

SOFTECH INC
Form 424B3
April 16, 2012

Filed Pursuant to Rule 424(b)(3)

Registration Statement No. 333-174818

PROSPECTUS SUPPLEMENT NO. 4

(to Prospectus dated December 28, 2011)

SofTech, Inc.

384,588 Shares of Common Stock

This Prospectus Supplement No. 4 supplements and amends our Prospectus dated December 28, 2011, as amended and supplemented. This Prospectus Supplement No. 4 includes our attached Quarterly Report on Form 10-Q for the quarter ended February 29, 2012, as filed with the Securities and Exchange Commission on April 16, 2012.

The Prospectus and this Prospectus Supplement No. 4 relate to the disposition from time to time by the selling shareholders identified in the Prospectus, including their donees, pledgees, assignees, transferees and other successors-in-interest, of up to 384,588 shares of our common stock. We are not selling any common stock under the Prospectus and this Prospectus Supplement No. 4, and we will not receive any of the proceeds from the sale of the shares by the selling shareholders.

Our common stock is quoted on the OTCQB tier of the OTC market place under the symbol **SOFT** . On April 16, 2012, the last quoted sale price for our common stock as reported on the OTCQB tier was \$1.55 per share.

This Prospectus Supplement No. 4 should be read in conjunction with the Prospectus and any prospectus supplements filed before the date hereof. Any statement contained in the Prospectus and any prospectus supplements filed before the date hereof shall be deemed to be modified or superseded to the extent that information in this Prospectus Supplement No. 4 modifies or supersedes such statement. Any statement that is modified or superseded shall not be deemed to constitute a part of the Prospectus except as modified or superseded by this Prospectus Supplement No. 4.

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

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if the Prospectus or this Prospectus Supplement No. 4 is truthful or complete. Any representation to the contrary is a criminal offense.

The date of this Prospectus Supplement No. 4 is April 16, 2012.

* * * * *

Edgar Filing: SOFTECH INC - Form 424B3

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended February 29, 2012

. 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 the Registrant as specified in its charter)

Massachusetts
(State or other jurisdiction of incorporation or
organization)

04-2453033
(I.R.S Employer Identification
No.)

59 Lowes Way, Suite 401, Lowell, MA 01851

(Address of principal executive offices and zip code)

Telephone (978) 513-2700

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes . No .

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (Sec. 232.405) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes . No .

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

Large accelerated filer . Accelerated filer . Non-accelerated filer . Smaller reporting company .

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act.)

Yes . No .

The number of shares outstanding of registrant's common stock at April 9, 2012 was 995,135 shares.

SOFTECH, INC.INDEX

| | <u>Page Number</u> |
|--|--------------------|
| PART I. Financial Information | |
| Item 1. Financial Statements | |
| Consolidated Condensed Balance Sheets February 29, 2012 (unaudited) and May 31, 2011 | 3 |
| Consolidated Condensed Statements of Operations Three Months Ended February 29, 2012 and February 28, 2011 (unaudited) | 4 |
| Consolidated Condensed Statements of Operations Nine Months Ended February 29, 2012 and February 28, 2011 (unaudited) | 5 |
| Consolidated Condensed Statements of Cash Flows Nine Months Ended February 29, 2012 and February 28, 2011 (unaudited) | 6 |
| Notes to Consolidated Condensed Financial Statements | 7 |
| Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations | 15 |
| Item 3. Quantitative and Qualitative Disclosures about Market Risk | 25 |
| Item 4. Controls and Procedures | 25 |
| PART II. Other Information | |
| Item 1. Legal Proceedings | 25 |
| Item 1A. Risk Factors | 25 |
| Item 2. Unregistered Sales of Equity Securities and Use of Proceeds | 31 |
| Item 3. Defaults Upon Senior Securities | 31 |
| Item 4. Mine Safety Disclosures | 31 |
| Item 5. Other Information | 31 |
| Item 6. Exhibits | 33 |

PART I FINANCIAL INFORMATION**Item 1. Financial Statements.**

SOFTECH, INC. AND SUBSIDIARIES
CONSOLIDATED CONDENSED BALANCE SHEETS

| | (in thousands) | |
|--|----------------------|-----------------|
| | February 29, 2012 | May 31, 2011 |
| | (unaudited) | |
| <u>ASSETS</u> | | |
| Cash and cash equivalents | \$ 617 | \$ 1,586 |
| Accounts receivable (less allowance for uncollectible accounts of \$29 as of February 29, 2012 and May 31, 2011) | 1,247 | 907 |
| Prepaid and other assets | 271 | 387 |
| Note receivable from product line sale | - | 134 |
| Total current assets | 2,135 | 3,014 |
| Property and equipment, net | 50 | 58 |
| Goodwill | 4,251 | 4,256 |
| Capitalized software development costs | 139 | - |
| Debt issuance costs, net | 239 | 312 |
| Notes receivable and other assets | 136 | 136 |
| TOTAL ASSETS | \$ 6,950 | \$ 7,776 |
| <u>LIABILITIES AND SHAREHOLDERS' EQUITY</u> | | |
| Accounts payable | \$ 309 | \$ 239 |
| Accrued expenses | 447 | 838 |
| Other current liabilities | 76 | 168 |
| Deferred maintenance revenue | 2,241 | 2,301 |
| Current portion of capital lease | 5 | 5 |
| Current portion of long-term debt | 720 | 720 |
| Total current liabilities | 3,798 | 4,271 |
| Capital lease, net of current portion | 5 | 9 |
| Other long-term liabilities | 70 | 135 |
| Long-term debt, net of current portion | 1,710 | 2,250 |

Edgar Filing: SOFTECH INC - Form 424B3

| | | |
|---|-----------------|-----------------|
| Total liabilities | 5,583 | 6,665 |
| Shareholders' equity : | | |
| Common stock, \$0.10 par value 20,000,000 shares authorized, 995,135 issued and outstanding at February 29, 2012 and May 31, 2011 | 100 | 100 |
| Capital in excess of par value | 27,476 | 27,582 |
| Accumulated deficit | (25,760) | (26,137) |
| Accumulated other comprehensive loss | (449) | (434) |
| Total shareholders' equity | 1,367 | 1,111 |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY | \$ 6,950 | \$ 7,776 |

See accompanying notes to unaudited consolidated financial statements.

SOFTECH, INC. AND SUBSIDIARIES**CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS (UNAUDITED)**

(in thousands, except for share

and per share data)

For the Three Months Ended

| | February 29, 2012 | February 28, 2011 |
|---|----------------------|----------------------|
| Revenue: | | |
| Products | \$ 530 | \$ 357 |
| Services | 1,130 | 1,379 |
| Total revenue | 1,660 | 1,736 |
| Cost of revenue: | | |
| Products | 38 | 7 |
| Services | 342 | 356 |
| Total cost of revenue | 380 | 363 |
| Gross margin | 1,280 | 1,373 |
| Research and development expenses | 238 | 415 |
| Selling, general and administrative expenses | 830 | 810 |
| Operating income | 212 | 148 |
| Interest expense | 74 | 144 |
| Other expense (income) | 1 | (20) |
| Income from continuing operations before income taxes | 137 | 24 |
| Provision for income taxes | - | - |
| Income from continuing operations | 137 | 24 |
| Discontinued operations: | | |
| Income from discontinued operations, net of tax | - | 49 |
| Net income from discontinued operations | - | 49 |
| Net income | \$ 137 | \$ 73 |
| Basic and diluted net income per share: | | |
| From continuing operations | \$ 0.14 | \$ 0.04 |
| From discontinued operations | - | 0.08 |
| Basic and diluted net income per share | \$ 0.14 | \$ 0.12 |

| | | |
|--|---------|---------|
| Weighted average common shares outstanding-basic | 995,135 | 610,661 |
| Weighted average common shares outstanding-diluted | 995,135 | 610,661 |

See accompanying notes to unaudited consolidated financial statements.

