \$1.02 million, are described as follows:

•
\$320,000 paid in October 2014, the one-year anniversary of the sale of the CADRA product line. This Holdback Payment of 10% of the purchase price was to ensure non-breach of the Asset Purchase Agreement and was subject to offset by Mentor should they have any indemnity claims under the Asset Purchase Agreement. The indemnification period expired without any indemnification claims presented to the Company and the Holdback Payment of \$320,000 was received on October 20, 2014; and

•
Up to an additional \$223,000 as of May 31, 2016 (maximum Earn-Out Payments of \$750,000 less first three payments of approximately \$44,000, \$284,000 and \$200,000 received in March 2014, 2015 and 2016, respectively).

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

On October 1, 2014, the Company entered into an additional short term borrowing arrangement with EssigPR (Short Term Note) whereby it was agreed that the Company would retain \$300,000 of the Holdback Payment due from Mentor in October 2014 rather than utilize those monies to pay down the above described Note. The interest rate on the Short Term Note is 9.5%, payable quarterly in arrears. The Short Term Note 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.

The Short Term Note has been amended multiple times during fiscal year 2015, 2016 and in the first quarter of fiscal 2017 to extend the due date and/or increase the amount of the borrowings as detailed in Note F to the financial statements. The most recent amendment on August 12, 2016 was in contemplation of completion of the sale of the PLM Business as detailed hereunder.

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 24, 2016.

Issuance of Redeemable Common Stock. During fiscal 2015, the Company issued 170,000 shares of redeemable common stock at \$5.00 per share to five accredited investors. The transactions are described as follows:

On June 20, 2014, we issued 110,000 shares of SofTech common stock, par value \$0.10 per share, in a direct private placement to Mr. Joseph P. Daly (the *Daly Purchase Agreement*). The terms of the *Daly Purchase Agreement* are as follows:

.

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

.

Purchase Price Per Share: \$5.00 per share

.

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

.

Purchase Put Right: Mr. Daly shall have the right to require the Company to repurchase some or all of the shares at \$7.00 per share during the ninety (90) day period immediately following the three-year anniversary of the Closing Date. If we are unable to honor such put right, the unpaid portion converts into a loan obligation secured by all our assets and bearing interest at an annual rate of 20%. If we default on our obligations under such note, the holder of such note may assert any rights it has as a secured creditor, including rights to foreclose on our assets.

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

These transactions were completed pursuant to securities purchase agreements with each of the investors, the material terms of which are as follows:

.

Edgar Filing: SOFTECH INC - Form 10-K

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

.

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

.

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

.

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

.

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

The Company does not believe that the issuance of such shares will restrict the Company's ability to utilize its net operating losses to reduce tax liabilities that might otherwise be due.

Name of Accredited Investor	Date of Securities Purchase Agreement	Amount of Investment in Transaction (\$/# of Shares Purchased)
Robert Anthonyson	September 18, 2014	\$100,000 / 20,000 shares
Glenn W. Dillon	September 22, 2014	\$100,000 / 20,000 shares
Thomas Doherty	September 22, 2014	\$50,000 / 10,000 shares
Leonard Schrank	October 9, 2014	\$50,000 / 10,000 shares

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

Under similar terms to the above described sale of shares, on September 21, 2015 Mr. Anthonyson purchased an additional 10,000 shares at \$5.00 per share. Mr. Anthonyson has the right to require the Company to repurchase some or all of those shares at \$7.00 per share at any time between September 21, 2017 and October 21, 2017.

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 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The required Financial Statements are included at the end of this Form 10K, on pages F-1 through F-21.

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

None

ITEM 9A. CONTROLS AND PROCEDURES

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

As of May 31, 2016, we carried out an evaluation, under the supervision and with the participation of our management, including our President and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934. Based upon that evaluation, our President and Chief Financial Officer concluded that our disclosure controls and procedures are effective in enabling us to record, process, summarize and report information required to be included in our periodic SEC filings within the required time period.

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

With the participation of our President and Chief Financial Officer, management conducted an evaluation of the effectiveness of our internal control over financial reporting as of May 31, 2016, based on the framework and criteria established in *Internal Control - Integrated Framework*, issued by the Committee of Sponsoring Organizations of the Treadway Commission of 1992.

Based on our assessment of the effectiveness in internal control over financial reporting as of May 31, 2016, we concluded that our internal controls over financial reporting were effective.

This Form 10-K does not include an attestation report of our registered public accounting firm regarding internal control over financial reporting. Our report was not subject to attestation by our registered public accounting firm pursuant to the rules of the SEC that permit us to provide only management's report in this Form 10-K.

Changes in Internal Control Over Financial Reporting. There were no changes in our internal control over financial reporting that occurred during the fiscal quarter ended May 31, 2016 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

None

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE**Directors and Executive Officers**

The following table sets forth certain information regarding our directors and executive officers as of August 24, 2016:

Name	Age	Position
Joseph P. Mullaney	59	President, Chief Executive Officer and Director
Robert B. Anthonyson	69	Vice President of Business Development and Director
J. Phillip Cooper	73	Director

Joseph P. Mullaney has served as President, Chief Executive Officer and Director since the consummation of the Recapitalization Transaction. From January 2008 through March 2011, Mr. Mullaney was a management consultant for several technology, renewable energy and telecom companies. From January 2007 through December 2007, Mr. Mullaney served as Chief Executive Officer and Chief Financial Officer of Boston Communications Group, Inc., and repositioned that troubled entity for a successful cash sale at double its then current market value. From June 2001 through December 2006, Mr. Mullaney served as President and Chief Executive Officer of the Company. During this period, Mr. Mullaney developed and implemented the turnaround strategy that ended three consecutive years of negative cash flow totaling almost \$10 million and resulted in twelve consecutive years of positive cash flow. Mr. Mullaney has a BS from Stonehill College and an MBA from Northeastern University. Mr. Mullaney's extensive entrepreneurial and executive experience, his in-depth knowledge of our Company in his executive capacity, his proven ability to raise funds and provide access to capital make him uniquely qualified to serve as President, CEO and as a member of our Board. Mr. Mullaney's term as a director expires at the annual meeting of shareholders to be held in 2016.

Robert B. Anthonyson has served as Vice President of Business Development and Director since the consummation of the Recapitalization Transaction. From 2003 through March 2011 Mr. Anthonyson was the general partner of Layne & Barton, LLC, a consulting firm providing real estate brokerage and advisory services. Previously, Mr. Anthonyson was a founder of AVID Systems, a developer of RFID-based technology that allows automated payment when entering or exiting parking garages (sold to Amtech Corp.), co-founder of Dynamics Associates (sold to Interactive Data Corp. then owned by Chase), a patent holder, and technologist. Mr. Anthonyson also served as the project manager of the award-winning \$80M park and underground garage project that transformed Boston's downtown financial district. Mr. Anthonyson currently serves as a Director of FireStar Software. Mr. Anthonyson has a BS and MS from MIT and an MBA from Stanford University. Mr. Anthonyson's extensive knowledge of, and experience in, the software and technology industry, experience as a founder of several technologies and companies and leadership background make him uniquely qualified to serve as VP of Business Development and as a member of our Board. Mr. Anthonyson's term as a director expires at the annual meeting of shareholders expected to be held in 2016.

