SOFTECH INC
Form 10KSB
August 30, 2004

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

Form 10-KSB

ANNUAL REPORT
PURSUANT TO SECTION 13 or 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended May 31, 2004

Commission file number 0-10665

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

Massachusetts	04-2453033
(State or other jurisdiction of Incorporation or organization)	(IRS Employer Identification Number)

2 Highwood Drive, Tewksbury, Massachusetts 01876
(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: (978) 640-6222

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

Securities registered pursuant to Section 12(g) of the Act:
Common Stock, $.10 par value
(Title of Class)

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 |X| No |_|

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

State the aggregate market value of the voting stock held by non-affiliates of the registrant: $990,459 as of August 16, 2004. On August 16, 2004 the registrant had outstanding 12,205,236 shares of common stock of $.10 par value, which is the registrant's only class of common stock.

PART I

ITEM 1 - DESCRIPTION OF BUSINESS

THE COMPANY

SofTech, Inc. was formed in Massachusetts on June 10, 1969. The Company had an initial public offering in August 1981 and a subsequent offering in December 1982. From inception until the disposition of the Government Systems Division in December 1993, the Company's primary business was that of custom software development for the U.S. Government, primarily the Department of Defense.

After the sale of the Company's Government Systems Division through the end of calendar year 1996, the Company's only business was reselling hardware and software products of third parties and offering services related to such products (the "Reseller Model"). Between December 1996 and December 2002, the Company acquired eight entities involved in developing, supporting and/or marketing software products and/or services to the Computer Aided Design and Manufacturing ("CAD/CAM") and Product Data Management ("PDM") marketplace. The three most significant acquisitions during that time period were the purchases of Workgroup Technology Corporation ("WTC") in December 2002, Adra Systems, Inc. in May 1998, and the Advanced Manufacturing Technology ("AMT") in November 1997. The aggressive acquisition strategy that was funded primarily through debt, substantially increased the Company's risk profile but was required in order to create a viable and sustainable business.

PRODUCTS AND SERVICES

The Company operates in one reportable segment and is engaged in the development, marketing, distribution and support of computer software solutions that serve the Product Lifecycle Management ("PLM") industry. These solutions include software technology offerings for Computer Aided Design ("CAD"), Computer Aided Manufacturing ("CAM") as well as Product Data Management ("PDM") and Collaboration technologies, all of which fit under the broadly defined PLM industry. The Company's operations are organized geographically with European sales and customer support offices in France, Germany and Italy. Components of revenue and long-lived assets (consisting primarily of intangible assets, capitalized software and property, plant and equipment) by geographic location are outlined in Note G to the financial statements.

A description of the Company's primary product offerings is as follows:

CadraTM is a drafting and design technology 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; CADRA integration with SolidWorks, an integrated drawing production system and 3D solid modeler. The CADRA family is rounded out by an extensive collection of translators and software options that make it a seamless fit into today's multi-platform and multi-application organizations.

ProductCenterTM is a proven enterprise-wide, collaborative PDM 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, which helps 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 ERP, SCM, or CRM, for continuous data exchange across the product lifecycle.

The ProductCenter family of products is a suite of modules that, when combined, offer a unified collaborative product data management software solution. ProductCenter modules may be deployed in various combinations to meet the specific needs of a customer.

The AMT group has three primary products. 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 & Dies industry.

The Company markets and distributes its products and services primarily through a direct sales force and through its service organization in North America and Europe. The majority of the Company's sales in Asia are in Japan. The Company markets and distributes its products and services in Japan primarily through authorized resellers. Recently, the Company has been signing resellers in North America and Europe to reach areas not covered by its direct sales presence, however, to date, the revenue generated from this indirect distribution has not been material.

COMPETITION

The Company competes against much larger entities in an extremely competitive market for all of its software and service offerings. The 2D software technologies acquired in the acquisitions in fiscal 1998 compete directly with the offerings of such companies as AutoDesk and EDS. This 2D technology is also marketed as a complementary offering to many 3D products offered by companies such as Parametric Technology Corporation, Dassault, EDS, AutoDesk and SolidWorks that all possess some level of 2D drafting capability. These companies all have financial resources far in excess of those of the Company.

The Company's PDM and collaborative technology offerings compete against offerings of all of the same companies listed in the paragraph above and against other companies that have focused on PDM and collaborative offerings only.