SOFTECH, INC. AND SUBSIDIARIES**CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS (UNAUDITED)**

(in thousands, except for share

and per share data)

For the Nine Months Ended

| | February 29, 2012 | February 28, 2011 |
|---|----------------------|----------------------|
| Revenue: | | |
| Products | \$ 1,166 | \$ 938 |
| Services | 3,763 | 4,381 |
| Total revenue | 4,929 | 5,319 |
| Cost of revenue: | | |
| Products | 54 | 22 |
| Services | 1,026 | 1,050 |
| Total cost of revenue | 1,080 | 1,072 |
| Gross margin | 3,849 | 4,247 |
| Research and development expenses | 958 | 1,226 |
| Selling, general and administrative expenses | 2,257 | 2,480 |
| Operating income | 634 | 541 |
| Interest expense | 250 | 416 |
| Other expense (income) | 7 | (45) |
| Income from continuing operations before income taxes | 377 | 170 |
| Provision for income taxes | - | - |
| Income from continuing operations | 377 | 170 |
| Discontinued operations: | | |
| Income from discontinued operations, net of tax | - | 122 |
| Net income from discontinued operations | - | 122 |
| Net income | \$ 377 | \$ 292 |
| Basic and diluted net income per share: | | |
| From continuing operations | \$ 0.38 | \$ 0.28 |
| From discontinued operations | - | 0.20 |

Edgar Filing: SOFTECH INC - Form 424B3

| | | | | |
|--|----|---------|----|---------|
| Basic and diluted net income per share | \$ | 0.38 | \$ | 0.48 |
| Weighted average common shares outstanding-basic | | 995,135 | | 610,661 |
| Weighted average common shares outstanding-diluted | | 995,135 | | 610,661 |

See accompanying notes to unaudited consolidated financial statements.

SOFTTECH, INC. AND SUBSIDIARIES

CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS (UNAUDITED)

| | (in thousands) | |
|---|---------------------------|----------------------|
| | For the Nine Months Ended | |
| | February 29, 2012 | February 28, 2011 |
| Cash flows from operating activities: | | |
| Net income | \$ 377 | \$ 292 |
| Less: Income from discontinued operations | - | 122 |
| Income from continuing operations | 377 | 170 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization expense | 106 | 18 |
| Stock-based compensation | 6 | - |
| Change in current assets and liabilities: | | |
| Accounts receivable | (340) | (199) |
| Prepaid expenses and other assets | 104 | (77) |
| Accounts payable, accrued expenses and other liabilities | (478) | 512 |
| Deferred maintenance revenue | (60) | (510) |
| Total adjustments | (662) | (256) |
| Net cash used in operating activities | (285) | (86) |
| Cash flows from investing activities: | | |
| Capital expenditures | (14) | (4) |
| Capitalized software development costs | (139) | - |
| Receipts from note receivable from sale of product line | 134 | - |
| Net cash used in investing activities | (19) | (4) |
| Cash flows from financing activities: | | |
| Cost of issuance of common stock | (112) | - |
| Borrowings under debt agreements | - | 350 |
| Repayment under debt agreements | (540) | - |
| Repayments under capital lease | (4) | (18) |
| Net cash provided by (used in) financing activities | (656) | 332 |
| Net cash provided by operating activities of discontinued operations | - | 141 |
| Effect of exchange rates on cash | (9) | (44) |
| Increase (decrease) in cash and cash equivalents | (969) | 339 |
| Cash and cash equivalents, beginning of period | 1,586 | 393 |
| Cash and cash equivalents, end of period | \$ 617 | \$ 732 |
| Supplemental disclosures of cash flow information: | | |
| Interest paid | \$ 182 | \$ 21 |
| Taxes paid | \$ 10 | \$ 8 |

See accompanying notes to unaudited consolidated financial statements

SOFTECH, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED CONDENSED 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 engaged in the development, marketing, distribution and support of computer software solutions that serve the Product Lifecycle Management (PLM) industry. These solutions include software technology offerings for computer aided design as well as product data/lifecycle management and collaboration technologies, all of which fit under the broadly defined PLM industry. The Company's operations are organized geographically with offices in the U.S. and European sales and customer support offices in Germany and Italy. The Company also has resellers in Asia and Europe.

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

The consolidated condensed financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission without audit; however, in the opinion of management, the information presented reflects all adjustments which are of a normal recurring nature and elimination of intercompany transactions which are necessary to present fairly the Company's financial position and results of operations. These consolidated condensed financial statements should be read in conjunction with the financial statements and the notes thereto included in the Company's fiscal 2011 results included in the previously filed Form S-1.

RECAPITALIZATION TRANSACTION

In March 2011, a transaction was completed (the Recapitalization Transaction) in which the Company:

issued an aggregate of 384,588 shares of common stock for an aggregate purchase price of \$421,765, in a private placement transaction to eight investors;

consummated a \$2.9 million term loan and a \$300,000 line of credit from One Conant Capital, LLC, a subsidiary of Danversbank; and

consummated an agreement with Greenleaf Capital, Inc. (Greenleaf), the Company s sole debt provider and largest shareholder at the time, whereby Greenleaf accepted \$2,750,000 in cash and a \$250,000 subordinated note in complete settlement of the \$10.6 million of indebtedness then outstanding under the financing agreements with Greenleaf.

Upon consummation of the Recapitalization Transaction, the board of directors and chief executive officer were replaced.

REVERSE STOCK SPLIT

In May 2011, the Company s shareholders approved a 1-for-20 reverse stock split of outstanding shares of common stock which became effective June 7, 2011. All references to shares in the consolidated financial statements and accompanying notes, including but not limited to, number of shares and per share amounts, have been adjusted to reflect the reverse stock split retrospectively. Previously awarded options to purchase shares of common stock have also been retrospectively adjusted to reflect the reverse stock split. The par value of our common stock remained at \$.10, and the total number of shares authorized for issuance under our articles of organization remained at 20,000,000.

DISCONTINUED OPERATIONS

As described in Note D below, in May 2011 the Company sold its Advanced Manufacturing Technology (AMT) product line. Accordingly, the results of the AMT product line are being presented as discontinued operations for the nine months ended February 28, 2011. The operating results of the AMT product line have been shown net of income taxes in the Consolidated Statements of Operations as income from discontinued operations.

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, and the valuation of long term assets including goodwill, intangibles and deferred tax assets. Actual results could differ from those estimates.

REVENUE RECOGNITION

Revenue from software license sales is recognized when persuasive evidence of an arrangement exists, delivery of the product has been made, and a fixed fee and collectability has been determined. The Company does not provide for a right of return. For multiple element arrangements, total fees are allocated to each of the undelivered elements based upon vendor specific objective evidence of their fair values, with the residual recognized as revenue for the delivered elements. 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.

SOFTWARE DEVELOPMENT COSTS

The Company accounts for its software development costs in accordance with ASC 985, *Costs of Computer Software to Be Sold, Leased or Marketed*. Costs that are incurred internally in researching and developing a computer software product are charged to expense until technological feasibility has been established for the product. Once technological feasibility is established, software development costs are capitalized until the product is available for general release to customers. Such costs are amortized using the straight-line method over the estimated economic life of the product, generally three years. The Company evaluates the realizability of the assets and the related periods of amortization on a regular basis. Judgment is required in determining when technological feasibility of a product is established as well as its economic life.

During the three months ended February 29, 2012, the Company capitalized approximately \$139,000 of software development costs related to a new product in development. This product was completed and available in March 2012. The Company did not capitalize any software development costs during the first six months of fiscal year 2012 or the nine months ended February 28, 2011.

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. During fiscal 2011, the Company incurred total costs of approximately \$330,000 in connection with entering into the debt agreement with Danversbank and its subsidiary, One Conant Capital, LLC. These costs have been capitalized and are being amortized over the three year life of the loan. Amortization expense related to debt issuance costs for the three and nine month periods ended February 29, 2012 was approximately \$29,000 and \$85,000, respectively.

ACCOUNTING FOR GOODWILL

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

As of May 31, 2011, the Company conducted its annual impairment test of goodwill by comparing the fair value of the reporting unit to the carrying amount of the underlying assets and liabilities of its single reporting unit. The Company determined that the fair value of the reporting unit exceeded the carrying amount of the assets and liabilities, therefore no impairment existed as of the testing date. The Company concluded that no facts or circumstances arose during the nine months ended February 29, 2012 to warrant an interim impairment test.

