

SOFTECH INC  
Form S-1  
June 09, 2011

As filed with the Securities and Exchange Commission on June 9, 2011

Registration No. 333-

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

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FORM S-1

REGISTRATION STATEMENT UNDER

THE SECURITIES ACT OF 1933

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**SOFTECH, INC.**

*(Exact name of registrant as specified in its charter)*

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**Massachusetts**

*(State or other jurisdiction of  
incorporation or organization)*

**7373**

*(Primary Standard Industrial  
Classification Code Number)*

**22-2369805**

*(I.R.S. Employer Identification No.)*

**SofTech, Inc.**

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**59 Lowes Way, Suite 401  
Lowell, MA 01851  
978-513-2700**

*(Address, including zip code, and telephone number, including area code,  
of registrant's principal executive offices)*

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**Joseph P. Mullaney  
President & Chief Executive Officer  
SofTech, Inc.  
59 Lowes Way, Suite 401**

**Lowell, MA 01851  
978-513-2700**

*(Name, address, including zip code, and telephone number,  
including area code, of agent for service)*

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*Copies to:*

**Matthew J. Gardella, Esq.  
Edwards Angell Palmer & Dodge LLP**

**111 Huntington Avenue  
Boston, Massachusetts 02199  
617-239-0100**

**Approximate date of commencement of proposed sale to the public:** From time to time, at the discretion of the selling shareholders, after the effective date of this registration statement.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933 check the following box:  .

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. .

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If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. .

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. .

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

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

**CALCULATION OF REGISTRATION FEE**

<b>Title of Each Class of Securities to be Registered</b>	<b>Amount to be Registered<sup>(1)</sup></b>	<b>Proposed Maximum Offering Price per Unit<sup>(2)</sup></b>	<b>Proposed Maximum Aggregate Offering Price<sup>(2)</sup></b>	<b>Amount of Registration Fee</b>
Common Stock, par value \$.10 per share	384,588	\$2.40	\$923,011.20	\$108.00

(1)

This registration statement covers the resale of 384,588 shares of our common stock issued in a private placement that closed on March 11, 2011, after giving effect to the 1-for-20 reverse stock split that became effective on June 7, 2011 (the Reverse Split). Pursuant to Rule 416 under the Securities Act, this registration statement also covers such additional shares of common stock as may hereafter be offered or issued with respect to the shares being registered hereby as a result of stock splits, stock dividends, recapitalization or similar adjustments.

(2)

Estimated solely for purposes of calculating the registration fee according to Rule 457(c) under the Securities Act based on the average of the high and low price of our common stock quoted on the Pink Sheets on June 7, 2011, as adjusted to account for the Reverse Split.

**The Registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this registration statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act or until the registration statement shall become effective on such date as the Commission, acting pursuant to Section 8(a), may determine.**

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**SUBJECT TO COMPLETION, DATED JUNE 9, 2011  
PROSPECTUS**

SofTech, Inc.  
384,588 shares of Common Stock

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This prospectus relates to the sale from time to time of up to 384,588 shares of our common stock, par value \$.10 per share, by the selling shareholders named in this prospectus in the section entitled "Selling Shareholders," including their donees, pledgees, assignees, transferees and other successors-in-interest, whom we refer to in this prospectus as the "Selling Shareholders."

The Selling Shareholders may, but are not required to, sell their shares of our common stock in a number of different ways and at varying prices as determined by the prevailing market price for shares or in negotiated transactions. See "PLAN OF DISTRIBUTION" for a description of how the Selling Shareholders may dispose of the shares covered by this prospectus. We do not know when or in what amount the Selling Shareholders may offer the shares for sale.

We will not receive any of the proceeds from the sale of our shares by the Selling Shareholders pursuant to this prospectus. We have agreed to pay certain expenses related to the registration of the offer and sale of the shares of common stock pursuant to the registration statement containing this prospectus.

Our common stock is quoted on the Pink Sheets under the symbol "SOFT.PK." On June 7, 2011, the last quoted sale price for our common stock as reported on the Pink Sheets was \$2.40 per share (as adjusted for our 1-for-20 reverse stock split).

**Investing in our common stock involves certain risks. See "RISK FACTORS" beginning on page 3 for a discussion of these risks.**

**Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.**

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**The date of this prospectus is \_\_\_\_\_, 2011**





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## ABOUT THIS PROSPECTUS

This prospectus is part of a registration statement that we filed with the Securities and Exchange Commission (the SEC or the Commission). This prospectus relates to 384,588 shares of our common stock that the Selling Shareholders named in this prospectus may sell from time to time. We will not receive any proceeds from these sales. We have

agreed to pay the expenses incurred in registering these shares, including legal and accounting fees.

References in this prospectus to the Company, we, our, and us refer to the registrant, SofTech, Inc., and its wholly owned subsidiaries.

Brokers or dealers effecting transactions in these shares should confirm that the shares are registered under applicable state securities laws or that an exemption from registration is available.

You should rely only on the information contained in this prospectus or in any free writing prospectus we have prepared. Neither we nor the Selling Shareholders have authorized anyone to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it. The information contained in this prospectus is accurate only as of the date of this prospectus, regardless of the time of delivery of this prospectus or the time of any sale of our common stock under this prospectus. Our business, financial condition, results of operations and prospects may have changed since such date. You should not assume that the information in this prospectus is accurate as of any date other than the date on the front of this document.

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## PROSPECTUS SUMMARY

*The following is only a summary of some of the information contained in this prospectus. Accordingly, it is not complete and does not contain all of the information that you should consider before deciding to invest in our securities. Investing in our common stock involves risks. We urge you to read this entire prospectus carefully, including the Risk Factors section.*

### Company Overview

SofTech, Inc. is a proven provider of product lifecycle management (PLM) solutions with its flagship ProductCenter® PLM technology and its computer-aided design product CADRA® offering. Our solutions accelerate product development, introduction and profitability by fostering innovation, extended enterprise collaboration, product quality improvements, and compressed time-to-market cycles. We deliver enterprise PLM solutions, with comprehensive out-of-the-box capabilities, to meet the needs of manufacturers of all sizes quickly and cost-effectively.

### Recent Developments

#### ***Recapitalization Transaction***

On March 11, 2011, we completed a recapitalization transaction in which we:

sold an aggregate of 384,588 shares of common stock (7,691,764 shares pre-split), for an aggregate purchase price of \$421,765, 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 (the private placement );

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 ), 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 of indebtedness then outstanding under our financing agreements with Greenleaf.

These transactions are collectively referred to in this prospectus as the Recapitalization Transaction. 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 described above. Shortly thereafter, Hank Nelson was also appointed as a director.

As part of the Recapitalization Transaction, we entered into a Registration Rights Agreement with the Selling Shareholders which obligates us to file the registration statement, of which this prospectus forms a part, and to maintain its effectiveness.

***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. Effective as of June 7, 2011, every twenty shares of our issued and outstanding common stock was 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 prospectus reflects the implementation of the 1-for-20 reverse stock split.

