

SOFTECH INC
Form 10-Q
April 14, 2015

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended February 28, 2015

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

For the transition period from _____ to _____

0-10665

Commission File Number

SOFTECH, INC.

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

Massachusetts

(State or other jurisdiction of
incorporation or organization)

04-2453033

(I.R.S Employer Identification
No.)

650 Suffolk Street, Suite 415, Lowell, MA 01854

(Address of principal executive offices and zip code)

Telephone (978) 513-2700

(Registrant s telephone number, including area code)

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

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

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

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

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

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

SOFTECH, INC.

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

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

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

See accompanying notes to unaudited consolidated financial statements

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

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

For the Three Months Ended

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

See accompanying notes to unaudited consolidated financial statements

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

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

See accompanying notes to unaudited consolidated financial statements

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

	<i>(in thousands, except for share and per share data)</i>	
	For the Three Months Ended	
	February 28, 2015	February 28, 2014
Net loss	\$ (356)	\$ (339)
Other comprehensive income (loss):		
Foreign currency translation adjustment	113	(35)
Comprehensive loss	\$ (243)	\$ (374)

See accompanying notes to unaudited consolidated financial statements

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

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

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

See accompanying notes to unaudited consolidated financial statements

SOFTTECH, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

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