PATENT

Costs related to patent applications are capitalized as incurred and are amortized once the patent is awarded or are expensed if the patent 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 to be derived from the use of the associated patent.

LONG-LIVED ASSETS

The Company periodically reviews the carrying value of all intangible and other long-lived assets. If indicators of impairment exist, the Company compares the undiscounted cash flows estimated to be generated by those assets over their estimated economic life to the related carrying value of those assets to determine if the assets are impaired. If the carrying value of the asset is greater than the estimated undiscounted cash flows, the carrying value of the assets would be decreased to their fair value through a charge to operations. As of February 29, 2012, the Company does not have any long-lived assets it considers to be impaired.

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.

The Company's 1994 Stock Option Plan provided for the granting of stock options at an exercise price not less than fair market value of the stock on the date of the grant and with vesting schedules as determined by the Board of Directors. No new options could be granted under the Plan after fiscal year 2004 and all stock options had vested prior to May 31, 2009. As of February 29, 2012 all options previously issued under the 1994 Plan had expired. 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 the Company's common stock are reserved for issuance. 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.

The following table summarizes option activity under the 1994 Stock Option Plan and 2011 Plan:

Edgar Filing: SOFTECH INC - Form 424B3

| | Number of Options | Weighted Average Exercise Price Per Share | Weighted- Average Remaining Life (in years) | Aggregate Intrinsic Value |
|--|----------------------|--|--|------------------------------|
| Outstanding options at May 31, 2010 | 5,550 | \$ 4.00 | 1.78 | \$ 770 |
| Granted | - | - | - | - |
| Exercised | - | - | - | - |
| Forfeited or expired | (4,200) | 4.64 | - | - |
| Outstanding options at May 31, 2011 | 1,350 | 1.80 | 0.50 | 810 |
| Granted | 10,000 | 2.40 | 10.00 | - |
| Exercised | - | - | - | - |
| Forfeited or expired | (1,350) | 0.86 | - | - |
| Outstanding options at February 29, 2012 | 10,000 | \$ 2.40 | 9.28 | \$ - |
| Exercisable at February 29, 2012 | 2,224 | \$ 2.40 | 9.28 | \$ - |

The Company determined the volatility for options granted during the nine months ended February 29, 2012 using the historical volatility of the Company's common stock. The expected life of options has been determined utilizing the simplified method as prescribed in ASC 718 *Compensation, Stock Compensation*. The expected life represents an estimate of the time options are expected to remain outstanding. The risk-free interest rate is based on a treasury instrument whose term is consistent with the expected life of the stock options. The Company has not paid, and does not anticipate paying, cash dividends on its common stock; therefore, the expected dividend yield is assumed to be zero.

For the nine month period ended February 29, 2012, the Company expensed approximately \$6,000 of stock-based compensation. The weighted-average fair value of each option granted in the nine month period ended February 29, 2012 is estimated as \$2.35 on the date of grant using the Black-Scholes model with the following weighted average assumptions:

| | |
|-------------------------------------|------------|
| Expected life | 5.77 years |
| Assumed annual dividend growth rate | 0% |
| Expected volatility | 188% |
| Risk free interest rate | 1.86% |

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 the three and nine month periods February 29, 2012 and February 28, 2011. For the three and nine month periods ended February 29, 2012, the Company recorded a net loss from foreign currency related transactions of approximately \$1,000 and \$13,000, respectively, as compared to a net (gain) from foreign currency related transactions of approximately \$(20,000) and \$(45,000) for the comparable periods in the prior fiscal year, respectively, to Other expense (income), net in the Consolidated Condensed Statements of Operations.

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.

BALANCE SHEET COMPONENTS

Details of certain balance sheet captions are as follows:

| | February 29, 2012 | May 31, 2011 |
|---|------------------------|-----------------|
| | (Amounts in thousands) | |
| Property and equipment | \$ 2,161 | \$ 2,175 |
| Accumulated depreciation and amortization | (2,111) | (2,117) |
| Property and equipment, net | \$ 50 | \$ 58 |

NET INCOME PER COMMON SHARE

Basic and diluted net income per share from continuing operations and from discontinued operations are computed by dividing the net income by the weighted-average number of common shares outstanding. Diluted net income per share is computed by dividing net income by the weighted-average number of common and equivalent dilutive common shares outstanding. For periods in which losses are reported potentially dilutive common stock equivalents are excluded from the calculation of diluted loss per share because the effect is antidilutive.

The following table details the derivation of weighted average shares outstanding used in the calculation of basic and diluted net income from continuing operations and from discontinued operations for each period:

| | For the Three Months Ended | |
|--|----------------------------|--------------|
| | February 29, | February 28, |
| | 2012 | 2011 |
| Net income available to common shareholders (000 s) \$ | 137 | \$ 73 |
| Weighted average number of common shares outstanding used in calculation of basic earnings per share | 995,135 | 610,661 |
| Incremental shares from the assumed exercise of dilutive stock options | - | - |
| Weighted average number of common shares outstanding used in calculating diluted earnings per share | 995,135 | 610,661 |
| | For the Nine Months Ended | |
| | February 29, | February 28, |
| | 2012 | 2011 |
| Net income available to common shareholders (000 s) \$ | 377 | \$ 292 |
| Weighted average number of common shares outstanding used in calculation of basic earnings per share | 995,135 | 610,661 |
| Incremental shares from the assumed exercise of dilutive stock options | - | - |
| Weighted average number of common shares outstanding used in calculating diluted earnings per share | 995,135 | 610,661 |

For the three and nine month periods ending February 29, 2012, 10,000 options and for the three and nine months ending February 28, 2011, 4,750 options, respectively, to purchase common shares were anti-dilutive and were excluded from the above calculation.

COMPREHENSIVE INCOME

The Company's comprehensive income includes accumulated foreign currency translation adjustments. The comprehensive income was as follows (in thousands):

| | Three Month Periods Ended | |
|---|---------------------------|-------------------|
| | February 29, 2012 | February 28, 2011 |
| Net income | \$ 137 | \$ 73 |
| Changes in: | | |
| Foreign currency translation adjustment | 14 | (45) |
| Comprehensive income | \$ 151 | \$ 28 |

| | Nine Month Periods Ended | |
|---|--------------------------|-------------------|
| | February 29, 2012 | February 28, 2011 |
| Net income | \$ 377 | \$ 292 |
| Changes in: | | |
| Foreign currency translation adjustment | (15) | (37) |
| Comprehensive income | \$ 362 | \$ 255 |

C. Segment Information

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

| Revenue: | Three Months Ended February 29, 2012 | Three Months Ended February 28, 2011 |
|--------------------|---|---|
| North America | \$ 1,226 | \$ 1,533 |
| Asia | 153 | 203 |
| Europe | 419 | 360 |
| Eliminations | (138) | (360) |
| Consolidated Total | \$ 1,660 | \$ 1,736 |

| Revenue: | Nine Months Ended February 29, 2012 | Nine Months Ended February 28, 2011 |
|--------------------|--|--|
| North America | \$ 3,611 | \$ 4,094 |
| Asia | 477 | 712 |
| Europe | 1,308 | 1,327 |
| Eliminations | (467) | (814) |
| Consolidated Total | \$ 4,929 | \$ 5,319 |

| | As of February 29, 2012 | As of May 31, 2011 |
|--------------------|----------------------------|-----------------------|
| Long Lived Assets: | | |
| North America | \$ 4,686 | \$ 4,618 |
| Europe | 129 | 144 |
| Consolidated Total | \$ 4,815 | \$ 4,762 |

D. Discontinued Operations

In May 2011, the Company sold its AMT product line in exchange for \$250,000 in cash and a note receivable for \$162,500. The note receivable accrued interest at a rate of 1% per month and has been collected in full at February 29, 2012. In accordance with ASC 205-20, *Presentation of Financial Statements - Discontinued Operations*, the accompanying consolidated statements of operations and cash flows present the operating results of AMT as discontinued operations for the three and nine month periods ended February 28, 2011. Following completion of the Recapitalization Transaction in March 2011, the new management team determined that the AMT product line was not a strategic component of the ongoing business. AMT's technologies are aimed directly at small Tool & Die shops located primarily in Michigan and Indiana performing services for the automotive industry. We entered into direct negotiations with the long tenured manager of that product line that resulted in the completion of the sale on May 24, 2011.