J. Phillip Cooper is the Chairman of the Compensation Committee and the Audit Committee. Mr. Cooper is the former Vice Chairman, EVP, and CFO of Charles River Associates (NASDAQ: CRAI), from which he retired in June 2006. Mr. Cooper has held numerous CEO positions at several technology companies, including Newstar Technologies in Toronto, Ontario; Clinical Information Advantages, Inc., in Waltham, MA; and Applied Expert Systems in Cambridge, MA. Currently, Mr. Cooper is a member of Boston Harbor Angels, a member of the Board of Advisors of The Capital Network and serves as a Director or Advisor for three technology companies. Mr. Cooper has a B.Com from the University of Toronto and a Ph.D. from MIT. Mr. Cooper's significant public company experience, leadership and management experience in the technology industry, and expertise in the fields of marketing, business development, deal structuring and negotiation, acquisition and strategic partnering, and financial engineering enable him to make critical contributions as a member of our Board. Mr. Cooper's term as a director expires at the next annual meeting of shareholders.

Section 16(a) Beneficial Ownership Reporting Compliance

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

As of August 24, 2016, to our knowledge all of our officers and directors have filed all reports required to be filed by them pursuant to the requirements of Section 16.

Structure and Operation of the Board

The following is a brief description of the functions of the Board:

Board Leadership Structure and Role in Risk Oversight

Our Board of Directors as a whole is responsible for our risk oversight. Our executive officers address and discuss with our Board of Directors our risks and the manner in which we manage or mitigate such risks. While our Board of Directors has the ultimate responsibility for our risk oversight, our Board of Directors works in conjunction with its committees on certain aspects of its risk oversight responsibilities. In particular, our Audit Committee focuses on financial reporting risks and related controls and procedures and our Compensation Committee strives to create compensation practices that do not encourage excessive levels of risk taking that would be inconsistent with our strategies and objectives.

Since March 2011, Joseph Mullaney has served as our President and Chief Executive Officer. At this time, our Board believes that Mr. Mullaney's combined role as President, Chief Executive Officer and Director enables us to benefit from Mr. Mullaney's significant institutional and industry knowledge and experience, while at the same time promoting unified leadership and direction for our Board and executive management without duplication of effort and cost. Given our history, position, Board composition and the relatively small size of our company and management team, at this time, our Board believes that we and our shareholders are best served by our current leadership structure.

Nomination of Directors

Our bylaws do not provide a procedure for shareholders to nominate directors. The Board of Directors does not currently have a standing nominating committee. Instead, the Board of Directors currently has the responsibility of selecting individuals to be nominated for election to the Board of Directors. The Board of Directors does not have a formal policy regarding diversity, the Directors seek a diverse group of candidates who possess the background, skills and expertise to make a significant contribution to the Board of Directors, to the Company and to its shareholders. Qualifications considered by the Directors in nominating an individual may include, without limitation, independence, integrity, business experience, education, accounting and financial expertise, reputation, civic and community relationships and industry knowledge. In nominating an existing director for re-election to the Board of Directors, the Directors will consider and review an existing director's Board and Committee attendance, performance and length of service.

Audit Committee Related Function

The Board has formed an Audit Committee composed of one non-employee Director: Mr. Cooper, who is independent as that term is defined in rules promulgated by the SEC and in accordance with the standards of the Nasdaq stock market. At this time, the Audit Committee does not have a charter. The Audit Committee is appointed by and reports to our Board of Directors. Its responsibilities include, but are not limited to, the appointment, compensation and dismissal of our independent public accountants, review of the scope and results of our independent public accountants audit activities, evaluation of the independence of our independent public accountants and review of our accounting controls and policies, financial reporting practices and internal audit control procedures and related reports.

Compensation Committee Related Function

The current Board has formed a Compensation Committee composed of one non-employee Director: Mr. Cooper, who is independent as that term is defined in rules promulgated by the SEC and in accordance with the standards of the Nasdaq stock market. At this time, the Compensation Committee does not have a charter. The Compensation Committee is appointed by and reports to our Board of Directors. The Compensation Committee has the responsibility of reviewing and establishing compensation for executive officers and making policy decisions concerning salaries and incentive compensation for executive officers of SofTech.

Executive Compensation Programs. The Company's compensation programs are aimed at enabling it to attract and retain the best possible executive talent and rewarding those executives commensurate with their ability and performance. The Company's compensation programs consist primarily of base salary, bonus plan, and stock option plan.

Base Salary. Base salaries for executive officers are determined in the same manner as that of other salaried employees. Salary guidelines are established by comparing the responsibilities of the individual's position in relation to similar positions in other software development companies of similar size. Individual salaries were determined this year by considering respective levels of responsibility, position and industry comparables.

Bonus Plan. The President, Vice President of Business Development and Chief Financial Officer participate in incentive plans which compensate these individuals in the form of cash bonuses. Awards under these plans are based on the attainment of specific Company and individual performance measures established by the Board at the beginning of the fiscal year.

Incentive Compensation Plan. The 2011 Plan was approved by our shareholders at the Annual Meeting held on May 24, 2011. Under the 2011 Plan, 150,000 shares of our common stock are reserved for issuance. Additionally, any shares subject to any award under the 2011 Plan that expires or is terminated unexercised or is forfeited will be available for awards under the 2011 Plan.

Director Compensation. The Board of Directors administers the 2011 Equity Incentive Plan. No option may be exercised after the expiration of ten years from its date of grant. Each non-employee Director will receive an annual fee of \$12,000 paid on a quarterly basis in arrears for their first three-year term. The annual fee for the second three year term will increase to \$24,000 paid quarterly in arrears. In addition, in order to align their interests with those of the shareholders, each non-employee Director will be granted an option to purchase 5,000 shares of common stock upon his or her initial appointment to the Board of Directors, and will be granted annually (beginning in 2012) an option to purchase 1,000 shares of common stock so long as such Director holds such position. All such options shall have an exercise price equal to the fair market value of our common stock on the date of grant. These options will vest monthly on a pro rata basis over three years from the date of grant. In the event a Director resigns, stock options already vested may be exercised within 90 days and all unvested stock options will be forfeited. Director Cooper was granted an option to purchase 5,000 shares on June 7, 2011 and an additional option to purchase 1,000 shares for each annual meeting subsequent to his initial appointment. In addition, on April 8, 2014, Mr. Cooper was awarded an option to purchase 10,000 shares.

Communication with Shareholders

We have established a process for shareholders to communicate with the Board of Directors. Shareholders wishing to communicate with the Board of Directors of SofTech should send an email to investors@softech.com or write or telephone Joseph P. Mullaney at the Company's corporate offices:

Joseph P. Mullaney

SofTech, Inc.