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### *Sale of Advanced Manufacturing Technology Product Line*

On May 24, 2011, we sold our Advanced Manufacturing Technology (“AMT”) product line (Prospector™, ToolDesigner™, and ExpertCAD™) in exchange for \$250,000 in cash and a note receivable in the amount of \$162,500.

### **Risk Factors**

You should consider carefully the risks described under the **Risk Factors** section beginning on page 3 and elsewhere in this prospectus. These risks could materially and adversely impact our business, financial condition, operating results and cash flow, which could cause the trading price of our common stock to decline and could result in a partial or total loss of your investment.

### **Corporate History and Information**

We were formed as a corporation in Massachusetts in 1969 and our shares of common stock began trading publicly in 1981. Our common stock was traded on the NASDAQ Stock Market until April 6, 2001. On August 16, 2010, we filed a Form 15 with the Securities and Exchange Commission (the **Commission** or the **SEC**) in order to deregister our common stock under the Securities Exchange Act of 1934, as amended (the **Exchange Act**). As a result, our obligation to file periodic and other reports under the Exchange Act was suspended. The last periodic reports that we filed were our Annual Report on Form 10-K for the fiscal year ended May 31, 2009 (filed August 6, 2009) and our Quarterly Report on Form 10-Q for the third quarter ended February 28, 2010 (filed April 12, 2010). Given our cessation of public reporting, you cannot rely on these reports or any of our other previously filed reports for current information about the Company. In connection with the effectiveness of the registration statement containing this prospectus, we expect to file a Form 8-A with the SEC registering our common stock under the Exchange Act and will again be required to file periodic and other reports under the Exchange Act. Our principal offices are located at 59 Lowes Way, Suite 401, Lowell, Massachusetts 01851, and our telephone number is (978) 513-2700.

ProductCenter® and CADRA® are registered trademarks of SofTech. All rights reserved. Other trademarks or service marks appearing in this prospectus are the property of their respective holders.

### **The Offering**

The Selling Shareholders named in this prospectus may offer and sell, from time to time, up to 384,588 shares of our common stock that were originally purchased by the Selling Stockholders as part of the Recapitalization Transaction described above. We will not receive any of the proceeds of sales by the Selling Shareholders of any of the common stock covered by this prospectus.

## RISK FACTORS

*An investment in our common stock involves a high degree of risk. You should consider carefully the risks described below before making an investment decision. Our business, prospects, financial condition or operating results could be harmed by any of these risks, as well as other risks not currently known to us or that we currently consider immaterial. Furthermore, these factors represent risks and uncertainties that could cause actual results to differ materially from those implied by forward-looking statements. We refer you to our cautionary note regarding Forward-Looking Statements, which identifies the forward-looking statements in this prospectus. The trading price of our common stock could decline due to any of these risks, and, as a result, you may lose all or part of your investment. Before deciding whether to invest in our common stock, you should also refer to the other information contained in this prospectus, including our consolidated financial statements and the related notes.*

### 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 (as described below under **Products and Services** ), we offer two product lines, ProductCenter and Cadra. In general, we have experienced decreasing revenues and a small number of new customers for these products for several years. From fiscal year 2009 to 2010, ProductCenter and Cadra revenues declined 16.2% and 21.5%, respectively.

Our ProductCenter technology manages proprietary CAD technologies offered by third parties, primarily 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.



***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.

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

Even after the Recapitalization Transaction described above whereby our outstanding debt was 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 of May 31, 2011, we had approximately \$2.7 million of outstanding indebtedness under our term loan 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.

***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, 2010, we had approximately \$29 million of federal operating loss carry-forwards available to offset future taxable income, which expire in varying amounts beginning in 2011 for federal purposes 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.

***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 cause delays in 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. North America accounted for 70%, Europe for 22% and Asia for 8% of our revenue in fiscal 2010. 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.

***As a result of becoming a public company, we will be obligated to develop and 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.***

Since August 16, 2010 we have not been required to file periodic reports and other reports with the Commission. Following the effectiveness of the registration statement containing this prospectus, we will once again be required to file reports with the Commission. As a public company, we will be 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 this offering. 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 will need to comply with new 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, which we cannot estimate accurately at this time. 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. We will need 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 new 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 this Offering and 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 10,000 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. Although all eight investors in the private placement are listed as Selling Shareholders in this prospectus, these persons have no obligation to sell any of their shares and may retain significant ownership of our common stock following the sale of any shares pursuant to this prospectus. 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 Pink Sheets. 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 on 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.

## **FORWARD LOOKING STATEMENTS**

This prospectus 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, and similar expressions. These statements are only predictions and involve estimates, assumptions and uncertainties that could cause actual results to differ materially from those expressed for the reasons described in this prospectus. 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.

You should also consider carefully the statements under **Risk Factors** and other sections of this prospectus, which address additional factors that could cause our actual results to differ from those set forth in the forward-looking statements and could materially and adversely affect our business, operating results and financial condition. All subsequent written and oral forward-looking statements attributable to us or persons acting on our behalf are expressly qualified in their entirety by the applicable cautionary statements.

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.

## USE OF PROCEEDS

We will not receive any proceeds from this offering. The Selling Shareholders will receive all of the proceeds from sales of the common stock sold pursuant to this prospectus.

## SELLING SHAREHOLDERS

This prospectus relates to the sale from time to time of up to 384,588 shares of our common stock by the Selling Shareholders. Throughout this prospectus, when we refer to the shares of our common stock, the offer and sale of which are being registered on behalf of the Selling Shareholders, we are referring to the shares of common stock that were issued in the March 2011 private placement transaction described below. When we refer to the Selling Shareholders in this prospectus, we are referring to the investors in the private placement who are listed as Selling Shareholders in the table below and, as applicable, any donees, pledges, transferees or other successors-in-interest selling shares received after the date of this prospectus from the investors in the private placement as a gift, pledge, or other non-sale related transfer.

On March 11, 2011, as part of the Recapitalization Transaction, we completed a private placement transaction in which we sold an aggregate of 384,588 shares of common stock (7,691,764 shares pre-split). In connection therewith, we agreed to file a registration statement, of which this prospectus forms a part, with the SEC to register the resale of the private placement shares.

The following table presents information as of June 8, 2011 and sets forth the following information regarding the beneficial ownership of our common stock by each Selling Shareholder: (i) the name of the Selling Shareholder; (ii) the number of shares of common stock owned by the Selling Shareholder; (iii) the number of shares being offered pursuant to this prospectus; (iv) the number of shares expected to be owned by the Selling Shareholder upon completion of this offering; and (v) the percentage of our outstanding shares of common stock expected to be owned by the Selling Shareholder upon completion of this offering. The following table assumes that all of the shares being registered pursuant to this prospectus will be sold.

