

SOFTECH INC  
Form 10-Q  
January 14, 2015

**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 November 30, 2014

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

**0-10665**

Commission File Number

**SOFTECH, INC.**

(Exact name of the Registrant as specified in its charter)

**Massachusetts**

(State or other jurisdiction of  
incorporation or organization)

**04-2453033**

(I.R.S Employer Identification  
No.)

**650 Suffolk Street, Suite 415, Lowell, MA 01854**

(Address of principal executive offices and zip code)

**Telephone (978) 513-2700**

(Registrant s telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  . 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  . (Do not check if a smaller reportingSmaller reporting company  .  
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 January 10, 2015 was 893,724 shares.

SOFTECH, INC.

INDEX

	<b>Page Number</b>
<b>PART I. Financial Information</b>	
<b>Item 1. Financial Statements</b>	
Consolidated Balance Sheets November 30, 2014 (unaudited) and May 31, 2014	
Consolidated Statements of Operations Three Months Ended November 30, 2014 and 2013 (unaudited)	4
Consolidated Statements of Operations Six Months Ended November 30, 2014 and 2013 (unaudited)	5
Consolidated Statements of Comprehensive (Loss) Income Three Months Ended November 30, 2014 and 2013 (unaudited)	6
Consolidated Statements of Comprehensive (Loss) Income Six Months Ended November 30, 2014 and 2013 (unaudited)	7
Consolidated Statements of Cash Flows Six Months Ended November 30, 2014 and 2013 (unaudited)	8
Notes to Consolidated Financial Statements (unaudited)	9
<b>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</b>	18
<b>Item 3. Quantitative and Qualitative Disclosures about Market Risk</b>	29
<b>Item 4. Controls and Procedures</b>	29
<b>PART II. Other Information</b>	
<b>Item 1. Legal Proceedings</b>	29
<b>Item 1A. Risk Factors</b>	29
<b>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</b>	36
<b>Item 6. Exhibits</b>	36



**PART I FINANCIAL INFORMATION****Item 1. Financial Statements.****SOFTECH, INC. AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS**

	<i>(in thousands)</i>	
	<b>November 30,</b>	<b>May 31,</b>
	<b>2014</b>	<b>2014</b>
	<b>(Unaudited)</b>	
<b><u>ASSETS</u></b>		
Cash	\$ 517	\$ 1,209
Accounts receivable (less allowance for uncollectible accounts of \$18 as of November 30, 2014 and May 31, 2014)	733	666
Holdback payment and earn-out payments from CADRA sale, current portion	304	547
Debt issuance costs, net	26	139
Prepaid and other assets	188	204
Total current assets	1,768	2,765
Property and equipment, net	76	95
Goodwill	948	948
Capitalized software development costs, net	263	319
Capitalized patent costs	108	106
Earn-out payments from CADRA sale, net of current portion	331	348
Other assets	143	143
TOTAL ASSETS	\$ 3,637	\$ 4,724
<b><u>LIABILITIES AND SHAREHOLDERS (DEFICIT) EQUITY</u></b>		
Accounts payable	\$ 283	\$ 483
Accrued expenses	303	607
Deferred maintenance revenue	1,172	1,462
Capital lease, current	19	19
Current maturities of long-term debt	851	973
Total current liabilities	2,628	3,544

Edgar Filing: SOFTECH INC - Form 10-Q

Capital lease, net of current portion	40	47
Long-term debt, net of current maturities	120	-
Other accrued liabilities	15	-
Total liabilities	2,803	3,591
Commitments and contingencies		
Redeemable common stock, \$0.10 par value, 170,000 and 50,000 shares issued and outstanding at November 30, 2014 and May 31, 2014, respectively.	1,190	275
Shareholders (deficit) equity :		
Common stock, \$0.10 par value 20,000,000 shares authorized, 723,724 and 825,135 issued and outstanding at November 30, 2014 and May 31, 2014, respectively.	73	83
Capital in excess of par value	27,001	27,338
Accumulated deficit	(27,033)	(26,081)
Accumulated other comprehensive loss	(397)	(482)
Total shareholders (deficit) equity	(356)	858
TOTAL LIABILITIES AND SHAREHOLDERS (DEFICIT) EQUITY \$	3,637	\$ 4,724