650 Suffolk Street, Suite 415

Lowell, Massachusetts 01854

Telephone: (978) 513-2700

Facsimile: (978) 851-4806

All such communication must state the number of Company securities held by the shareholder and must clearly state that the communication is intended to be shared with the Board of Directors. Mr. Mullaney will forward all such communications to the members of the Board.

Code of Ethics

SofTech has adopted a code of ethics that applies to the Principal Executive Officer, Principal Financial Officer, or those performing similar functions. A copy of the code of ethics is available on the Company's website at www.softech.com.

ITEM 11. EXECUTIVE COMPENSATION

The following table summarizes the compensation paid to our President and Chief Executive Officer and to each of the two most highly compensated executive officers (collectively, the Named Executive Officers) during or with respect to each of the two fiscal years ended May 31, 2016 and 2015.

2016 Summary Compensation Table

Name and principal position	Year	Salary	Bonus	Stock Option Awards	All other compensation⁽¹⁾	Total
Joseph P. Mullaney, President & CEO	2016	\$ 247,500	\$ -	\$ -	\$ 4,950	\$ 252,450
	2015	237,187	40,000	32,125	5,544	314,856
Robert B. Anthonyson , VP of Business Development	2016	192,500	-	-	3,850	196,350
	2015	184,890	40,000	32,125	4,490	261,505
Amy E. McGuire, Former Chief Financial Officer ⁽²⁾	2016	105,000	-	-	4,350	109,350
	2015	102,709	5,000	6,425	2,163	116,297

(1)

Reflects our contributions to each of the Named Executive Officer s accounts under our 401(k) plan, medical and medical expense reimbursement.

(2)

Ms. McGuire resigned from the Company effective August 5, 2016. Ms. McGuire has agreed to assist the Company following her resignation in a part time advisory role during an undefined transition period. In exchange for her transition services, Ms. McGuire will receive an advisory fee of \$100.00 per hour.

Narrative Compensation Disclosure

Mr. Mullaney an annual salary of \$247,500 with a bonus opportunity of up to 50% of the annual salary. Performance goals for payment of bonuses are to be established by mutual agreement between Compensation Committee and Mr. Mullaney. In addition, Mr. Mullaney is entitled to one year s compensation in the event his employment is terminated

without cause.

Mr. Anthonyson an annual salary of \$192,500 with a bonus opportunity of up to 50% of the annual salary. Performance goals for payment of bonuses are to be based half on attainment of corporate goals and half on personal goals. In addition, Mr. Anthonyson is entitled to six months compensation in the event his employment is terminated without cause.

Ms. McGuire an annual salary of \$105,000 with a bonus opportunity of up to 35% of annual salary, half based on corporate goals and the other half based on personal goals. In addition, Ms. McGuire was entitled to four months annual salary in the event her employment was terminated without cause. Ms. McGuire terminated her employment with SofTech on August 5, 2016.

Retirement Plan

We have a 401K retirement plan, for which all our employees are eligible, including the Named Executive Officers. We match employee contributions, which are vested immediately, up to 2% of the employee's compensation.

Grants of Plan-Based Awards in 2016

No stock awards were granted to the Company's Named Executive Officers during fiscal year 2016.

Director Compensation

Each non-employee Director receives annual fees of \$12,000 for their first three year term, paid on a quarterly basis in arrears. The annual fee increases to \$24,000 for the second three year term. In addition, each non-employee Director will be granted an option to purchase 5,000 shares of Common Stock with respect to his or her initial appointment to the Board of Directors, and will be granted annually an option to purchase 1,000 shares of common stock at the Company's Annual Meeting of Shareholders so long as such Director holds such position. All such options shall have an exercise price equal to the fair market value of the common stock on the date of grant and shall vest monthly on a pro rata basis over three years from the date of grant so long as the Director continues to be a member of the Board of Directors.

Outstanding Equity Awards At Fiscal Year-End 2016

The following table sets forth certain information concerning the compensation of our non-employee directors during the fiscal year ended May 31, 2016.

Name	Fees earned		Option awards	Total
	or paid	in cash ⁽¹⁾		
J. Phillip Cooper	\$	24,000	\$ -	\$ 24,000

(1)

Directors who are compensated as full-time employees receive no additional compensation for service on our Board of Directors. Each independent director who is not a full-time employee is paid an annual fee of \$12,000 for their first three year term and \$24,000 for their second three year term on a quarterly basis in arrears.

The Board of Directors administers the 2011 Equity Incentive Plan. No option may be exercised after the expiration of ten years from its date of grant. Non-employee Directors receive an annual fee of \$12,000 for the first three year term and \$24,000 for the second three year term, paid on a quarterly basis in arrears. In addition, in order to align their interests with those of the shareholders, the non-employee Director was granted an option to purchase 5,000 shares of common stock at an exercise price equal to the fair market value of our common stock on the date of grant. These options will vest monthly on a pro rata basis over each non-employee Director's initial three year term as a Director. In the event a Director resigns, stock options already vested may be exercised within 90 days and all unvested stock options will be forfeited.

2011 Equity Incentive Plan

The 2011 Plan was approved by our shareholders at the Annual Meeting held on May 24, 2011. Under the 2011 Plan, 150,000 shares of our common stock are reserved for issuance. Additionally, any shares subject to any award under the 2011 Plan that expires or is terminated unexercised or is forfeited will be available for awards under the 2011 Plan.

All employees, officers, directors, consultants and advisors of the Company or any of its affiliates capable of contributing to the successful performance of the Company are eligible to be participants in the 2011 Plan. Based on the number of our current employees, directors and consultants, there are approximately 40 individuals who currently would be eligible to participate in the 2011 Plan. We 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. We may not in any fiscal year grant to any participant stock options, SARs or other awards with respect to which performance goals apply covering more than 50,000 shares.

The 2011 Plan is administered by the Compensation Committee of the Board of Directors composed of members who are independent from Company management (the Committee). The Committee has the authority to adopt administrative rules and practices governing the operation of the 2011 Plan and to interpret its provisions. The Committee may, subject to applicable law, delegate to one or more of our executive officers the power to make awards to participants who are not executive officers or Directors, subject to a maximum number of shares fixed by the Committee. The Board may at any time also take any such action.

Except as may be limited by the 2011 Plan or applicable law, the Committee selects participants to receive awards and determines the terms and conditions of each award, including the number of shares of common stock subject to awards, the price, if any, a participant pays to receive or exercise an award, the time or times when awards vest or may be exercised, settled or forfeited, any performance goals, restrictions or other conditions to vesting, exercise, or settlement of awards, and the effect on awards of the disability, death, or termination of service of participants. Awards may be made to participants who are foreign nationals or employed outside the United States on terms the Committee deems appropriate.