We have prepared this table using information furnished to us by the Selling Shareholders or their representatives. For purposes of this table, beneficial ownership is determined in accordance with the rules of the Commission, and includes the right to acquire voting or investment control of our shares of common stock within 60 days of June 9, 2011. Unless otherwise indicated below, to our knowledge, the Selling Shareholders have sole voting and investment power with respect to their shares of common stock. The inclusion of any shares in the table does not constitute an admission of beneficial ownership by the persons named therein.

Our registration of the common stock does not mean that the Selling Shareholders identified below will sell all or any of these securities. Furthermore, the Selling Shareholders may have sold, transferred or disposed of a portion of their shares in transactions exempt from the registration requirements of the Securities Act since the date on which we filed this prospectus. The Selling Shareholders are not making any representation that any shares covered by this prospectus will be offered for sale.

Name of Selling Shareholder	Shares Beneficially Owned Prior to	Shares Being	Shares Beneficially Owned Following Completion of Offering	
	Offering	Offered Hereby	Shares	% (1)
Joseph P. Mullaney(2)	83,635	80,000	3,635	*
Robert B. Anthonyson(3)	129,838	129,838	0	*
J. Phillip Cooper (4)	25,000	25,000	0	*
Lee Paull	45,500	45,500	0	*
Leonard Schrank	22,500	22,500	0	*
Timothy Weatherford	32,987	22,750	10,237	1.0%
Chandra Singh	127,036	45,500	81,536	8.2%
Glenn Dillon	13,500	13,500	0	*
<b>Total</b>	<b>479,996</b>	<b>384,588</b>	<b>95,408</b>	

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\*

Less than 1%.

(1)

Percentage ownership is based on 995,250 shares of our common stock outstanding as of June 8, 2011.

(2)

Mr. Mullaney has been our President and Chief Executive Officer and a member of our Board of Directors since the consummation of the Recapitalization Transaction in March 2011. Mr. Mullaney previously served as our President and Chief Executive Officer from June 2001 through December 2006. In September 2009, Mr. Mullaney was hired by Greenleaf, the Company's sole debt provider and largest shareholder at the time, to assist Greenleaf in its effort to sell its debt and equity position in the Company. In the four weeks leading up to the consummation of the Recapitalization Transaction, Mr. Mullaney assisted the Company's management team with completion of the transaction and transition planning. As a condition of obtaining the new debt financing for completion of the Recapitalization Transaction, Mr. Mullaney personally guaranteed the \$3.2 million debt facilities and assigned certain personal assets as collateral. See CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS beginning on page 32.



(3)

Mr. Anthonyson has been our Vice President of Business Development and a member of our Board of Directors since the consummation of the Recapitalization Transaction in March 2011.

(4)

Mr. Cooper has been a member of our Board of Directors since the consummation of the Recapitalization Transaction in March 2011.

### **PLAN OF DISTRIBUTION**

The shares covered by this prospectus may be offered and sold from time to time by the Selling Shareholders. The term Selling Shareholder includes pledgees, donees, transferees or other successors in interest selling shares received after the date of this prospectus from each selling shareholder as a pledge, gift, partnership distribution or other non-sale related transfer. The number of shares beneficially owned by a Selling Shareholder will decrease as and when he effects any such transfers. The plan of distribution for the Selling Shareholders' shares sold hereunder will otherwise remain unchanged, except that the transferees, pledgees, donees or other successors will be Selling Shareholders hereunder. To the extent required, we may amend and supplement this prospectus from time to time to describe a specific plan of distribution.

The Selling Shareholders will act independently of us in making decisions with respect to the timing, manner and size of each sale. The Selling Shareholders may make these sales at prices and under terms then prevailing or at prices related to the then current market price. The Selling Shareholders may also make sales in negotiated transactions. The Selling Shareholders may offer their shares from time to time pursuant to one or more of the following methods:

.  
ordinary brokerage transactions and transactions in which the broker-dealer solicits purchasers;

.  
one or more block trades in which the broker-dealer will attempt to sell the shares as agent but may position and resell a portion of the block as principal to facilitate the transaction;

.  
purchases by a broker-dealer as principal and resale by the broker-dealer for its account;



.  
an exchange distribution in accordance with the rules of the applicable exchange;

.  
public or privately negotiated transactions;

.  
on the Pink Sheets (or any successor market), BX Venture Market, NASDAQ, OTC Bulletin Board or through the facilities of any national securities exchange or U.S. inter-dealer quotation system of a registered national securities association, on which the shares are then listed, admitted to unlisted trading privileges or included for quotation;

.  
through underwriters, brokers or dealers (who may act as agents or principals) or directly to one or more purchasers;

.  
a combination of any such methods of sale; and

.  
any other method permitted pursuant to applicable law.

In connection with distributions of the shares or otherwise, the Selling Shareholders may:

.  
enter into hedging transactions with broker-dealers or other financial institutions, which may in turn engage in short sales of the shares in the course of hedging the positions they assume;

.  
sell the shares short and redeliver the shares to close out such short positions;

.  
enter into option or other transactions with broker-dealers or other financial institutions which require the delivery to them of shares offered by this prospectus, which they may in turn resell; and

.  
pledge shares to a broker-dealer or other financial institution, which, upon a default, they may in turn resell.

In addition to the foregoing methods, the Selling Shareholders may offer their shares from time to time in transactions involving principals or brokers not otherwise contemplated above, in a combination of such methods described above or any other lawful methods. The Selling Shareholders may also transfer, donate or assign their shares to lenders, family members and others and each of such persons will be deemed to be a Selling Shareholder for purposes of this prospectus. The Selling Shareholders or their successors in interest may from time to time pledge or grant a security interest in some or all of the shares of common stock, and if the Selling Shareholders default in the performance of their secured obligations, the pledgees or secured parties may offer and sell the shares of common stock from time to time under this prospectus; provided however in the event of a pledge or then default on a secured obligation by the Selling Shareholder, in order for the shares to be sold under this registration statement, unless permitted by law, we must distribute a prospectus supplement and/or amendment to this registration statement amending the list of Selling Shareholders to include the pledgee, secured party or other successors in interest of the Selling Shareholder under this prospectus.

The Selling Shareholders may also sell their shares pursuant to Rule 144 under the Securities Act, which permits limited resale of shares purchased in a private placement subject to the satisfaction of certain conditions, including, among other things, the availability of certain current public information concerning the issuer, the resale occurring following the required holding period under Rule 144 and the number of shares being sold during any three-month period not exceeding certain limitations.

Sales through brokers may be made by any method of trading authorized by any stock exchange or market on which the shares may be listed or quoted, including block trading in negotiated transactions. Without limiting the foregoing, such brokers may act as dealers by purchasing any or all of the shares covered by this prospectus, either as agents for others or as principals for their own accounts, and reselling such shares pursuant to this prospectus. The Selling Shareholders may effect such transactions directly, or indirectly through underwriters, broker-dealers or agents acting on their behalf. In effecting sales, broker-dealers or agents engaged by the Selling Shareholders may arrange for other broker-dealers to participate. Broker-dealers or agents may receive commissions, discounts or concessions from the Selling Shareholders, in amounts to be negotiated immediately prior to the sale (which compensation as to a particular broker-dealer might be in excess of customary commissions for routine market transactions).