Edgar Filing: SOFTECH INC - Form 424B3

The operating results of discontinued operations included on the Consolidated Statements of Operations for the three and nine months ended February 28, 2011 were as follows (in thousands):

| | For the three months ended February 28, 2011 | |
|---|---|-----|
| Revenue | \$ | 140 |
| Cost of revenue | | 28 |
| Gross margin | | 112 |
| Research and development expenses | | 52 |
| Selling, general and administrative expenses | | 11 |
| Income from discontinued operations before income taxes | | 49 |
| Provision for income taxes | | - |
| Income from discontinued operations | \$ | 49 |

| | For the nine months ended February 28, 2011 | |
|---|--|-----|
| Revenue | \$ | 383 |
| Cost of revenue | | 75 |
| Gross margin | | 308 |
| Research and development expenses | | 154 |
| Selling, general and administrative expenses | | 32 |
| Income from discontinued operations before income taxes | | 122 |
| Provision for income taxes | | - |
| Income from discontinued operations | \$ | 122 |

Expenses related to centrally provided general and administrative services such as human resources, accounting, cash management, payroll and management were not allocated to the AMT product line. No allocation of interest expense was included in the operating results of AMT.

E. Note Receivable

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

Company has accounted for the note as a fixed arrangement.

F. Rights Agreement

On February 3, 2012, the Company entered into a Rights Agreement with Registrar and Transfer Company, as Rights Agent, dated as of February 3, 2012 (the Rights Agreement). By adopting the Rights Agreement, the Board of Directors was seeking to protect the Company's ability to carry forward its net operating losses and certain other tax attributes (collectively, NOLs). The Company has experienced and may continue to experience substantial operating losses, and for federal and state income tax purposes, the Company may carry forward net operating losses in certain circumstances to offset current and future taxable income, which will reduce federal and state income tax liability, subject to certain requirements and restrictions. These NOLs are a valuable asset of the Company, which may inure to the benefit of the Company and its shareholders. However, if the Company experiences an ownership change, as defined in Section 382 of the Internal Revenue Code (the Code), its ability to use the NOLs could be substantially limited, and the timing of the usage of the NOLs could be substantially delayed, which could significantly impair the value of the Company's NOL asset. Generally, an ownership change occurs if the percentage of the Company's stock owned by one or more five percent stockholders increases by more than fifty percentage points over the lowest percentage of stock owned by such stockholders at any time during the prior three-year period or, if sooner, since the last ownership change experienced by the Company. An NOL rights agreement like the Rights Agreement with a 4.99% trigger threshold is intended to act as a deterrent to any person acquiring 4.99% or more of the outstanding shares of Common Stock without the approval of the Board of Directors. This would protect the Company's NOL asset because changes in ownership by a person owning less than 4.99% of the Common Stock are not included in the calculation of ownership change for purposes of Section 382 of the Code.

In connection with the Rights Agreement, the Board of Directors of the Company declared a dividend of one common share purchase right (a Right) for each outstanding share of common stock, par value \$.10 per share, of the Company (the Common Stock). The dividend was issued on February 15, 2012 to the stockholders of record on February 15, 2012. Each Right entitles the registered holder to purchase from the Company one share of Common Stock in certain circumstances at a price of \$5.00 per share of Common Stock, subject to adjustment.

G. Subsequent Events

The Company has evaluated all events and transactions that occurred after the balance sheet and through the date that these consolidated condensed financial statements were available to be issued.

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

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

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

- .
generate sufficient cash flow from our operations or other sources to fund our working capital needs and growth initiatives;
- .
maintain good relationships with our bank;
- .
comply with the covenant requirements of our loan agreement;
- .
successfully introduce and attain market acceptance of any new products and/or enhancements of existing products;
- .
attract and retain qualified personnel;
- .
prevent obsolescence of our technologies;
- .
maintain agreements with our critical software vendors;
- .
secure renewals of existing software maintenance contracts, as well as contracts with new maintenance customers; and

secure new business, both from existing and new customers.

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

The following discussion and results of operations should be read in conjunction with the consolidated financial statements and the notes to those statements included in the previously filed Form S-1 Amendment No. 2. This discussion includes forward-looking statements that involve risk and uncertainties.

Overview

We operate in one reportable segment and are engaged in the development, marketing, distribution and support of computer software solutions that enable companies to manage the entire lifecycle of their products from conception through design and manufacture, to service and disposal, all of which is known in the industry as Product Lifecycle Management (PLM). These solutions include software technology offerings for Computer Aided Design (CAD), Product Data Management (PDM) and Collaboration technologies, all of which fit under the broadly defined PLM industry. Our operations are organized geographically in the U.S. and Europe. We have sales and customer support offices in the U.S., Germany and Italy. We also operate through resellers in Europe and Asia. Components of revenue and long-lived assets (consisting primarily of goodwill and property, plant and equipment) by geographic location are outlined in Note C to the unaudited consolidated financial statements for the three and nine months ended February 29, 2012.

Following the sale of our Advanced Manufacturing Technology (AMT) product line in May 2011 as described in Note J to the consolidated financial statements for the fiscal year ended May 31, 2011, we have two primary products lines: ProductCenter® and CADRA®. Since fiscal year 2007, our total revenue for each fully completed fiscal year has declined as compared to the prior fiscal year in amounts ranging from a low of 4.6% to a high of 18.4%.

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

For more than five consecutive fiscal years until fiscal 2011, we have also experienced year over year revenue declines in our CADRA product line. CADRA, which we acquired in 1998, is a 2D technology that was first introduced in the early 1980 s. The 2D marketplace is dominated by AutoCAD, a product sold by Autodesk. Due to the age and market position of our CADRA product line, we make no attempt to find new customers for this product, rather we have been focused on keeping our existing customers. As existing customers migrate to other solutions and/or reduce the use of CADRA, our revenue declines without any potential offsets from new accounts. CADRA product revenue is also negatively impacted by the newer 3D technologies available in the marketplace that have become more affordable and easier to use in the last 10 years. In fiscal year 2011 our CADRA product line revenue increased by approximately 5% due primarily to our customers upgrading their operating systems to Windows 7 from Microsoft. For the nine month period ended February 29, 2012 our CADRA customers continue to upgrade to Windows 7 and its product line revenue is unchanged from the prior period. Given these factors, as well as the uncertain economic conditions, we anticipate that the general declining revenue trends over the past five years in the CADRA product line will continue although these declines may be mitigated by our customers upgrading their operating systems which may require purchases of new CADRA licenses.

Since the Recapitalization Transaction completed on March 11, 2011, the new management team has been evaluating strategies to reverse this trend and find new ways to generate revenues and strengthen the Company s business.

Recent Events

Recapitalization Transaction

On March 11, 2011, we completed the Recapitalization Transaction in which we (i) sold an aggregate of 384,588 shares of common stock in a private placement transaction to investors that included Joseph P. Mullaney, who previously served as our President and Chief Executive Officer from June 2001 through December 2006; (ii) consummated a \$2.9 million term loan and a \$300,000 line of credit from One Conant Capital, LLC, a subsidiary of Danversbank; and (iii) consummated an agreement with Greenleaf Capital, Inc. (Greenleaf), our sole debt provider and largest shareholder at the time, whereby Greenleaf accepted \$2,750,000 in cash and a \$250,000 subordinated note

in complete settlement of the \$10.6 million then outstanding under our financing agreements with them. The Recapitalization Transaction improved our financial position and our cost structure as follows:

.

Improved our working capital position by approximately \$10.1 million as of the transaction date;

.

Allowed for the utilization of tax attributes that might otherwise expire unused;

.