Upon an equity restructuring or other corporate transaction that affects the common stock such that an adjustment is required in order to preserve the benefits intended to be provided by the 2011 Plan, the Committee shall equitably adjust any or all of the number and kind of shares in respect of which awards may be made under the 2011 Plan, the number and kind of shares subject to outstanding awards, the exercise price with respect to any of the foregoing, and the limit on individual grants. The Committee may act to preserve the participants' rights in the event of a change in control of the Company as the Committee may consider equitable to participants and in the best interests of the Company, including without limitation: accelerating any time period relating to the vesting, exercise, or settlement of awards, providing for payment to participants of cash or other property with a fair market value equal to the amount that would have been received upon the vesting, exercise, or settlement of awards in connection with the change in control, adjusting the terms of awards in a manner determined by the Committee to reflect the change in control, causing awards to be assumed, or new rights substituted therefor, by another entity, or terminating awards.

We may not, without shareholder approval, amend any outstanding option or SAR to reduce the exercise price or replace it with a new award exercisable for common stock at a lower exercise price. Subject to the prohibition on repricing, the Committee may not amend, modify or terminate any outstanding award for which the respective participant's consent would be required unless the terms of the award permit such action, the Committee determines that such action is required by law, or the Committee determines that the action would not materially and adversely affect the participant. The Board of Directors may amend, suspend or terminate the 2011 Plan, subject to any shareholder approval it deems necessary or appropriate.

We have granted options to purchase 149,500 shares of our common stock under the 2011 Plan. These options were granted to our non-employee director as part of our director compensation policy and our employees. For more information, see EXECUTIVE COMPENSATION Director Compensation above.

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

Security Ownership of Certain Beneficial Owners And Management

Edgar Filing: SOFTECH INC - Form 10-K

The following table provides information concerning beneficial ownership of our common stock as of August 24, 2016, for (i) each person named in the Summary Compensation Table as a Named Executive Officer, (ii) each director individually, (iii) all directors and executive officers as a group, and (iv) each person known by us to beneficially own more than 5% of our outstanding common stock. The address for our executive officers, directors and Chandra Singh is in care of SofTech, Inc., 650 Suffolk Street, Suite 415, Lowell, MA 01854.

Name of Beneficial Owner(1)(2)	Amount and Nature of Beneficial Ownership	Percent of Class
Joseph P. Mullaney	108,635 ⁽⁶⁾	11.7%
Robert B. Anthonyson	184,838 ⁽⁶⁾	19.9
J. Phillip Cooper	37,784 ⁽⁴⁾	4.1
Chandra Singh	127,036 ⁽³⁾	14.1
Joseph P. Daly	177,500 ⁽⁵⁾	19.4
All Directors and executive officers as a group (3 persons)	331,257 ⁽⁷⁾	34.5

(1)

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

(2)

There were 903,724 shares outstanding on August 24, 2016.

(3)

Includes 3,225 shares owned by spouse, as to which beneficial ownership is disclaimed.

(4)

Includes 16,917 shares issuable upon exercise of stock options held by Mr. Cooper related to his service as a Board member.

(5)

As reported on Form 4 filed with the SEC on August 18, 2015, includes 10,000 shares issuable upon exercise and 26,500 shares owned by EssigPR, Inc., a corporation located in Rincon, Puerto Rico owned by Mr. Daly. Mr. Daly's business address is 497 Circle Freeway, Cincinnati, Ohio 45246.

(6)

Includes shares issuable under stock options as follows: Mr. Mullaney 25,000 and Mr. Anthonyson -25,000.

(7)

Includes 66,917 shares issuable upon exercise of stock options held by all Directors and executive officers as a group.

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

Director Independence

In determining whether the members of our board of directors and its committees are independent, we have elected to use the definition of "independence" set forth in the listing standards of the NASDAQ Stock Market. After considering all relevant relationships and transactions, our board of directors, in consultation with legal counsel, has determined that Mr. Cooper is "independent" within the meaning of the applicable listing standards of the NASDAQ Stock Market. Messrs. Mullaney and Anthonyson are not independent within the meaning of the applicable listing standards of the NASDAQ Stock Market. The Company has a separate standing Audit Committee and a separate standing Compensation Committee, each of which is comprised of the independent director, Mr. Cooper. The Company does not have a separate standing Nominating and Governance Committee. Instead, the full board of directors has the responsibility of selecting individuals to be nominated for election to the board of directors.

Transaction with Certain Beneficial Owners and Directors

As part of the Recapitalization Transaction in March 2011, we raised approximately \$421,765 in cash from the issuance of 384,588 shares of common stock in a private placement to investors. Among the investors were: Joseph P. Mullaney, who was appointed as our President and Chief Executive Officer and elected as a member of our board of directors upon consummation of the Recapitalization Transaction; Robert B. Anthonyson, who was appointed as our Vice President of Business Development and elected as a member of our board of directors upon consummation of the Recapitalization Transaction; J. Phillip Cooper, who was elected as a member of our board of directors upon consummation of the Recapitalization Transaction; and Chandra Singh, who owned approximately 10.9% of our outstanding common stock prior to the Recapitalization Transaction and 12.8% after consummation of the transaction.

In connection with the private placement, we also entered into the Registration Rights Agreement with the Selling Shareholders, pursuant to which we agreed to file with the SEC a registration statement to cover the resale of the 384,588 shares of common stock issued in the private placement, within 90 calendar days after the closing of the private placement. We agreed to use our reasonable best efforts to have the registration statement declared effective as promptly as reasonable possible. We also agreed to use our reasonable best efforts to keep the registration statement continuously effective until the earlier of (i) such time as all of the shares have been sold by the Selling Shareholders and (ii) the date that all the shares may be sold immediately without registration under the Securities Act and without restrictions under Rule 144 of the Securities Act. This registration document was deemed effective on December 28, 2011.

The Registration Rights Agreement also grants piggyback registration rights to the Selling Shareholders if we propose to register any of our equity securities under the Securities Act (other than on a registration statement on Form S-8 or S-4), whether for our own account or for the account of another person.

We agreed in the Registration Rights Agreement to pay for all expenses, including the reasonable legal expenses of one counsel to the Selling Shareholders (not to exceed \$25,000), relating to the registration of any shares thereunder.