In offering the shares covered by this prospectus, the Selling Shareholders, and any broker-dealers and any other participating broker-dealers who execute sales for the Selling Shareholders, may be deemed to be underwriters within the meaning of the Securities Act in connection with these sales. Any profits realized by the Selling Shareholders and the compensation of such broker-dealers may be deemed to be underwriting discounts and commissions.

The Company has advised the Selling Shareholders that the anti-manipulation rules of Regulation M under the Exchange Act may apply to sales of shares in the market and to the activities of the Selling Shareholders and their affiliates. In addition, the Company will make copies of this prospectus (as it may be supplemented or amended from time to time) available to the Selling Shareholders for the purpose of satisfying the prospectus delivery requirements of the Securities Act. The Selling Shareholders may indemnify any broker-dealer that participates in transactions involving the sale of the shares against certain liabilities, including liabilities arising under the Securities Act.

The Company is required to pay all fees and expenses incident to the registration of the shares.

The Company has agreed to indemnify the Selling Shareholders against certain losses, claims, damages and liabilities, including liabilities under the Securities Act.

## **DESCRIPTION OF CAPITAL STOCK**

The following is a summary of the rights of our capital stock and certain provisions of our articles of organization, as amended, and by-laws. For more detailed information, please see our articles of organization, as amended, and by-laws filed as exhibits to the registration statement containing this prospectus.

### **Authorized Capital Stock**

Our authorized capital stock consists of 20,000,000 shares, with a par value of \$.10 per share, all of which are designated as common stock. There are no shares of preferred stock authorized.

As of May 31, 2011, we had outstanding 995,250 shares of common stock, held of record by 229 shareholders.

### **Description of Common Stock**

***Voting.*** Holders of our common stock are entitled to one vote for each share held on all matters submitted to a vote of shareholders and do not have cumulative voting rights. An election of directors by our shareholders shall be determined by a plurality of the votes cast by the shareholders entitled to vote on the election.

***Dividends.*** Holders of common stock are entitled to receive proportionately any dividends as may be declared by our board of directors.

***Liquidation and Dissolution.*** In the event of our liquidation, dissolution or winding up, holders of common stock are entitled to share ratably in all our net assets available for distribution to shareholders after the payment of all debts and other liabilities.

***Other Rights and Restrictions.*** Holders of common stock do not have preemptive rights or subscription rights, and they have no right to convert their common stock into any other securities. Our common stock is not subject to redemption by us, and there are no sinking fund provisions applicable to our common stock. Our articles of organization and by-laws do not restrict the ability of a holder of common stock to transfer his, her or its shares of common stock. Massachusetts law provides that if we make a distribution to our shareholders, other than a distribution of our capital stock, when we are insolvent, or that renders us insolvent, then our shareholders would be required to pay back to us the amount of the distribution we made to them, or the portion of the distribution that causes us to become insolvent.

**Transfer Agent and Registrar.** The transfer agent and registrar for our common stock is Registrar and Transfer Company.

**Registration Rights.** In connection with the private placement, we also entered into a registration rights agreement with the Selling Shareholders (the Registration Rights Agreement), pursuant to which we agreed to file with the SEC a registration statement, of which this prospectus is a part, to cover the resale of the 384,588 shares of common stock (7,691,764 shares pre-split) issued in the private placement, within 90 calendar days after the closing of the private placement. We agreed to use our reasonable best efforts to have the registration statement, of which the prospectus is a part, declared effective as promptly as reasonable possible. We also agreed to use our reasonable best efforts to keep the registration statement continuously effective until the earlier of (i) such time as all of the shares have been sold by the Selling Shareholders and (ii) the date that all the shares may be sold immediately without registration under the Securities Act and without restrictions under Rule 144 of the Securities Act.

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

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

### **Massachusetts Law and Charter and By-law Provisions**

**Business Combinations with Interested Shareholders.** We are subject to the provisions of Chapter 110F of the Massachusetts General Laws, an anti-takeover law. In general, this statute prohibits a publicly-held Massachusetts corporation with sufficient ties to Massachusetts from engaging in a business combination with an interested shareholder for a period of three years after the date of the transaction in which the person becomes an interested shareholder, unless either (1) the interested shareholder obtains the approval of the board of directors prior to becoming an interested shareholder, (2) the interested shareholder acquires 90% of the outstanding voting stock of the corporation (excluding shares held by certain affiliates of the corporation) at the time he becomes an interested shareholder or (3) the business combination is approved by both the board of directors and two-thirds of the outstanding voting stock of the corporation (excluding shares held by the interested shareholder) at an annual or special meeting of shareholders, but not by written consent. In general, an interested shareholder is a person who, together with affiliates and associates, owns 5% or more of the corporation's outstanding voting stock or who as an affiliate at any time within the prior three years did own 5% or more of the corporation's voting stock. A business combination generally includes mergers, stock and asset sales and other transactions with the interested shareholder resulting in a financial benefit to the interested shareholder, except proportionately as a shareholder of the corporation. We may at any time amend our articles of organization or by-laws, by vote of the holders of a majority of our voting stock, to elect not to be governed by Chapter 110F, but such an amendment would not be effective for 12 months and would not apply to a business combination with any person who became an interested shareholder prior to the date of

the amendment.

In addition, our articles of organization also include restrictions on certain business combinations with interested shareholders. In general, we cannot enter into a business combination with an interested shareholder without the approval of at least 90% of the outstanding voting stock of the Company unless the proposed business combination either (i) is approved by a majority of the disinterested directors or (ii) meets certain price and procedure requirements. In general, an interested shareholder under our articles of organization is a person who, together with affiliates and associates, owns 10% or more of the Company's outstanding voting stock or who as an affiliate at any time within the prior two years did own 10% or more of the Company's voting stock. Under our articles of organization a business combination generally includes any (1) merger or consolidation, (2) sale, lease, exchange, pledge, transfer or other disposition of \$1,000,000 or more, (3) issuance or transfer of securities of the Company of \$1,000,000 or more, (4) adoption of a plan or proposal for the liquidation or dissolution of the Company or (5) reclassification of securities or recapitalization which directly or indirectly increases the proportion of securities owned by the interested shareholder.