Reduced our annual debt service (principal and interest) from approximately \$2.5 million under the Greenleaf debt facilities to approximately \$1.1 million with our new lender for fiscal 2012;

.

Reduced our interest expense from approximately \$600,000 to approximately \$209,000 for fiscal year 2012;

.

Replaced the Greenleaf debt instrument that was in default with a new debt facility that includes a line of credit;

.

Removed the uncertainty surrounding the possible actions that were available to Greenleaf to foreclose on our assets; and

.

Turned stockholders' deficit to equity for the first time in nearly a decade.

In addition, the new debt facility provides us with a \$300,000 line of credit.

Upon consummation of the Recapitalization Transaction, our board of directors and senior management were changed as follows: Joseph P. Mullaney was appointed President and Chief Executive Officer and was elected as a director; Robert B. Anthonyson was appointed Vice President of Business Development and was elected as a director; and J. Phillip Cooper was elected as a director. Each of these newly elected directors invested in the private placement. Shortly thereafter, Hank Nelson was also appointed as a director. The three directors that composed the Board of Directors prior to the Recapitalization Transaction resigned.

Reverse Stock Split

On May 24, 2011, our shareholders approved an amendment to our articles of organization to affect a 1-for-20 reverse stock split of our issued and outstanding shares of common stock. The amendment to our articles of organization had been previously approved by our board of directors and was filed with the Commonwealth of Massachusetts on June 2, 2011. Pursuant to the amendment, effective as of June 7, 2011, every twenty shares of our issued and outstanding common stock were automatically converted into one share of common stock. The par value of our common stock remained at \$.10, and the total number of shares authorized for issuance under our articles of organization remained at 20,000,000. Unless otherwise indicated, this 10-Q reflects the impact of the 1-for-20 reverse stock split.

Sale of the AMT Product Line

On May 24, 2011, we completed the sale of our AMT product line, which develops and markets CAD and CAM technologies to the specialized Tool & Die industry, to a long tenured manager of that group. Accordingly, the AMT operating results and the assets and liabilities have been presented herein as discontinued operations as described in Note D to the unaudited consolidated financial statements for the nine months ended February 29, 2012.

We received \$250,000 in cash and a note receivable in the amount of \$162,500 in exchange for AMT. The note carries a monthly interest rate of 1% and will be repaid through periodic payments from 75% of the cash flow of the business. We had originally acquired AMT in November 1997. Revenue for the AMT product line was \$547,000 and \$498,000 for fiscal 2011 and 2010, respectively.

During the three month period ended February 29, 2012 AMT Software, LLC note receivable balance was paid in full in advance of its due date.

Critical Accounting Policies and Significant Judgments and Estimates

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

Our significant accounting policies are described in Note B to the consolidated financial statements for the year ended May 31, 2011 included in our previously filed Form S-1. There have been no changes to the policies for the nine months ended February 29, 2012.

Results of Operations***Three and Nine Months Ended February 29, 2012, as Compared to Three and Nine Months Ended February 28, 2011***

The table below presents the comparative income statements for continuing operations for the three month periods ended February 29, 2012 and February 28, 2011 along with the dollar and percentage change amounts for each revenue and expense item (expressed in thousands, except percentages):

| | 2012 | 2011 | Change in \$ | Change in % |
|---|--------|--------|--------------|-------------|
| Revenue: | | | | |
| Products | \$ 530 | \$ 357 | \$ 173 | 48.5% |
| Services | 1,130 | 1,379 | (249) | (18.1) |
| Total revenue | 1,660 | 1,736 | (76) | (4.4) |
| Cost of revenue: | | | | |
| Products | 38 | 7 | 31 | 442.9 |
| Services | 342 | 356 | (14) | (3.9) |
| Total cost of revenue | 380 | 363 | 17 | 4.7 |
| Gross margin | 1,280 | 1,373 | (93) | (6.8) |
| Research and development expenses | 238 | 415 | (177) | (42.7) |
| Selling, general and administration expenses | 830 | 810 | 20 | 2.5 |
| Operating income | 212 | 148 | 64 | 43.2 |
| Interest expense | 74 | 144 | (70) | (48.6) |
| Other expense (income) | 1 | (20) | 21 | 105.0 |
| Income from continuing operations before income taxes | \$ 137 | \$ 24 | \$ 113 | 470.8% |

The table below presents the comparative income statements for continuing operations for the nine month periods ended February 29, 2012 and February 28, 2011 along with the dollar and percentage change amounts for each revenue and expense item (expressed in thousands, except percentages):

| | 2012 | 2011 | Change in \$ | Change in % |
|---|----------|--------|--------------|-------------|
| Revenue: | | | | |
| Products | \$ 1,166 | \$ 938 | \$ 228 | 24.3% |
| Services | 3,763 | 4,381 | (618) | (14.1) |
| Total revenue | 4,929 | 5,319 | (390) | (7.3) |
| Cost of revenue: | | | | |
| Products | 54 | 22 | 32 | 145.5 |
| Services | 1,026 | 1,050 | (24) | (2.3) |
| Total cost of revenue | 1,080 | 1,072 | 8 | 0.7 |
| Gross margin | 3,849 | 4,247 | (398) | (9.4) |
| Research and development expenses | 958 | 1,226 | (268) | (21.9) |
| Selling, general and administration expenses | 2,257 | 2,480 | (223) | (9.0) |
| Operating income | 634 | 541 | 93 | 17.2 |
| Interest expense | 250 | 416 | (166) | (39.9) |
| Other expense (income) | 7 | (45) | 52 | 115.6 |
| Income from continuing operations before income taxes | \$ 377 | \$ 170 | \$ 207 | 121.8% |

The table below presents the relationship, expressed as a percentage, between income and expense items for continuing operations and total revenue for continuing operations, for the three month periods ended February 29, 2012 and February 28, 2011.

| | Items as a percentage | |
|---|-----------------------|-------|
| | 2012 | 2011 |
| Revenue: | | |
| Products | 31.9% | 20.6% |
| Services | 68.1 | 79.4 |
| Total revenue | 100.0 | 100.0 |
| Cost of revenue: | | |
| Products | 2.3 | 0.4 |
| Services | 20.6 | 20.5 |
| Total cost of revenue | 22.9 | 20.9 |
| Gross margin | 77.1 | 79.1 |
| Research and development expenses | 14.3 | 23.9 |
| Selling, general and administrative expenses | 50.0 | 46.7 |
| Operating income | 12.8 | 8.5 |
| Interest expense | 4.5 | 8.3 |
| Other expense (income) | 0.1 | (1.2) |
| Income from continuing operations before income taxes | 8.3% | 1.4% |

The table below presents the relationship, expressed as a percentage, between income and expense items for continuing operations and total revenue for continuing operations, for the nine month periods ended February 29, 2012 and February 28, 2011.

| | Items as a percentage | |
|---|------------------------------|-------------|
| | 2012 | 2011 |
| Revenue: | | |
| Products | 23.7% | 17.6% |
| Services | 76.3 | 82.4 |
| Total revenue | 100.0 | 100.0 |
| Cost of revenue: | | |
| Products | 1.1 | 0.4 |
| Services | 20.8 | 19.7 |
| Total cost of revenue | 21.9 | 20.2 |
| Gross margin | 78.1 | 79.8 |
| Research and development expenses | 19.4 | 23.0 |
| Selling, general and administrative expenses | 45.8 | 46.6 |
| Operating income | 12.9 | 10.2 |
| Interest expense | 5.1 | 7.8 |
| Other expense (income) | 0.2 | (0.8) |
| Income from continuing operations before income taxes | 7.6% | 3.2% |

Revenue

Total revenue for the three and nine month period ended February 29, 2012 was approximately \$1.7 and \$4.9 million, respectively, as compared to \$1.7 and \$5.3 million, for the same periods in the prior fiscal year, respectively.