Transaction with Act3 Technologies, LLC

On November 1, 2011 the Company entered into an agreement with Act3 Technologies, LLC (Act3) pursuant to which it obtained the exclusive right to develop, commercialize and monetize certain intellectual property owned by Act3 relating to internet marketing software (the Act3 IP). The Company obtained these rights solely in exchange for its agreement to certain sharing of the proceeds that may be derived with Act3 if the Company is successful in commercializing the Act3 IP, provided that the Company first recover any development costs it may have incurred up to specified levels. The agreement does not obligate the Company to undertake any level of effort or expenditure in this regard and the decision whether to seek to commercialize the Act3 IP is solely in the Company's discretion. The Company also has a right of first refusal to purchase Act3 through December 31, 2050. Joseph Mullaney, Robert Anthonyson and J. Phillip Cooper, each a member of our board of directors, own approximately 10%, 10%, and 3%, respectively, of the equity interests in Act3.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Independent Registered Public Accounting Firm, Audit Fees

The aggregate fees billed by Moody, Famiglietti & Andronico for each of the last two fiscal years for professional services rendered to the Company are as follows:

	Audit Fees⁽¹⁾	Audit-Related Fees	Tax Fees	All Other Fees
Fiscal year ended May 31, 2016	\$ 81,340	\$ -	\$ -	-
Fiscal year ended May 31, 2015	\$ 24,047	\$ -	\$ -	-

The aggregate fees billed by McGladrey LLP for each of the last two fiscal years for professional services rendered to the Company are as follows:

	Audit Fees⁽¹⁾	Audit-Related Fees	Tax Fees	All Other Fees
Fiscal year ended May 31, 2015	\$ 79,887	\$ -	\$ -	\$ -

(1)

Includes Form 10-Q reviews and issuance of Consents related to registration statements. Effective November 20, 2014, SofTech dismissed McGladrey as its independent registered public accounting firm and engaged Moody, Famiglietti & Andronico, LLP to audit and review the Company's financial statements for the fiscal year ended May 31, 2015. MFA was engaged for general audit and review services and not because of any particular transaction or accounting principle, or because of any disagreement with McGladrey LLP.

The Company's Board of Directors is responsible for the appointment, compensation, retention and oversight of the work of the registered public accounting firm (including resolution of disagreements between management and the independent auditor regarding financial reporting) for the purpose of preparing or issuing an audit report or performing other audit, review or attest services for the Company. The Board pre-approves all permissible non-audit services and all audit, review or attest engagements required under the securities laws (including the fees and terms thereof) to be performed for the Company by its registered public accounting firm, provided, however, that de minimus non-audit services may instead be approved in accordance with applicable SEC rules. The Company's Board of Directors approved 100% of the services described in the table above.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES.

(a)

Certain Documents Filed as Part of this Form 10-K

1.

Consolidated Financial Statements:

Consolidated Balance Sheets

Consolidated Statements of Operations

Consolidated Statements of Comprehensive Loss

Consolidated Statements of Changes in Redeemable Common Stock and Shareholders' Equity (Deficit)

Consolidated Statements of Cash Flows

2.

Financial Statement Schedules -None.

3.

Exhibits See Exhibit Index immediately preceding such Exhibits.

(b)

The exhibits filed as part of this Form 10-K are listed on the Exhibit Index immediately preceding such Exhibits. The Exhibit Index is incorporated herein by reference.

(c)

None

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

SOFTECH, INC.

Date: August 29, 2016

/s/ Joseph P. Mullaney

Joseph P. Mullaney

President and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature

Title

Date

/s/ Joseph P. Mullaney

President, Chief Executive Officer and Director

August 29, 2016

Edgar Filing: SOFTECH INC - Form 10-K

Joseph P. Mullaney

(Principal Executive and Financial Officer)

/s/ Robert B. Anthonyson
Robert B. Anthonyson

Vice President of Business Development and Director

August 29, 2016

/s/ J. Phillip Cooper
J. Phillip Cooper

Director

August 29, 2016

EXHIBIT INDEX

Exhibit

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

Edgar Filing: SOFTECH INC - Form 10-K

- 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, filed herewith.
- 10.25 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).
- 10.26 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 Financial Officer pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934, as amended.
- 31.2 Certification of the Principal Executive Officer pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934, as amended.

Edgar Filing: SORTECH INC - Form 10-K

32.1	Certification of the Principal Financial Officer and Principal Executive Officer pursuant to U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders

SofTech, Inc.

Lowell, Massachusetts

We have audited the accompanying consolidated balance sheets of SofTech, Inc. and Subsidiaries (the Company) as of May 31, 2016 and 2015, and the related consolidated statements of operations, comprehensive loss, changes in redeemable common stock and shareholders' deficit and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of SofTech, Inc. and Subsidiaries as of May 31, 2016 and 2015, and the results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

/s/ Moody, Famiglietti & Andronico, LLP

Tewksbury, MA

August 29, 2016

F-1

SOFTECH, INC. AND SUBSIDIARIES**CONSOLIDATED BALANCE SHEETS**

	<i>(in thousands)</i>	
	May 31, 2016	May 31, 2015
<u>ASSETS</u>		
Cash and cash equivalents	\$ 175	\$ 310
Accounts receivable (less allowance for uncollectible accounts of \$18 as of May 31, 2016 and 2015)	477	587
Earn-Out Payments from CADRA Sale, current portion	130	243
Prepaid and other assets	207	315
Total current assets	989	1,455
Property and equipment, net	71	57
Goodwill	948	948
Capitalized software development costs, net	825	422
Capitalized patent costs	113	109
Earn-Out Payments from CADRA Sale, net of current portion	-	133
Related party note receivable	134	134
Other assets	35	35
TOTAL ASSETS	\$ 3,115	\$ 3,293
<u>LIABILITIES, REDEEMABLE COMMON STOCK AND SHAREHOLDERS DEFICIT</u>		
Accounts payable	\$ 178	\$ 137
Accrued expenses	323	283
Deferred maintenance and subscription revenue	1,531	1,732
Current portion of capital lease	24	19
Current portion of long-term debt related party	900	446
Total current liabilities	2,956	2,617
Capital lease, net of current portion	39	30
Other liabilities	-	10
Total liabilities	2,995	2,657
Commitments and contingencies		

Redeemable Common Stock and Shareholders Deficit:

Redeemable common stock, \$0.10 par value, 180,000 and 170,000 shares issued and outstanding at May 31, 2016 and 2015, respectively.	1,260	1,190
Shareholders' deficit:		
Common stock, \$0.10 par value 20,000,000 shares authorized, 723,724 issued and outstanding at May 31, 2016 and 2015, respectively.	73	73
Additional paid in capital	27,138	27,056
Accumulated deficit	(28,073)	(27,400)
Accumulated other comprehensive loss	(278)	(283)
Total shareholders' deficit	(1,140)	(554)
TOTAL LIABILITIES, REDEEMABLE COMMON STOCK AND SHAREHOLDERS' DEFICIT	\$ 3,115	\$ 3,293

See accompanying notes to consolidated financial statements.

SOFTECH, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS

	<i>(in thousands, except for share and per share data)</i>	
	Years Ended	
	May 31, 2016	May 31, 2015
Revenues:		
Products	\$ 515	\$ 535
Services	3,661	3,407
Total revenues	4,176	3,942
Cost of revenues:		
Products	67	151
Services	1,455	1,539
Total cost of revenues	1,522	1,690
Gross margin	2,654	2,252
Research and development expenses	633	894
Selling, general and administrative expenses	2,555	2,481
Change in fair value of earn-out and holdback payments	46	(85)
Operating loss	(580)	(1,038)
Interest expense	96	165
Other (income) expense	(5)	114
Loss before income taxes	(671)	(1,317)
Provision for income taxes	2	2
Net loss	\$ (673)	\$ (1,319)
Basic and diluted net loss per share	\$ (0.75)	\$ (1.48)
Weighted average common shares outstanding-basic and diluted	902,529	890,120

See accompanying notes to consolidated financial statements.