**Control Share Acquisitions.** We also are subject to the provisions of Chapter 110D of the Massachusetts General Laws, entitled Regulation of Control Share Acquisitions. This statute provides, in general, that any shareholder who acquires 20% or more of the outstanding voting stock of a corporation subject to this statute may not vote that stock unless the shareholders of the corporation so authorize. In addition, Chapter 110D permits a corporation to provide in its articles of organization or by-laws that the corporation may redeem, for fair value, all of the shares acquired in a control share acquisition if the interested shareholder does not deliver a control share acquisition statement as required by the statute or if the interested shareholder delivers a control share acquisition statement but the disinterested shareholders of the corporation do not authorize voting rights for those shares. If the disinterested shareholders authorize voting rights and after a control share acquisition the acquiring shareholder beneficially owns shares entitling the acquiring shareholder to vote, or direct the voting of, shares having a majority or more of all voting power in the election of directors, each shareholder who did not vote in favor of authorizing the voting rights may demand payment for its shares and appraisal rights. Control share acquisitions do not include acquisitions made in connection with a negotiated tender offer, merger or consolidation to which the issuing public corporation is a party or acquisitions of shares made directly from the corporation. We may amend our articles of organization or by-laws at any time to elect not to be governed by Chapter 110D, but such amendment would not apply to an acquisition that occurred prior to the effective date of such amendment.

**Takeover Bids.** We are also subject to the provisions of Chapter 110C of the Massachusetts General Laws, which requires the person commencing a takeover bid to file certain information with the Secretary of the Commonwealth and the target company and provides that a bidder who fails to disclose its intent to gain control over a target corporation prior to acquiring 5% of the target company's stock is precluded from making any takeover bid for a period of one year after crossing the 5% threshold.

**Authorized but Unissued Shares.** As a result of the recent 1-for-20 reverse stock split, we have 19,004,750 authorized but unissued shares of common stock available for future issuance, and 995,250 shares of common stock outstanding, as of June 8, 2011. These additional shares may be used for a variety of corporate finance transactions, acquisitions and employee benefit plans. The existence of authorized but unissued and unreserved common stock could make more difficult or discourage an attempt to obtain control of us by means of a proxy contest, tender offer, merger or otherwise.

**Shareholder Action by Written Consent; Special Meeting of Shareholders.** Although our articles of organization and our by-laws allow our shareholders to act by written consent, such written consent must be signed by all shareholders entitled to vote on the matter. This significantly restricts the ability of our shareholders to act by written consent and essentially provides that our shareholders may only act at a duly called shareholders meeting. In addition, special meetings of shareholders may be called only by our President, our board of directors or one or more shareholders holding at least 10% of our voting stock.

**Staggered Board; Removal of Directors; Vacancies.** Our articles of organization provide for the division of our board of directors into three classes as nearly equal in size as possible with staggered three-year terms. We are also subject to provisions of the Massachusetts General Laws providing that the boards of public companies have staggered terms. Our articles of organization, as amended, also provide that directors may be removed only for cause by the affirmative vote of the holders of at least 90% of the shares of our capital stock entitled to vote in the election of directors or a majority of the directors then in office. In addition, any vacancy on our board of directors, however

occurring, including a vacancy resulting from an enlargement of the board, may only be filled by vote of a majority of the directors then in office. The classification of our board of directors and the limitations on the removal of directors and filling of vacancies could have the effect of making it more difficult for a third party to acquire, or of discouraging a third party from attempting to acquire, control of us.

## **BUSINESS**

### **Our Company**

SofTech, Inc., a Massachusetts corporation formed in 1969, is a proven provider of product lifecycle management (PLM) solutions with its flagship ProductCenter® PLM technology and its computer-aided design product CADRA® offering. Our solutions accelerate product development, introduction and profitability by fostering innovation, extended enterprise collaboration, product quality improvements, and compressed time-to-market cycles. We deliver enterprise PLM solutions, with comprehensive out-of-the-box capabilities, to meet the needs of manufacturers of all sizes quickly and cost-effectively.



## **Products and Services**

### ***Cadra®***

Cadra® is a drafting and design software package for the professional mechanical engineer. The CADRA family of CAD/CAM products includes CADRA Design Drafting, a fast and highly productive mechanical design documentation tool; CADRA NC, a comprehensive 2 through 5 axis NC programming application; and CADRAWorks, an integration with SolidWorks providing for an integrated drawing production system and 3D solid modeler. The CADRA family of products includes an extensive collection of translators and software options that make it a seamless fit into today's multi-platform and multi-application organizations.

Our Cadra product line has been focused almost exclusively on maintaining its existing customers during at least the last three years. Enhancements, upgrades and other releases are targeted to the needs of the users without any concerted effort to finding new customers. The staffing and other costs of this product line are structured for that aforementioned strategy. Over the last 12 months Cadra has enjoyed an increase in revenue (first increase in more than five years) as a result of off-maintenance customers repurchasing lapsed licenses due to a corporate upgrade to the Windows 7 operating system from Microsoft.

### ***ProductCenter®***

Our ProductCenter technology manages proprietary CAD technologies offered by third parties, primarily Parametric Technology Corporation ( PTC ), Solidworks and Autodesk. ProductCenter® is a proven enterprise-wide, collaborative PLM solution delivering a unique and powerful combination of document management, design integration, configuration control, change management, bill of materials management and integration capability with other enterprise-wide systems. ProductCenter is designed to help companies rapidly optimize the product development process. ProductCenter provides for the secure management of product information and allows engineers and the entire design chain to manage, share, modify and track product data and documents throughout the product development lifecycle. ProductCenter supports engineering change management and bill of materials management for automating business processes. ProductCenter's web-based collaboration capabilities allow employees, customers, suppliers, and other globally dispersed team members to securely exchange product information while maintaining a centralized database of critical product data. ProductCenter also enables integration with other business applications, such as Enterprise Resource Planning ( ERP ), Supply Chain Management ( SCM ), or Customer Relationship Management ( CRM ), for continuous data exchange across the product lifecycle.

### ***The Advanced Manufacturing Technology (AMT) Product Line***

Through May 24, 2011, we also offered our AMT product line, which includes Prospector™, ToolDesigner™, and ExpertCAD™. Prospector™ is a knowledge-based NC programming package for complex tool production. This Windows based, easy-to-use package gives full flexibility for generating and editing NC toolpaths while utilizing the power of the industry's best knowledge base of tools, speeds, feeds, and cutting paths. ToolDesigner™ is a software package for developing and designing complex molds and dies. Core and cavity splits, parting line placement, wireframe design and drafting, photorealistic rendering, surface modeling, trimmed surfaces, injection and cooling line placement are aptly handled with this professional package. ExpertCAD™ is a drafting technology designed specifically for the Tool & Die industry.

In May 2011 we sold the assets and liabilities of the AMT group in exchange for \$250,000 in cash and a note receivable in the amount of \$162,500.

### ***Marketing and Distribution***

We market and distribute our products and services primarily through a direct sales force and through our service organization in North America and Europe. The majority of our sales in Asia are in Japan. We market and distribute our products and services in Japan primarily through authorized resellers. We have contracted with resellers in Europe to reach areas not covered by our direct sales presence and to supplement our existing sales force; however, to date, the revenue generated from this indirect distribution has not been material.

### **Competition**

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

The Cadra software technology competes directly with the offerings of such companies as Autodesk and Siemens. This 2D technology is also marketed as a complementary offering to many 3D products (that all possess some level of 2D drafting capability) offered by companies such as PTC, Dassault, Siemens, Autodesk and SolidWorks. These companies all have financial resources far in excess of our resources.