The following table summarizes total revenue by product line for the three month periods ended February 29, 2012 and February 28, 2011 (in thousands, except percentages):

| 2012 | 2011 | \$ Change | % Change |
|-------------|-------------|------------------|-----------------|
|-------------|-------------|------------------|-----------------|

| Product Line | | | | | |
|---------------------|----|-------|----|-------|------------------|
| ProductCenter | \$ | 724 | \$ | 899 | \$ (175) (19.5)% |
| CADRA | | 854 | | 837 | 17 2.0 |
| Other | | 82 | | - | 82 100.0 |
| Total | \$ | 1,660 | \$ | 1,736 | \$ (76) (4.4)% |

The following table summarizes total revenue by product line for the nine month periods ended February 29, 2012 and February 28, 2011(in thousands, except percentages):

| Product Line | 2012 | 2011 | \$ Change | % Change |
|---------------------|-------------|-------------|------------------|-----------------|
| ProductCenter | \$ 2,407 | \$ 2,922 | \$ (515) | (17.6)% |
| CADRA | 2,394 | 2,397 | (3) | (0.1) |
| Other | 128 | - | 128 | 100.0 |
| Total | \$ 4,929 | \$ 5,319 | \$ (390) | (7.3)% |

ProductCenter's total revenue experienced a significant revenue decline in fiscal 2012 compared to the prior fiscal year primarily due to the loss of one large maintenance customer that migrated to a competitor's technology offering and accounted for service revenue of approximately \$83,000 and \$335,000 in the three and nine month periods ended February 29, 2012, respectively. CADRA's total revenue which experienced a 5% increase in fiscal 2011 compared to fiscal 2010 after five consecutive years of declines was essentially unchanged in the current fiscal year. The specific reasons for the fluctuations in revenue are described by product line below.

Product Revenue

Product revenue for the three and nine months ended February 29, 2012 was approximately \$530,000 and \$1.2 million, respectively, as compared to approximately \$357,000 and \$938,000 for the same period in the prior fiscal year. The table below details product revenue by product line for the three month periods ended February 29, 2012 and February 28, 2011 (in thousands, except percentages):

| | 2012 | 2011 | \$ Change | % Change |
|---------------------|-------------|-------------|------------------|-----------------|
| Product Line | | | | |
| ProductCenter | \$ 76 | \$ 24 | \$ 52 | 216.7% |
| CADRA | 384 | 333 | 51 | 15.3 |
| Other | 70 | - | 70 | 100.0 |
| Total | \$ 530 | \$ 357 | \$ 173 | 48.5% |

The table below details product revenue by product line for the nine month periods ended February 29, 2012 and February 28, 2011 (in thousands, except percentages):

| | 2012 | 2011 | \$ Change | % Change |
|---------------------|-------------|-------------|------------------|-----------------|
| Product Line | | | | |
| ProductCenter | \$ 267 | \$ 201 | \$ 66 | 32.8% |
| CADRA | 801 | 737 | 64 | 8.7 |
| Other | 98 | - | 98 | 100.0 |
| Total | \$ 1,166 | \$ 938 | \$ 228 | 24.3% |

Our ProductCenter technology is a server based solution that is often evaluated over an extended period of time by customers prior to purchase due to its importance to an enterprise, the various functions within the enterprise that are impacted by the purchase decision and the other systems within an enterprise it may need to communicate with. It is also a purchase that can be deferred. In addition to the long sales cycle, the offerings of competitive products from proprietary CAD vendors have improved over the last several years. The poor economic conditions of the last two years have also reduced demand within our customer base for expansion of users. All of these factors together with the loss of the PTC Partnership Program in 2008 have contributed to significantly reduced product revenue for this technology from fiscal 2009 through 2011. During that same time period new customer wins were nominal.

Our product revenue for ProductCenter has improved significantly for the three and nine month periods ended February 29, 2012 compared to the same period in fiscal 2011, however, the improvement is the result of the very low production in the prior fiscal year. We do not see the current fiscal year increase as a reliable signal of a trend change of the recent past.

Our CADRA technology is a desktop solution. For the three and nine month periods ended February 29, 2012, CADRA product revenue increased as compared to the prior fiscal year as shown in the table above. This increase was primarily attributable to off-maintenance customers upgrading their operating systems to Microsoft Windows 7. Old versions of CADRA will not work with Windows 7 and therefore CADRA off-maintenance customers had to purchase new licenses.

Service Revenue

Our service revenue is composed of both annual software maintenance contracts for previously licensed technology for both of our product lines and consulting revenue generated primarily from our ProductCenter technology. The table below summarizes service revenue by product line for the three months ended February 29, 2012 and February 28, 2011 (in thousands, except percentages):

| | 2012 | 2011 | \$ Change | % Change |
|---------------------|----------|----------|-----------|----------|
| Product Line | | | | |
| ProductCenter | \$ 648 | \$ 875 | \$ (227) | (25.9)% |
| CADRA | 470 | 504 | (34) | (6.7) |
| Other | 12 | - | 12 | 100.0 |
| Total | \$ 1,130 | \$ 1,379 | \$ (249) | (18.1)% |

The table below summarizes service revenue by product line for the nine months ended February 29, 2012 and February 28, 2011 (in thousands, except percentages):

| | 2012 | 2011 | \$ Change | % Change |
|---------------------|----------|----------|-----------|----------|
| Product Line | | | | |
| ProductCenter | \$ 2,140 | \$ 2,721 | \$ (581) | (21.4)% |
| CADRA | 1,593 | 1,660 | (67) | (4.0) |
| Other | 30 | - | 30 | 100.0 |
| Total | \$ 3,763 | \$ 4,381 | \$ (618) | (14.1)% |

Maintenance revenue was approximately \$1.0 million and \$3.2 million for the three and nine months ended February 29, 2012, respectively, as compared to \$1.1 million and \$3.6 million for the same periods in the prior fiscal year. ProductCenter maintenance revenue was down approximately 20% in each period in fiscal 2012 compared to the prior fiscal year due primarily to the aforementioned migration to a competitor's technology offering by one of our long time ProductCenter customers in February 2011. CADRA maintenance revenue for the three and the nine month periods ended February 29, 2012 compared to the prior fiscal year were essentially unchanged. The current fiscal year stability in CADRA maintenance revenue interrupted an average CADRA maintenance revenue decline of more than 10% per year since fiscal year 2005. We attribute the current year trend reversal to the previously discussed Windows 7 upgrade cycle. Specifically, maintenance customers must renew their contracts in order to have access to new releases that will allow them to operate CADRA with upgraded operating system software.

Consulting revenue was approximately \$142,000 and \$533,000 for the three and nine months ended February 29, 2012, respectively, a decrease of 40.8% and 25.7%, respectively, from fiscal 2011. More than 90% of the consulting revenue is generated from professional services provided to our ProductCenter customer base. The decrease in consulting revenue was due to several significant projects that were completed in fiscal 2011 that were not replaced

with similar sized projects in fiscal 2012.

Gross Margin

Gross margin as a percentage of revenue was 77.1% and 78.1% for the three and nine month periods ended February 29, 2012 as compared to 79.1% and 79.8% in the comparable prior period, respectively. The decrease in gross margin was due to the decrease in service revenue for the three and nine month periods ended February 29, 2012 compared to the same period in fiscal 2011 as described above while costs were essentially unchanged. Cost of sales are primarily fixed in nature, at least in the short term, and do not fluctuate proportionately with changes in revenue.

Research and Development Expenses

Research and development expenses were approximately \$238,000 and \$958,000 for the three and nine month periods ended February 29, 2012 as compared to \$415,000 and \$1.3 million in the comparable prior period in fiscal 2011, respectively. The decreases were due to capitalizing the direct costs of the development of a new product and reduced spending on off-shore, third party development during the nine months of fiscal 2012. These third party costs are more variable in nature and will fluctuate with workload.