SOFTECH, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

	<i>(in thousands)</i>	
	For the Twelve Months Ended May 31, 2016	May 31, 2015
Net loss	\$ (673)	\$ (1,319)
Other comprehensive income:		
Foreign currency translation adjustment	5	199
Comprehensive loss	\$ (668)	\$ (1,120)

See accompanying notes to consolidated financial statements.

SOFTECH, INC.**CONSOLIDATED STATEMENTS OF CHANGES IN REDEEMABLE COMMON STOCK AND
SHAREHOLDERS DEFICIT**

	<i>(in thousands, except for share and per share data)</i>	
	Years Ended	
	May 31, 2016	May 31, 2015
Redeemable common stock:		
Balance at beginning of year	\$ 1,190	\$ 275
Issuance of redeemable common stock	50	850
Repurchase of redeemable common stock	-	(275)
Accretion of redeemable common stock to redemption value	20	340
Redeemable common stock at end of year	\$ 1,260	\$ 1,190
Common stock:		
Balance at beginning of year	\$ 73	\$ 83
Repurchase of common stock	-	(10)
Balance at end of year	73	73
Additional paid in capital:		
Balance at beginning of year	27,056	27,338
Repurchase of common stock	-	(27)
Accretion of redeemable common stock to redemption value	(20)	(340)
Fee to be paid to redeemable common stock investors	(6)	(30)
Stock based compensation	108	115
Balance at end of year	27,138	27,056
Accumulated deficit:		
Balance at beginning of year	(27,400)	(26,081)
Net loss	(673)	(1,319)
Balance at end of year	(28,073)	(27,400)
Accumulated other comprehensive loss:		
Balance at beginning of year	(283)	(482)
Foreign currency translation adjustments	5	199
Balance at end of year	(278)	(283)
Total shareholders' deficit at end of year	\$ (1,140)	\$ (554)
Outstanding shares:		
Balance of redeemable common stock at beginning of year	170,000	50,000
Repurchase of redeemable common stock	-	(50,000)
Issuance of redeemable common stock	10,000	170,000
Balance of redeemable common stock at end of year	180,000	170,000
Balance of common stock at beginning of year	723,724	825,135
Repurchase of common stock	-	(101,411)

Edgar Filing: SORTECH INC - Form 10-K

Balance of common stock at end of year	723,724	723,724
--	---------	---------

See accompanying notes to consolidated financial statements.

F-5

SOFTECH, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	<i>(in thousands)</i> Years Ended	
	May 31, 2016	May 31, 2015
Cash flows from operating activities:		
Net loss	\$ (673)	\$ (1,319)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization expense	74	279
Change in fair value of earn-out and holdback payments	46	(85)
Non-cash loss on foreign currency transactions	4	114
Stock-based compensation	108	115
Non-cash interest expense	-	27
Changes in current assets and liabilities:		
Accounts receivable	110	86
Prepaid expenses and other current assets	108	(111)
Accounts payable, accrued expenses and other liabilities	65	(663)
Deferred maintenance revenue	(201)	270
Net cash used in operating activities	(359)	(1,287)
Cash flows from investing activities:		
Proceeds from earn-out and holdback payments	200	604
Capital expenditures	(22)	(3)
Capitalized software development costs	(438)	(202)
Capitalized identifiable intangible assets	-	(33)
Capitalized patent costs	(4)	(3)
Net cash provided by (used in) investing activities	(264)	363
Cash flows from financing activities:		
Proceeds from issuance of redeemable common stock, net of issuance costs	50	820
Cost of repurchasing common stock	-	(37)
Borrowings under debt agreement	647	750
Cost of repurchasing redeemable common stock	-	(275)
Repayment under debt agreements	(193)	(1,304)
Repayments under capital lease	(18)	(14)
Net cash provided by (used in) financing activities	486	(60)
Effect of exchange rates on cash	2	85
Decrease in cash and cash equivalents	(135)	(899)
Cash and cash equivalents, beginning of year	310	1,209
Cash and cash equivalents, end of year	\$ 175	\$ 310

Edgar Filing: SOFTECH INC - Form 10-K

Supplemental disclosures of cash flow information:

Interest paid	\$	88	\$	122
Income taxes paid	\$	2	\$	2

Supplemental disclosures of non-cash investing and financing activities:

Purchase of property and equipment under capital lease	\$	32	\$	-
Accretion of redeemable common stock	\$	20	\$	340

See accompanying notes to consolidated financial statements.

F-6

SOFTECH, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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.

During fiscal years 2015 and 2016, the Company 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.

BASIS OF ACCOUNTING AND LIQUIDITY

The consolidated financial statements have been prepared on a basis that contemplates the realization of assets and the satisfaction of liabilities and commitments in the normal course of business. The Company's long-term viability is dependent on its ability to generate sufficient product revenue, net income and cash flows from operations to support its business as well as its ability to obtain additional capital.

The Company has sustained net operating losses and negative cash flow from operations for fiscal year 2015 and fiscal 2016 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 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.

As outlined further in these disclosures, the Company has debt obligations that are payable during October 2016 and common stock that is redeemable during the next twelve months. The Company's ability to meet its obligations and continue as a going concern is dependent on the successful execution of its operating plans.

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 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.

As of July 31, 2016, approximately 350 HomeView accounts have been established tracking approximately 12,000 details about the things in the homes of those users. Through various marketing efforts we continue to attract new visitors to the HomeView website.

As detailed in previous filings, one of the alternatives for obtaining the additional capital we need to continue the market introduction of HomeView and meet our near term capital needs is the sale of one or more of the Company's existing revenue producing product lines. Subsequent to year end the Company entered into just such an agreement as described immediately hereunder. After pursuing other funding alternatives management determined that the sale was the most favorable alternative for shareholders.

The transaction is subject to the approval of the Company's shareholders and is expected to be completed by October 2016. The approval of two-thirds of the shares outstanding is required. Approximately 56% of outstanding shares are owned by Company Directors and the buyer.

If completed, the liquidity provided will allow for the Company to repay all of its outstanding debt, repurchase Put shares that come due within the next twelve months and fund its working capital requirements for at least the next twelve months.

On August 23, 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 PLM operations which is composed of the ProductCenter 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 \$1.15 million of indebtedness as of August 24, 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. The closing of the PLM Sale, which is subject to approval by the SofTech shareholders and the satisfaction of other customary closing conditions (including a holdback of a portion of the purchase price to secure any indemnification claims arising under the Asset Purchase Agreement), is expected to occur by October 2016. The transaction is not subject to any financing condition.

The transaction is subject to the approval of the Company's shareholders and is expected to be completed by October 2016. The approval of two-thirds of the shares outstanding is required. If completed, the liquidity provided will allow for the Company to repay all of its outstanding debt, repurchase Put shares that come due within the next twelve months and fund its working capital requirements for at least the next twelve months. There can be no assurance, however, that the sale will be completed.