Our Company's PLM and collaborative technology, ProductCenter, competes against offerings of the companies listed in the paragraph above and against other companies that have focused on PLM and collaborative offerings as well.

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

## **Personnel**

As of May 31, 2011, we employed 44 persons, 41 on a full time basis and 3 part time.

## **Backlog**

Product backlog as of May 31, 2010 and 2009 was insignificant. Deferred revenue, consisting primarily of software maintenance services for which the Company has billed, but where the service is to be performed during the following year, totaled approximately \$2,779,000 and \$3,022,000 at May 31, 2010 and 2009, respectively. In addition, we had a backlog of consulting orders totaling approximately \$.5 million at both May 31, 2010 and 2009.

Product backlog as of February 28, 2011 and 2010 was insignificant. Deferred revenue, consisting primarily of software maintenance services for which the Company has billed, but where the service is to be performed during the following year, totaled approximately \$2,282,000 and \$2,937,000 at February 28, 2011 and 2010, respectively. In addition, we had a backlog of consulting orders totaling approximately \$.4 million at both February 28, 2011 and 2010.

## **Research and Development**

We have approximately 13 product development engineers in our research and development groups located in Michigan and Massachusetts. In fiscal 2010 and 2009, we incurred research and development expense of approximately \$1.8 million related to the development of our technology and products. We have also used third-party engineering companies to perform some of our product development and quality assurance testing of our technology.

### **Intellectual Property**

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

We own four patents related to our Cadra and ProductCenter technologies. One of our Cadra related patents expires in 2013 and the other expires in 2016. Our two ProductCenter related patents expire in 2016 and 2019. We have not been nor are we currently involved in or aware of any litigation regarding any of our patents. In addition to our patents, we have secured registration on a number of trademarks which we consider important to the protection of our brands.

### **Governmental Regulation**

We export our products throughout the world, and thus we are subject to Federal Export Regulations. We believe we comply with all such regulations. Although our non-U.S. based revenue was 30% of total revenue in 2010, we do not view these regulations as particularly onerous nor are the compliance costs material to our operations.

## **Customers**

No single customer accounted for more than 10% of our revenue in fiscal 2010 or 2009. Our largest customer was responsible for 7% and 5% of our revenue during fiscal 2010 and 2009, respectively. Our three largest customers were responsible in the aggregate for 13% and 14% of our revenue during fiscal 2010 and 2009, respectively. Accordingly, the loss of one or more of our three largest customers could have a material adverse effect on the business.

## **Seasonality**

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

## **PROPERTIES**

We lease office space in Lowell, Massachusetts, Munich, Germany, and Milan, Italy. We believe that our current office space is adequate for current and anticipated levels of business activity.

## **LEGAL PROCEEDINGS**

From time to time, we are party to various legal proceedings and claims that arise in the ordinary course of our business. As of the date of this prospectus, there are no material outstanding claims and no amounts have been accrued.

## **MARKET FOR OUR COMMON STOCK AND RELATED SHAREHOLDER MATTERS**

Our common stock is quoted on the Pink Sheets under the symbol SOFT.PK. The following table sets forth the high and low bid information for our common stock for the periods indicated, which reflect inter-dealer prices, without retail mark-up, mark-down or commission and may not necessarily represent actual transactions. The prices in the table below reflect the 1-for-20 reverse stock split that became effective on June 7, 2011.

	<b>High</b>	<b>Low</b>
Fiscal Year Ended May 31, 2011		
First Quarter	\$2.40	\$1.80
Second Quarter	2.40	1.60
Third Quarter	1.80	.60
Fourth Quarter	4.20	.40
Fiscal Year Ended May 31, 2010		
First Quarter	5.00	1.20
Second Quarter	4.80	2.00
Third Quarter	2.80	1.40
Fourth Quarter	3.80	2.00
Fiscal Year Ended May 31, 2009		
First Quarter	3.00	1.60
Second Quarter	1.80	1.20
Third Quarter	1.20	.40
Fourth Quarter	2.00	.40

On June 7, 2011, the last reported sale price of our common stock on the Pink Sheets was \$2.40 per share (as adjusted for the reverse stock split). As of June 8, 2011, there were 995,250 shares of our common stock outstanding held by approximately 193 holders of record (adjusted for 36 holders of record that held less than 20 shares prior to the reverse stock split and will be paid cash for their fractional holdings resulting from the reverse stock split), and we had outstanding options to purchase an aggregate of 11,558 shares of common stock, with a weighted average exercise price of \$1.83 per share.

### **Dividend Policy**

We have not paid any cash dividends on our common stock since 1997, and we have no present intention to pay any cash dividends again in the future. Additionally, our loan agreement with One Conant Capital prohibits us from paying dividends. See MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS for a description of the loan agreement.

**Equity Compensation Plan Information**

The following table provides information, as of May 31, 2011, regarding our 1994 Stock Option Plan and our 2011 Equity Incentive Plan:

<b>Plan Category</b>	<b>Number of securities to be issued upon exercise of outstanding options, warrants and rights</b>	<b>Weighted average exercise price of outstanding options, warrants and rights</b>	<b>Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))</b>
Equity compensation plans approved by security holders(1)	1,350	\$1.80	150,000
Equity compensation plans not approved by security holders(2)	208	2.00	-
<b>Total</b>	<b>1,558</b>	<b>\$1.83</b>	<b>150,000</b>

(1)

Includes our 1994 Stock Option Plan and our 2011 Equity Incentive Plan. No new options could be granted under our 1994 Stock Option Plan after fiscal year 2004, but options granted prior to that time continue to vest. As of May 31, 2011, we had outstanding fully-vested options to purchase an aggregate of 1,350 share of common stock that were granted under the 1994 Stock Option Plan and that may still be exercised. As of May 31, 2011, no options had been granted under our 2011 Equity Incentive Plan. For additional information, see EXECUTIVE COMPENSATION SofTech Equity Incentive Plan beginning on page 31.

(2)

Represents an option to purchase common stock granted outside of the 1994 Stock Option Plan and the 2011 Equity Incentive Plan to a consultant for services rendered in connection with developing and implementing corporate strategies. The option was granted in April 2011 with an exercise price of \$.10, and it will expire in August 2011 if not earlier exercised.

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

*The following discussion and results of operations should be read in conjunction with the consolidated financial statements and the notes to those statements included in this prospectus. This discussion includes forward-looking statements that involve risk and uncertainties. As a result of many factors, such as those set forth in this prospectus under Risk Factors, actual results may differ materially from those anticipated in these forward-looking statements.*

## **Overview**

We operate in one reportable segment and are engaged in the development, marketing, distribution and support of computer software solutions that enable companies to manage the entire lifecycle of their products from conception through design and manufacture, to service and disposal, all of which is known in the industry as Product Lifecycle Management ( PLM ). These solutions include software technology offerings for Computer Aided Design ( CAD ), Product Data Management ( PDM ) and Collaboration technologies, all of which fit under the broadly defined PLM industry. Our operations are organized geographically in the U.S. and Europe. We have sales and customer support offices throughout 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 E to the consolidated financial statements for the fiscal year ended May 31, 2010.