Selling, General and Administrative Expenses

Selling, general and administrative expenses were approximately \$830,000 and \$2.3 million for the three and nine month periods ended February 29, 2012 as compared to approximately \$810,000 and \$2.5 million for the comparable prior period, respectively. Generally, compensation, travel and marketing expenditures have increased in fiscal 2012 relative to 2011 as the new management team has taken actions to grow the revenue. In addition, non-cash expenditures related to amortization of the debt acquisition costs related to the March 2011 Recapitalization Transaction increased SG&A expenses by \$28,000 and \$81,000 for the three and nine month periods ended February 29, 2012, respectively. These aforementioned increases in SG&A expenses were offset by reduced spending in fiscal 2012 as compared to 2011 for professional fees related to our lawyers and accountants. Professional fees decreased by \$86,000 and \$467,000, respectively, for the three and nine month periods ended February 2012 as compared to the same periods in fiscal 2011. Fiscal year 2011 professional fees were unusually high as the Company was preparing for the March 2011 Recapitalization Transaction which included the requirement to complete two years of audits.

Interest Expense

Interest expense for the three and nine month periods ended February 29, 2012 was approximately \$74,000 and \$250,000, as compared to approximately \$144,000 and \$416,000 for the comparable prior period, respectively. These decreases were directly attributable to the Recapitalization Transaction (see *Liquidity and Capital Resources* below for additional information) which significantly reduced our outstanding debt.

Income from Continuing Operations Before Income Taxes

Income from continuing operations before income taxes for the three and nine month periods ended February 29, 2012 was approximately \$137,000 and \$377,000, respectively, as compared to approximately \$24,000 and \$170,000 for the comparable periods in the prior fiscal year.

Liquidity and Capital Resources

During the nine month period ended February 29, 2012 the net cash used in operating activities totaled approximately \$285,000 composed primarily of the following cash uses:

1)

\$478,000 was utilized to pay down liabilities which were unusually high as a result of approximately \$129,000 of accrued compensation (payroll for the last two weeks in May 2011) that were paid on June 1, 2011 and professional fees of approximately \$217,000 related to the Recapitalization Transaction; and

2)

\$340,000 was utilized in funding the increased accounts receivables primarily related to annual software maintenance contract billings.

Net cash used in investing activities for the nine months ended February 29, 2012 was \$19,000 primarily composed of capitalized software development costs related to a new product offset by the cash received in the current fiscal year from the note receivable from the sale of the AMT product line in May 2011.

Net cash used in financing activities totaled \$656,000 composed primarily of \$540,000 of scheduled principal repayment on our debt facility and \$112,000 of professional fees related to the registration of the new shares issued in the March 2011 Recapitalization Transaction.

Sources of Cash

As of February 29, 2012, we had cash on hand of approximately \$617,000, a decrease of approximately \$969,000 from May 31, 2011. The Company's net income adjusted for non-cash expenses together with its \$1.6 million in cash at the beginning of the fiscal year provided the liquidity to fund the above described cash utilization. The Company has a \$300,000 line of credit that has not been utilized since being established in March 2011.

The Company believes that its available cash, line of credit and cash provided by operations will be sufficient to meet its capital needs for at least the next twelve months.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

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

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures. We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our Securities Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our 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 the end of the period covered by this report (February 29, 2012), we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and our Chief Financial Officer, of the effectiveness of the design and operation of the disclosure controls and procedures, as defined in Rule 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective.

Changes in Internal Control Over Financial Reporting. There have been no changes in our internal control over financial reporting that occurred during the period covered by this report that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

None

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 the Quarterly Report on Form 10-Q and in any other public statements we make may turn out to be wrong. They can be affected by inaccurate assumptions we might make or by known or unknown risks and uncertainties. Any factors mentioned in the discussion below will be important in determining future results. Consequently, no forward-looking statement can be guaranteed. Actual future results may differ materially from those anticipated in forward-looking statements. We undertake no obligation to update any forward-looking statements, whether as a result of new information, future events or otherwise. You are advised, however, to consult any further disclosure we make in our reports filed with the SEC.

Risks Related to Our Business

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

Following the sale of our AMT product line in May 2011, we offer two product lines, ProductCenter and CADRA. We have experienced revenue declines in each of our last five years.

Our ProductCenter technology manages the engineering data and electronic files of discrete parts designed in third party proprietary design technologies offered primarily by Parametric Technology Corporation (PTC), Solidworks and Autodesk. Revenue from our ProductCenter technology has been declining due to several factors. In July 2007, PTC informed us that it would not renew its partnership agreement with us when the agreement expired in January 2008.

We had been a member of the PTC partnership program for 12 years. The PTC partnership agreement, among other things, provided us with the right to distribute certain information that allowed for our technology to directly interface with PTC 's proprietary CAD tools. The non-renewal has essentially prevented us from marketing our ProductCenter solution to new customers that utilize PTC 's technology and has negatively impacted our product revenue from this technology offering. In addition to the PTC partnership termination, ProductCenter revenues have been negatively affected by: (i) an increased number of competitive offerings in the marketplace, (ii) elongation of purchase decisions by customers of a technology that already has a long sales cycle, and (iii) uncertain economic conditions.

We have also experienced revenue declines in our CADRA product line. CADRA, which we acquired in 1998, is a 2D technology that was first introduced in the early 1980 's. The 2D marketplace is dominated by AutoCAD, a product sold by Autodesk. Due to the age and market position of our CADRA product line, we make no attempt to find new customers for this product, rather we have been focused on keeping our existing customers. As existing customers migrate to other solutions and/or reduce the use of CADRA, our revenue declines without any potential offsets from new accounts. CADRA product revenues are also negatively impacted by the newer 3D technologies available in the marketplace that have become more affordable and easier to use in the last 10 years. Given these factors, as well as the uncertain economic conditions, we anticipate that the general declining revenue trends over the past five years in the CADRA product line will continue.

Significant future declines in our total revenues would 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, Dassault, 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 critical software vendors may be terminated at will by the vendor.

We utilize third party vendors to provide certain software and utilities which enable us to continue to develop and support ProductCenter customers with their integrations from ProductCenter to their respective CAD solutions. These agreements are subject to termination at will by the vendor, 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 customer base utilizes PTC's Pro/ENGINEER integrator solution. We continue to support our current customers who are utilizing a Pro/ENGINEER integration solution with a customer specific consulting solution. While this customer specific consulting solution has allowed us to retain the majority of our customers utilizing Pro/ENGINEER as their 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 Pro/ENGINEER or similar restrictions that could result from any future terminations of similar agreements with other vendors could have an adverse effect on our future revenues.

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

In addition to our bank financing, we are dependent upon cash flow from our business to fund our operations. It is our expectation that we can continue to improve our cash flows; however, there can be no assurances that we will be able to continue to improve our cash flow in the future. If we are unable to fund our operations from future cash flows, we will need to seek additional debt or equity financing, which may not be available on attractive terms, if at all, in which case there could be a material adverse effect on our results of operations and financial condition.

We are dependent on our borrowing facilities to meet our operating needs.

Even after the Recapitalization Transaction described above whereby our outstanding debt and other accrued liabilities were reduced by \$7.6 million, we continue to be dependent on our term loan and line of credit with our new lender to meet our operating needs. Approximately 70% of our revenue is derived from annual maintenance renewal contracts that are billed and collected unevenly during the year. Our line of credit is an important component along with revenue from product sales and consulting activities for meeting our working capital needs especially during the first and second fiscal quarters when the annual maintenance collections are low. If we are unable to access our borrowing facilities due to a default or any other reason we could be forced to curtail our operating activities which would have a material adverse effect on our financial condition and results of operations.

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

As a result of the Recapitalization Transaction, as of February 29, 2012, we had approximately \$2.2 million of outstanding indebtedness under our term loan with One Conant Capital, and have not utilized any of the \$300,000 available under our line of credit. This indebtedness is secured by all of our assets. Our loan agreement includes financial covenants which require us to maintain compliance with certain financial ratios during the term of the agreement. Failure to comply with the financial covenants is an event of default under the loan agreement. In an event of default, the lender has the right to accelerate repayment of all sums due, cease making additional advances under the line of credit and take any and all action, at its sole option, to collect monies owed to it, including to enforce and foreclose on its security interest on all of our assets. If our lender were to accelerate our debt payments, our assets may not be sufficient to fully repay the debt and we may not be able to obtain capital from other sources at favorable terms or at all.