CADRA SALE

On October 18, 2013, the Company sold substantially all of the assets of its CADRA product line, including all intellectual property related to that technology but specifically excluding cash, billed accounts receivable and liabilities other than the deferred maintenance liability associated with CADRA customer maintenance contracts for support services (the "CADRA Sale"), to Mentor Graphics Corporation ("Mentor"), pursuant to an Asset Purchase Agreement dated August 30, 2013 (the "Asset Purchase Agreement"). The aggregate consideration for the CADRA Sale is up to \$3.95 million. Through 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 is 35%.

RECLASSIFICATIONS

Certain accounts in the financial statements for the fiscal year ended May 31, 2015 have been reclassified for presentation purposes and had no impact on net loss. Specifically, on the Statement of Cash Flows for the fiscal year ended May 31, 2015, the Proceeds from the earn-out and holdback payments of \$604,000 which were previously classified under financing activities, have been reclassified as investing activities in these financial statements. In addition, on the Statement of Changes in Redeemable Common Stock and Shareholders' Deficit for the fiscal year ended May 31, 2015 investor fees of \$30,000 which were previously netted against the \$850,000 in proceeds from the issuance of redeemable common stock were separately presented.

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 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 May 31, 2016 totaled approximately \$90,000. 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 May 31, 2016 and 2015.

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 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 is 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:

Computer software and equipment	2-5 years
Office furniture	5-10 years
Automobiles	4-6 years
Leasehold improvements	Less of life of lease
	or estimated lease term

Property and equipment was composed of the following at May 31 (000 s):

	2016	2015
Computer Software	\$ 506	\$ 473
Equipment	502	479
Office Furniture	116	116
Leasehold Improvements	31	31
	1,155	1,099
Less Accumulated Depreciation	(1,084)	(1,042)
	\$ 71	\$ 57

Depreciation expense, including amortization of assets under capital lease, was approximately \$40,000 for both fiscal years 2016 and 2015.

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;

.

Management with the relevant authority authorizes the project;

.

Management with the relevant authority commits to fund the project;

.

It is probable that the project will be completed; and

.

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

F-10

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 fiscal years 2016 and 2015, the Company capitalized approximately \$438,000 and \$202,000, respectively, of software development costs. Amortization expense related to capitalized software development costs for fiscal years 2016 and 2015 was approximately \$36,000 and \$98,000, respectively.

DEBT ISSUANCE COSTS

The Company capitalizes the direct costs associated with entering into debt agreements and amortizes those costs over the life of the debt agreement. In May 2013, the Company entered into the Loan Agreement as detailed in Note F. Total direct costs incurred in establishing this debt agreement were approximately \$255,000 which were amortized over the term of the arrangement in accordance with ASC 470-50. Amortization expense related to debt issuance costs for fiscal year 2015 was approximately \$149,000 and was fully amortized in that period.

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.

The Company recognizes the tax benefit from an uncertain tax position only if it more-likely-than-not that the tax position will be sustained upon examination by taxing authorities, based on technical merits of the tax position. The evaluation of an uncertain tax position is based on factors that include, but are not limited to, changes in the tax law, the measurement of tax positions taken or expected to be taken in tax returns, the effective settlement of matters subject to audit, and changes in facts or circumstances related to a tax position. Any changes to these estimates, based on the actual results obtained and/or a change in assumptions, could impact the Company's tax provision in future

periods. The Company accounts for interest and penalties related to uncertain tax positions as part of its provision for federal and state income taxes. In accordance with the applicable statute of limitations, the Company's tax returns could be audited by the Internal Revenue Service and various states for the fiscal years ended 2013 to 2015.

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 \$4,000 and \$3,000 for the years ending May 31, 2016 and 2015, respectively.

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.

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 May 31, 2016 and 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 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 May 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;

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 May 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 May 31, 2016:

		<i>(in thousands)</i>		
	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, 2015:

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

The table below provides a summary of the changes in fair value of the Level 3 classified Holdback Payment and Earn-Out Payments asset for the years ended May 31, 2015 and 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

The fair value of the Earn-Out Payments expected to be collected within twelve months of the balance sheet date have been classified as current assets and the remainder as non-current assets in the accompanying consolidated balance sheets. The Company has estimated the fair value of the Earn-Out Payments using a discounted cash flow approach. This valuation is based upon several factors including; i) management's estimate of the amount and timing of future CADRA revenues, ii) the timing of receipt of payments from Mentor, and iii) a discount rate of 7%.

A change in any of these unobservable inputs can significantly change the fair value of the asset. The change in fair value of the Earn-Out Payments recognized in the Consolidated Statements of Operations for the year ended May 31, 2016 and 2015 was approximately \$(46,000) and \$85,000.

FOREIGN CURRENCY TRANSLATION

The functional currency of the Company's foreign operations (Germany, and Italy) is the Euro. As a result, assets and liabilities are translated at period-end exchange rates and revenues and expenses are translated at the average exchange rates. Adjustments resulting from translation of such financial statements are classified in accumulated other comprehensive income (loss). Foreign currency gains and losses arising from transactions were included in operations in fiscal year 2016 and 2015. In fiscal years 2016 and 2015, the Company recorded a net gain (loss) from foreign currency related transactions of approximately \$5,000 and \$(114,000), respectively, to Other (income) expense in the Consolidated Statements of Operations.

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

For the fiscal years ended May 31, 2016 and 2015, 3,192 and 1,003 respectively, 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 May 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, 2014	129,500	1.88	9.74	20,825
Granted	30,000	1.30	10.00	-
Exercised	-	-	-	-
Forfeited or expired	(12,500)	1.84	-	-
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
Exercisable at May 31, 2016	143,653	\$	1.77	7.53	\$	4,269

The Company determined the volatility for options granted during the fiscal year ended May 31, 2016 and 2015 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 years ended May 31, 2016 and 2015, the Company expensed approximately \$108,000 and \$115,000, respectively, of stock-based compensation. Unamortized stock based compensation as of May 31, 2016 was approximately \$7,000.

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 May 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.

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

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

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

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

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

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

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

C. INCOME TAXES

The provision for income taxes includes the following for the years ended May 31 (in thousands):

		2016		2015
Federal	\$	-	\$	-
Foreign		-		-
State and local		2		2
Total current provision		2		2
Deferred provision		27		85
Valuation allowance		(27)		(85)
Total deferred provision		-		-
Total provision	\$	2	\$	2

The domestic and foreign components of income (loss) before income taxes were as follows for the years ended May 31 (in thousands):

		2016		2015
Domestic	\$	(503)	\$	(975)
Foreign		(168)		(342)
	\$	(671)	\$	(1,317)

At May 31, 2016, the Company had Federal net operating loss carryforwards of \$22 million that begin expiring in 2022, and are available to reduce future taxable income. The utilization of the remaining net operating loss carryforwards may be subject to limitation based on past and future changes in ownership of the Company pursuant to Internal Revenue Code Section 382. The Company also has an alternative minimum tax credit of approximately \$200,000 that has no expiration date that was available as of May 31, 2016.