Following the sale of our Advanced Manufacturing Technology (AMT) product line (Prospector™, ToolDesigner™, and ExpertCAD™) in May 2011, we have two primary products lines: ProductCenter® and Cadra®. In general, we have experienced year-over-year declines in revenue and a lack of new customers for these products for several years. From fiscal year 2009 to 2010, ProductCenter and Cadra revenue declined 16.2% and 21.5%, respectively.

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 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.



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 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. 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.

Since the Recapitalization Transaction described below, the new management team is evaluating strategies to reverse this trend and find new ways to generate revenues and strengthen the Company s business.

### ***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 (7,691,764 shares pre-split) 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, 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 million;

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 million with our new lender for fiscal 2012;

Reduced our interest expense from approximately \$600,000 to approximately \$260,000 per year;

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

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

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 described above. Shortly thereafter, Hank Nelson was also appointed as a director.

### ***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 prospectus reflects the implementation of the 1-for-20 reverse stock split.

### ***Sale of the Advanced Manufacturing Technology (AMT) Product Line***

On May 24, 2011, we sold the assets and liabilities of our AMT product line to the manager of that group in exchange for \$250,000 in cash and a note receivable in the amount of \$162,500. 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. For fiscal year 2010 and nine months ended February 28, 2011, the AMT product line represented approximately 6.5% and 6.8% of our revenue, respectively.



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

### **Revenue Recognition**

We follow the provisions of the Statement of Accounting Standards Codification (ASC) 985 *Software*. 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 amount recognized as revenue for the delivered elements, using the residual method set forth in ASC 985. Revenue from customer maintenance support agreements is deferred and recognized ratably over the term of the agreements, typically one year. Revenue from engineering, consulting and training services is recognized as those services are rendered using a proportional performance model.

### **Estimating Allowances for Doubtful Accounts Receivable**

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

### **Valuation of Long-lived and Intangible Assets**

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

### **Valuation of Goodwill**

We account for goodwill pursuant to ASC 350 *Intangibles - Goodwill and Other*. This statement 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, 2010, the Company conducted its annual impairment test of goodwill by comparing fair value to the carrying amount of the underlying assets and liabilities of its single reporting unit. During fiscal year 2010, we did not conduct interim impairment tests since no event occurred to cause them to be impaired. The Company determined that the fair value exceeded the carrying amount of the assets and liabilities, therefore no impairment existed as of the testing date.

### **Valuation of Deferred Tax Assets**

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

**Results of Operations***Nine Months Ended February 28, 2011, as Compared to Nine Months Ended February 28, 2010*

The table below presents the comparative income statements for the nine month periods ended February 28, 2011 and 2010 along with the dollar and percentage change amounts for each revenue and expense item (expressed in thousands, except percentages):

	2011	2010	Change in \$	Change in %
Revenue:				
	\$	\$	\$	26.3%
Products	1,047	829	218	
Services	4,655	4,926	(271)	(5.5)
Total revenue	5,702	5,755	(53)	(0.9)
Cost of revenue:				
Products	32	106	(74)	(69.8)
Services	1,115	1,082	33	3.0
Total cost of revenue	1,147	1,188	(41)	(3.5)
Gross margin	4,555	4,567	(12)	(0.3)
Research and development	1,380	1,391	(11)	(0.8)
S.G.& A.	2,512	2,252	260	11.5
Interest expense	416	447	(31)	(6.9)
Other (income) expense, net	(45)	31	(76)	(245.2)
	\$	\$	\$	(34.5)
Income before income taxes	292	446	(154)	

The table below presents the relationship, expressed as a percentage, between income and expense items and total revenue, for the nine month periods ended February 28, 2011 and 2010.

	<b>Items as a percentage of revenue</b>	
	<b>2011</b>	<b>2010</b>
Revenue:		
Products	18.4%	14.4%

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Services	81.6	85.6
Total revenue	100.0	100.0
Cost of revenue:		
Products	.6	1.8
Services	19.5	18.8
Total cost of revenue	20.1	20.6
Gross margin	79.9	79.4
Research and development	24.2	24.2
S.G.& A.	44.1	39.1
Interest expense	7.3	7.8
Other (income) expense, net	(.8)	.5
Income before income taxes	5.1%	7.7%

*Revenue*

Total revenue for the nine month period ended February 28, 2011 was approximately \$5.7 million, substantially unchanged as compared to the same period in fiscal 2010. Overall, revenue stabilized during fiscal 2011 after each product line suffered double-digit revenue declines from 2009 to 2010 due to the very difficult economic climate during that period.

The following table summarizes revenue by product line for the nine month periods ended February 28, 2011 and 2010 (000 \$, except percentages):

<b>Product Line</b>	<b>2011</b>	<b>2010</b>	<b>\$ Change</b>	<b>% Change</b>
ProductCenter	\$	\$	\$	(6.7)%
	2,922	3,131	(209)	
Cadra	2,392	2,242	150	6.7
AMT	388	382	6	1.6
Total	\$	\$	\$	(.9)
	5,702	5,755	(53)	

Our Cadra and AMT technologies experienced revenue growth during the first nine months of fiscal 2011 as compared to the same period in the prior fiscal year. These increases have been more than offset by a revenue decline from our ProductCenter technology. The specific reasons for the fluctuations in revenue are described by product line below.

#### *Product Revenue*

Product revenue for the nine month period ended February 28, 2011 was approximately \$1.05 million as compared to \$829,000 for the same period in fiscal 2010, a 26.3% increase. The table below details product revenue by product line for the nine months ended February 28, 2011 and 2010 (000 \$, except percentages):

<b>Product Line</b>	<b>2011</b>	<b>2010</b>	<b>\$ Change</b>	<b>% Change</b>
ProductCenter	\$	\$	\$	(54.7)%
	201	444	(243)	
Cadra	734	320	414	129.4
AMT	112	65	47	72.3
Total	\$	\$	\$	26.3
	1,047	829	218	

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 have contributed to significantly reduced product revenue for this technology over the last seven quarters.

Our Cadra and AMT technologies are primarily desktop solutions. The product revenue for the first nine months of fiscal 2011 represents a significant increase from the same period in fiscal 2010, however, the results represent a return towards the product revenue of fiscal 2009. Both Cadra and AMT have enjoyed the benefit of some of our lapsed maintenance customers purchasing new seats as they upgrade to the Windows 7 operating system from Microsoft. Older versions of our software will not run on the Windows 7 operating system and lapsed maintenance customers that still need to use our technology to create new designs or simply access legacy data need to purchase new licenses. We expect this operating system upgrade benefit to continue to positively impact us, however, planning for such an operating system upgrade can take large enterprises more than 24 months.