Prior to the Recapitalization Transaction, we defaulted on our previous debt arrangement with Greenleaf. In June 2010, we failed to make the scheduled loan payments in accordance with our term loan and revolving line of credit with Greenleaf, our sole debt provider at the time, which triggered the default. In 1999, we defaulted on our loan facility with Imperial Bank for failure to meet required profit and cash flow thresholds.

Our loan agreement imposes restrictions on our ability to take certain corporate actions and raise additional capital.

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

- .
incur additional indebtedness;
- .
pay or declare dividends;
- .
enter into a business substantially different from existing operations;
- .
issue or authorize any additional or new equity that will result in a change of control; and
- .
take any corporate action outside the ordinary course of the business without the prior written approval of our lender.

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

Our ability to use our net operating loss carry-forwards to offset future taxable income may be subject to certain limitations.

As of May 31, 2011, we had approximately \$18.3 million of Federal operating loss carry-forwards available to offset future taxable income, which expire in varying amounts beginning in 2022 if unused. It is possible that we will not generate taxable income in time to use these loss carry-forwards before their expiration. In addition, under Section 382 of the Internal Revenue Code, a corporation that undergoes an ownership change is subject to limitations on its ability to utilize its pre-change net operating loss carry-forwards, or NOLs, to offset future taxable income. While we do not believe the Recapitalization Transaction triggered an ownership change, stock purchases and sales over the next three years could trigger the limitation of the NOLs. On February 3, 2012, we adopted a Rights Agreement with the intention of reducing the likelihood of an ownership change. However, there can be no assurance that the agreement will be effective in deterring all transfers of our common stock that could result in such an ownership change.

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

Our quarterly revenue and operating results are difficult to predict and 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 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 with fewer than 50 employees. Our technologies are complex and have been developed over many years. While we enjoy the benefit of a very experienced, long-tenured employee group, we are dependent on many of those employees for the familiarity, expertise and unique insight they have developed with our products that would be extremely difficult and time consuming to replace. We do not have key man insurance on any of our employees. 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.

Our proprietary technology and patents may offer only limited protection against infringement and may not prevent our competitors from developing competitive products.

We develop, market and support proprietary technologies, some of which include patented technology that has been in the marketplace for more than a decade. The technologies are well established and compete against the proprietary technologies of other technology companies most of whom are much larger. Given the maturity of our product offerings our patents provide very limited protection against competitors' offerings of similar products.

Furthermore, others may independently develop products that are similar to our products, and may design around the claims of our patents. Patent litigation and intellectual property litigation are expensive and our resources are limited. To date, we have not received any threats of litigation regarding patent issues. However, if we were to become involved in litigation, we might not have the funds or other resources necessary to conduct the litigation effectively. This might prevent us from protecting our patents, from defending against claims of infringement, or both.

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

Our CADRA technology was introduced in the early 1980 s and 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. While we have not been notified or sued for infringing on third-party intellectual property rights, 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 nine months ended February 29, 2012, North America accounted for 64%, Europe for 26% and Asia for 10% of our revenue which was not materially different from the percentages for fiscal year 2011. Managing these geographically dispersed operations requires significant attention and resources to ensure compliance with laws. Accordingly, while we maintain a compliance program, we cannot guarantee that an employee, agent or business partner will not act in violation of our policies or U.S. or other applicable laws. Such violations can lead to civil and/or criminal prosecutions, substantial fines and the revocation of our rights to continue certain operations and also cause business and reputation loss.

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

From August 16, 2010 to December 27, 2011 we were not required to file periodic reports and other reports with the Commission. Following the effectiveness of the registration statement on Form S-1 on December 28, 2011, we are required to file reports with the Commission. 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 for the first fiscal year beginning after the effective date of our registration statement. This assessment will need to include 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 Commission. 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 Commission statutes, regulations and requirements will occupy a significant amount of time of our board of directors and management and could significantly increase our costs and expenses. The Company was an SEC reporting entity from 1981 until August 2010 and was current in its filings through the filing of the Form 15 in August 2010. The Company expects to incur incremental costs of between \$100,000 and \$200,000 in fiscal 2012 as compared to the prior fiscal year to meet its public company reporting responsibilities. These increased costs will be funded through cash flow from operations and our debt facilities. These rules and regulations could also make it more difficult for us to attract and retain qualified persons to serve on our board of directors and board committees or as executive officers. As a public company we are required to:

.

institute a more comprehensive compliance function;

.

maintain a system of internal controls over financial reporting in compliance with certain of the requirements of Section 404 of the Sarbanes-Oxley Act and the related rules and regulations of the Commission and the Public Company Accounting Oversight Board;

.

prepare and distribute periodic public reports in compliance with our obligations under the federal securities laws;

.

establish and maintain internal policies, such as those relating to disclosure controls and procedures and insider trading;

.

involve and retain to a greater degree outside counsel and accountants in the above activities; and

institute a more comprehensive investor relations function.

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 as well as 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 (all stock prices below have been adjusted to reflect the reverse stock split).

Over the previous three fiscal years the Company's stock price has fluctuated in price from a low of \$.40 per share to a high of \$5.00 per share. Since the Recapitalization Transaction, which was completed on March 11, 2011, the low sale price of our stock was \$.40 per share and the high price was \$4.20 per share. A contributing factor to the price fluctuation is the low average daily volume, which over the last three fiscal years has averaged fewer than 1,000 shares per day. Given the lack of market makers in the stock and the low demand, a shareholder's attempt to sell a large number of shares relative to the average daily volume in a short period of time will likely have a material negative impact on the share price.

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

Three of the four members of our board of directors participated in the private placement and own approximately 24% of our outstanding shares. In addition, Greenleaf, which currently owns 264,411 shares of common stock, or 26.6% of our shares currently outstanding, has agreed to vote all of its and its affiliates' shares (including any shares subsequently acquired by Greenleaf) in accordance with the recommendations of our board of directors for a three year period ending on March 8, 2014. 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 OTCQB marketplace tier. 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, stock brokers, 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. Also, there may be periods of several days or more when trading activity in our shares is minimal or non-existent, as compared to a seasoned issuer that has a large and steady volume of trading activity that will generally support continuous sales without an adverse effect on share price. A broader or more active public trading market for our common shares may not develop or if developed, may not be sustained. Due to these conditions, you may not be able to sell your shares at or near ask prices or at all if you need money or otherwise desire to liquidate your shares.

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

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

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

None

Item 3. Defaults Upon Senior Securities

None

Item 4. Mine Safety Disclosures

Not Applicable

Item 5. Other Information

Not Applicable

Item 6. Exhibits

See Exhibit Index on page 33.

SIGNATURES

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

SOFTECH, INC.

Date: April 16, 2012

/s/ Amy E. McGuire
Amy E. McGuire
Chief Financial Officer

Date: April 16, 2012

/s/ Joseph P. Mullaney
Joseph P. Mullaney
President & Chief Executive Officer

Exhibit Index

| Exhibit No. | Description of Document |
|--------------------|--|
| 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 on Form S-1, filed on June 9, 2011). |
| 3.1.2 | Articles of Amendment to Articles of Organization, effective June 7, 2011 (incorporated by reference to Exhibit 3.1.2 to the Company's Registration Statement on Form S-1, filed 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). |
| 31.1 | Certification of the Principal Financial Officer pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934, as amended. |
| 31.2 | Certification of the Principal Executive Officer pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934, as amended. |
| 32.1 | Certification of the Principal Financial Officer and Principal Executive Officer pursuant to U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 101.INS** | XBRL Instance Document |
| 101.SCH** | XBRL Taxonomy Extension Schema Document |
| 101.CAL** | XBRL Taxonomy Extension Calculation Linkbase Document |
| 101.DEF** | XBRL Taxonomy Extension Definition Linkbase Document |
| 101.LAB** | XBRL Taxonomy Extension Label Linkbase Document |
| 101.PRE** | XBRL Taxonomy Extension Presentation Linkbase Document |
| ** | XBRL (Extensible Business Reporting Language) information is furnished and not filed or a part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, is deemed not filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and otherwise is not subject to liability under these sections. |