The Company's effective income tax rates can be reconciled to the federal and state statutory income tax rate for the years ended May 31 as follows:

	2016	2015
Federal statutory rate	34%	34%
State	-	-
Foreign	-	-
Permanent items	-	-
Valuation reserve	(34)	(34)
Effective tax rate	-%	-%

Deferred tax assets (liabilities) were comprised of the following at May 31 (in thousands):

	2016	2015
Deferred tax assets		
Net operating loss carryforwards	\$ 7,597	\$ 7,498
Tax credit carryforwards	254	254
Receivables allowances	7	7
Vacation pay accrual	5	4
Depreciation	42	35
Differences in book and tax basis of assets of acquired businesses	(191)	(56)
Total gross deferred tax assets	7,714	7,742
Valuation allowance	(7,714)	(7,742)
Net deferred tax asset	\$ -	\$ -

Due to the uncertainties regarding the realization of certain favorable tax attributes in future tax returns, the Company has established a valuation reserve against the otherwise recognizable net deferred tax assets.

D. EMPLOYEE RETIREMENT PLANS

The Company has an Internal Revenue Code Section 401(k) plan covering substantially all U.S. based employees and offers an employer match of a portion of an employee's voluntary contributions. The aggregate expense related to this employer match for fiscal years 2016 and 2015 was approximately \$31,000 and \$52,000, respectively.

F-18

E. GEOGRAPHICAL INFORMATION

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

	Years Ended	
	May 31, 2016	May 31, 2015
Revenue:		
North America	\$ 3,311	\$ 3,223
Asia	12	7
Europe	919	767
Eliminations	(66)	(55)
Consolidated Total	\$ 4,176	\$ 3,942

	As of May 31, 2016	As of May 31, 2015
Long-Lived Assets:		
North America	\$ 2,086	\$ 1,797
Europe	40	41
Consolidated Total	\$ 2,126	\$ 1,838

F. DEBT**ESSIGPR**

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

On October 1, 2014, the Company entered into an additional short term borrowing arrangement with EssigPR (**Short Term Note**) whereby it was agreed that the Company would retain \$300,000 of the Holdback Payment due from Mentor in October 2014 rather than utilize those monies to pay down the above described Note. The interest rate on the Short Term Note is 9.5%, payable quarterly in arrears. The Short Term Note can be repaid at any time without

penalty and was due in full on April 10, 2015. EssigPR was awarded 5,000 fully vested stock options to purchase SofTech common stock at \$1.00 per share. The stock options will expire on October 1, 2024 if not exercised. The Short Term Note arrangement did not increase the total principal amount of debt owed to EssigPR. Rather, the arrangement had the effect of establishing new payoff terms for that portion of the debt owed to EssigPR under the Note.

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

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

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

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

On 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.

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

		Note	Short Term	Total
		Note	Note	
Balance at May 31, 2014	\$	-	\$	-
Borrowings		450	300	750
Repayments		(304)	-	(304)
Balance at May 31, 2015		146	300	446
Borrowing		-	578	578
Repayments		-	(124)	(124)
Balance at May 31, 2016		146	754	900

Interest expense was approximately \$76,000 and \$62,000 in fiscal years 2016 and 2015, respectively.

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 May 31, 2016.

SHORT TERM ADVANCES FROM RELATED PARTIES

Robert Anthonyson, an Officer, Director and beneficial owner of 19.9% of the Company's outstanding common stock as of May 31, 2016, loaned the Company \$50,000 on July 29, 2015 which was repaid to Mr. Anthonyson during the second quarter of fiscal year 2016. Joseph Mullaney, an Officer, Director and beneficial owner of 11.7% of the Company's outstanding common stock as of May 31, 2016, loaned the Company \$19,300 on September 1, 2015 which was repaid during the second quarter of fiscal year 2016. There was no interest charged on these short term advances.

BLUEVINE

In September 2015, the Company arranged for a credit line of up to \$80,000 with BlueVine Capital, Inc. (BlueVine). The borrowing arrangement with BlueVine as the lender allows the Company to receive an advance of 85% of the total value of specified invoices. During the fiscal year ended May 31, 2016, the Company received advances totaling approximately \$55,000 against seven invoices from one customer. As of May 31, 2016 there were no outstanding borrowings under this debt facility.

PRIDES CROSSING CAPITAL

Prior to May 31, 2015, the Company had outstanding amounts owed under a former loan agreement with Prides Crossing Capital, L.P. and Prides Crossing Capital-A, L.P. (the Lenders). During the fiscal year ended May 31, 2015, the outstanding balance of \$1,000,000 was paid in full and the agreement with the Lenders was terminated.

G. LEASE COMMITMENTS

OPERATING LEASES

The Company conducts its operations in office facilities leased through December 2018. Rental expense for both fiscal years 2016 and 2015 was approximately \$152,000.

At May 31, 2016, minimum annual rental commitments under noncancellable leases were as follows (in thousands):

2017	\$	110
2018		133
2019		77
Total future minimum lease commitments	\$	320

CAPITAL LEASES

In fiscal years 2010, 2013, 2014 and 2016, the Company acquired capital equipment through capital lease agreements with financial institutions for terms of 48, 50 and 60 months, with a \$1 purchase option. The assets are amortized over the life of the related lease or the asset if shorter and amortization of the assets is included in depreciation expense for fiscal years 2016 and 2015. The related leased assets had a cost basis of approximately \$108,000 and \$77,000, and accumulated depreciation of approximately \$(69,000) and \$(50,000) as of May 31, 2016 and 2015, respectively. Minimum annual future lease payments under the capital lease as of May 31, 2016 are as follows (in thousands):

2017	\$	35
2018		26
2019		17
2020		11
2021		2
Minimum lease payment		91
Amount representing interest		(28)
Present value of minimum lease payments	\$	63
Current	\$	24
Long Term	\$	39

H. 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.

I. SUBSEQUENT EVENTS

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

On August 12, 2016, the Company amended its Short Term Note with Essig to increase the maximum borrowings by \$250,000, to extend the due date to October 10, 2016 and to increase the collateral to include the tangible and intangible assets of the PLM product lines. It is contemplated that this Short Term Note would be repaid in full upon

completion of the transaction described below.

On August 23, 2016, we entered into an Asset Purchase Agreement pursuant to which we agreed to sell our ProductCenter and Connector product lines to 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. Essig is an affiliate of EssigPR, Inc., which 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. The assets to be acquired by Essig include the properties and assets used exclusively in the PLM operations which is composed of the ProductCenter 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 \$1.15 million of indebtedness as of August 24, 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. The closing of the PLM Sale, which is subject to approval by the SofTech shareholders and the satisfaction of other customary closing conditions (including a holdback of a portion of the purchase price to secure any indemnification claims arising under the Asset Purchase Agreement), is expected to occur by October 2016. The transaction is not subject to any financing condition.