See accompanying notes to unaudited consolidated financial statements

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

	<i>(in thousands, except for share and per share data)</i>	
	<b>For the Three Months Ended</b>	
	<b>November 30, 2014</b>	<b>November 30, 2013</b>
Revenue:		
Products	\$ 199	\$ 376
Services	828	1,038
Total revenue	1,027	1,414
Cost of revenue:		
Products	33	28
Services	436	264
Total cost of revenue	469	292
Gross margin	558	1,122
Research and development expenses	222	304
Selling, general and administrative expenses	645	866
Gain on CADRA sale	-	(649)
Change in fair value of earn-out payments and holdback payment	(21)	-
Operating (loss) income	(288)	601
Interest expense	63	104
Other expense (income), net	28	(17)
Net (loss) income	\$ (379)	\$ 514
Basic and diluted net (loss) income per share:	\$ (0.44)	\$ 0.59
Weighted average common and redeemable shares outstanding-basic and diluted	866,911	875,135

See accompanying notes to unaudited consolidated financial statements





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

*(in thousands, except for share and per share data)*

	<b>For the Six Months Ended</b>	
	<b>November 30, 2014</b>	<b>November 30, 2013</b>
Revenue:		
Products	\$ 270	\$ 618
Services	1,621	2,172
Total revenue	1,891	2,790
Cost of revenue:		
Products	86	62
Services	791	572
Total cost of revenue	877	634
Gross margin	1,014	2,156
Research and development expenses	494	639
Selling, general and administrative expenses	1,362	1,747
Gain on CADRA sale	-	(649)
Change in fair value of earn-out payments and holdback payment	(60)	-
Operating (loss) income	(782)	419
Interest expense	127	199
Other expense (income), net	43	(28)
Net (loss) income	\$ (952)	\$ 248
Basic and diluted net (loss) income per share:	\$ (1.08)	\$ 0.28
Weighted average common and redeemable shares outstanding-basic and diluted	881,653	888,140

See accompanying notes to unaudited consolidated financial statements



**SOFTECH, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF**  
**COMPREHENSIVE (LOSS) INCOME (UNAUDITED)**

	<i>(in thousands, except for share and per share data)</i>	
	<b>For the Three Months Ended</b>	
	<b>November 30, 2014</b>	<b>November 30, 2013</b>
Net (loss) income	\$ (379)	\$ 514
Other comprehensive income (loss):		
Foreign currency translation adjustment	28	(25)
Comprehensive (loss) income	\$ (351)	\$ 489

See accompanying notes to unaudited consolidated financial statements

**SOFTECH, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF**  
**COMPREHENSIVE (LOSS) INCOME (UNAUDITED)**

*(in thousands, except for share and per share data)*

	<b>For the Six Months Ended</b>	
	<b>November 30, 2014</b>	<b>November 30, 2013</b>
Net (loss) income	\$ (952)	\$ 248
Other comprehensive income (loss):		
Foreign currency translation adjustment	85	(45)
Comprehensive (loss) income	\$ (867)	\$ 203

See accompanying notes to unaudited consolidated financial statements

**SOFTECH, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)**

	<i>(in thousands)</i>	
	<b>For the Six Months Ended</b>	
	<b>November 30, 2014</b>	<b>November 30, 2013</b>
Cash flows from operating activities:		
Net (loss) income	\$ (952)	\$ 248
Adjustments to reconcile net (loss) income to net cash used in operating activities:		
Depreciation and amortization expense	189	111
Gain on CADRA sale	-	(649)
Stock-based compensation	59	4
Non-cash interest expense	18	6
Change in fair value of earn-out payments and holdback payment	(60)	-
Change in current assets and liabilities:		
Accounts receivable	(67)	(196)
Prepaid expenses and other assets	16	159
Restricted cash	-	(1,306)
Accounts payable and accrued expenses	(489)	402
Deferred maintenance revenue	(290)	(538)
Net cash used in operating activities	(1,576)	(1,759)
Cash flows from investing activities:		
Proceeds from sale of product line, net of direct expenses	-	2,432
Capital expenditures	(2)	(37)
Capitalized software development costs	-	(57)
Capitalized patent costs	(2)	(2)
Net cash provided by (used in) investing activities	(4)	2,336
Cash flows from financing activities:		
Cost of repurchase of common stock	(37)	(63)
Cost of repurchase of redeemable common stock	(275)	-
Capitalized debt issuance costs	-	(32)
Borrowing under debt agreement	750	-
Change in fair value of warrant liability	-	(6)
Proceeds from holdback agreement	320	-
Proceeds from issuance of common stock	820	-
Repayments under debt agreements	(770)	-