### *Service Revenue*

Our service revenue is composed of both annual maintenance contracts for previously licensed technology for all of our product lines and consulting revenue generated primarily from our ProductCenter technology. The table below summarizes service revenue by product line for the nine months ended February 28, 2011 and 2010, respectively (000 s, except percentages):

	2011	2010	\$ Change	% Change
<b>Product Line</b>				
ProductCenter	\$	\$	\$	1.3%
	2,722	2,688	34	
Cadra	1,658	1,922	(264)	(13.7)
AMT	275	316	(41)	(13.0)
Total	\$	\$	\$	(5.5)
	4,655	4,926	(271)	

Maintenance revenue included in the above summary totaled approximately \$3.9 million for the nine months ended February 28, 2011, a decrease of about 11% from the same period in fiscal 2010. Maintenance revenue for each of our product lines declined during the nine months ended February 28, 2011 as compared to the same period in fiscal 2010. The year over year percentage declines in maintenance revenue were as follows: ProductCenter (6%); Cadra (16%); and AMT (16%). We continue to experience customers declining to renew maintenance or reducing the number of seats covered by maintenance without new customer wins to offset the maintenance losses.



Consulting revenue included in the above summary totaled approximately \$726,000 for the nine months ended February 28, 2011, an increase of 42.4% from the same period in fiscal 2010. Nearly 90% of the consulting revenue is generated from professional services provided to our ProductCenter customer base. The increase from fiscal 2010 to 2011 represents a return to a more normalized spending level by our customers, as the general economic conditions have improved.

Revenue by Geographic Area - Revenue generated in the U.S. accounted for 68% of total revenue for the nine months ended February 28, 2011 as compared to 70% of total revenue in the comparable prior period. Revenue generated in Europe was 23% of total revenue for the nine months ended February 28, 2011 as compared to 22% of total revenue in the comparable prior period. Revenue generated in Asia for the nine months ended February 28, 2011 was 9% of total revenue as compared to 8% of total revenue for the comparable prior period. During the nine months ended February 28, 2011, revenue from the U.S. decreased by approximately 4%, revenue from Europe increased by approximately 6%, and revenue from Asia increased by approximately 12%, in each case, compared to same period in fiscal year 2010. The aforementioned revenue declines in our ProductCenter technology are the reason for the adverse changes in North America as this technology is almost exclusively North American based.

#### *Gross Margin*

Gross margin as a percentage of revenue was 79.9% and 79.4% for the nine month periods ended February 28, 2011 and 2010, respectively. Amortization of capitalized software costs ceased in fiscal 2010 when those costs were fully amortized. This was partially offset by a small increase in other cost of sales expenses in the first nine months of fiscal 2011 compared to the same period in fiscal 2010.

#### *Research and Development Expenses*

Research and development expenses were approximately \$1.4 million for each of the nine month periods ended February 28, 2011 and 2010. Our headcount, compensation levels and utilization of offshore development resources remained constant year over year. We remain committed to improving our technologies and ensuring their compatibility with current operating systems.

#### *Selling, General and Administrative Expenses*

Selling, general and administrative expenses were \$2.5 million for the nine month period ended February 28, 2011, an increase of \$260,000 or 11.5% from the comparable nine-month period in fiscal 2010. The increase was due primarily to significant legal and advisory fees related to our debt default in June 2010 and in preparation for the completion of

the March 2011 Recapitalization Transaction described in the Note J, entitled "Subsequent Events" to the consolidated financial statements for the fiscal year ended May 31, 2010 included hereunder.

*Interest Expense*

Interest expense for nine month period ended February 28, 2011 was approximately \$416,000, as compared to approximately \$447,000 for the comparable prior period. This small decrease was primarily attributable to a decrease in the average amount outstanding under our debt facility. The interest rate on those borrowings remained constant at about 5.5% throughout fiscal 2010 and 2011.

*Net Income/Earnings Per Share*

Net income for the nine month period ended February 28, 2011 was approximately \$292,000 as compared to approximately \$446,000 for the comparable prior period. Earnings per share for the nine months ended February 28, 2011 was \$.48 (adjusted for the reverse stock split) as compared to \$.73 (adjusted for the reverse stock split) for the comparable prior period. Our revenue stabilized but the increase in legal and transaction related costs associated with the Company's debt default and Recapitalization Transaction resulted in a decrease in our earnings for the nine month period ended February 28, 2011 compared to the same period in 2010.

**Fiscal Year Ended May 31, 2010, as Compared to Fiscal Year Ended May 31, 2009**

The table below presents the comparative income statements for the fiscal years ended May 31, 2010 and 2009 along with the dollar and percentage change amounts for each revenue and expense item (expressed in thousands, except percentages):

	<b>2010</b>	<b>2009</b>	<b>Change in \$</b>	<b>Change in %</b>
Revenue:				
	\$	\$	\$	
Products				(44.3)%
	1,141	2,048	(907)	
Services	6,570	7,450	(880)	(11.8)
Total revenue	7,711	9,498	(1,787)	(18.8)
Cost of revenue:				
Products	149	448	(299)	(66.7)
Services	1,430	1,466	(36)	(2.5)
Total cost of revenue	1,579	1,914	(335)	(17.5)
Gross margin	6,132	7,584	(1,452)	(19.1)
Research and development	1,821	1,814	7	0.4
S.G.& A.	2,962	3,638	(676)	(18.6)
Interest expense	589	760	(171)	(22.5)
Other expense, net	71	35	36	102.9
	\$	\$	\$	
Income before income taxes	689	1,337	(648)	(48.5)

The table below presents the relationship, expressed as a percentage, between income and expense items and total revenue, for the fiscal years ended May 31, 2010 and 2009.

	<b>Items as a percentage of revenue</b>	
	<b>2010</b>	<b>2009</b>
Revenue:		
Products	14.8%	21.6%
Services	85.2	78.4
Total revenue	100.0	100.0
Cost of revenue:		

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Products	1.9	4.7
Services	18.5	15.4
Total cost of revenue	20.4	20.1
Gross margin	79.5	79.8
Research and development	23.6	19.1
S.G.& A.	38.4	38.3
Interest expense	7.6	8.0
Other expense, net	0.9	0.4
Income before income taxes	8.9%	14.1%

*Revenue*

Revenue for fiscal year 2010 was approximately \$7.7 million, compared to approximately \$9.5 million for the comparable prior period, a decrease of approximately 19%. The current economic contraction, as well as declining demand for our Cadra and AMT product lines, materially and adversely affected our maintenance and product revenues.

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The combined product and service revenue by product line for fiscal year 2010 as compared to fiscal year 2009 are as follows (in thousands, except percentage change):

<b>Product Line</b>	<b>2010</b>	<b>2009</b>	<b>\$ Change</b>	<b>% Change</b>
ProductCenter	\$	\$	\$	(16.2)%
	4,266	5,093	(827)	
Cadra	2,943	3,748	(805)	(21.5)
AMT	502			