The Company's CAM technology, PROSPECTOR(TM), is marketed to the Plastic Injection Mold and Tool & Die industries. While the large CAD companies such as Parametric Technology Corporation, Dassault, EDS, and AutoDesk have modules that compete in this market, we believe none focus exclusively on CAM technology.

The service offerings of the Company 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 its customers.

PERSONNEL

As of August 16, 2004, the Company employed 77 persons, 72 on a full time basis and 5 part time. These employees were distributed over functional lines as follows: Sales =14; Product Development Engineers = 24; Engineers = 21; General and Administrative = 18.

The ability of the Company to attract qualified individuals with the necessary skills is currently, and is expected to continue to be, a constraint on future growth. However, the availability of such skilled personnel has increased over the recent past as the worldwide economy has slowed.

BACKLOG

Product backlog as of May 31, 2004 and 2003 was insignificant. Deferred revenue, which represents primarily software maintenance contracts to be performed during the following year, totaled approximately $3,941,000 and $4,074,000 at May 31, 2004 and 2003, respectively. In addition, as of May 31, 2004 and 2003 the Company had a backlog of consulting orders totaling approximately $.3 million. Given the short time period between receipt of order and delivery of product revenue, on average less than 30 days, the Company does not believe that product revenue backlog is an important measure as to the relative health of the business.

RESEARCH AND DEVELOPMENT

The Company has approximately 24 product development engineers in its research and development groups located in Michigan and Massachusetts. In fiscal 2004 and 2003 the Company incurred research and development expense of $3.1 million and $2.1 million, respectively, related to the continued development of technology.

CUSTOMERS

No single customer accounted for more than 10% of the Company's revenue in fiscal 2004 or 2003. The Company is not dependent on a single customer, or a few customers, the loss of which would have a material adverse effect on the business.

SEASONALITY

The first quarter, which begins June 1 and ends August 31, has historically been the slowest quarter of the Company's fiscal year. Management believes this weakness is due primarily to the buying habits of the customers and the fact that the quarter falls during prime vacation periods.

ITEM 2 - DESCRIPTION OF PROPERTY

The Company leases office space in Grand Rapids and Troy, Michigan; Tewksbury and Burlington, Massachusetts; Milwaukee, Wisconsin; Ismaning, Germany, Le Fontanil, France and Milan, Italy. The office space in Grand Rapids, Michigan is sublet to a third party. The liability related to the office space in Burlington, Massachusetts has been assumed by our lessor for our headquarters in Tewksbury, Massachusetts as a concession for extending our lease term at our

headquarters. Such concession is being amortized as a reduction of rent expense over the extended term of the lease. The fiscal 2004 rent was approximately $408,000. The Company believes that the current office space is adequate for current and anticipated levels of business activity.

ITEM 3 - LEGAL PROCEEDINGS

The Company is a party to various legal proceedings and claims that arise in the ordinary course of business. Management believes that amounts accrued at May 31, 2004 are sufficient to cover any resulting settlements and costs and does not anticipate a material adverse impact on the financial position or results of operations of the Company beyond such amounts accrued.

ITEM 4 - SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

On June 30, 2004, the Company held its 2003 Annual Meeting of Shareholders. The shareholders were asked to elect two directors to terms of office that expire at the 2006 Annual Meeting. The results for each candidate were as follows:

Candidate Name	Votes For	Votes Against	Votes Withheld	Abstentions
Ronald A. Elenbaas	11,500,912	--	102,006	--
Frederick A. Lake	11,452,412	--	150,506	--

In addition, the shareholders were asked to consider and vote upon a proposal to amend the Company's Amended Certificate of Incorporation to authorize a class of Preferred Stock consisting of 20 million shares with a par value of $1.00 per share and to provide the Board of Directors with the authority from time to time to issue Preferred Stock in an amount and under such terms as deemed appropriate. The results of the voting related to this proposal were as follows: Votes for 8,913,866; Votes against 324,174; Votes withheld 2,519,573; and Abstentions 28,805. Based on these results the proposal was approved.

PART II

ITEM 5 - MARKET FOR COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

The Company's common stock are traded on the NASDAQ's Over-the-Counter Exchange under the symbol "SOFT.OB".

At May 31, 2004, there were approximately 2,200 holders of record of the Company's common stock. The table below sets forth quarterly high and low close prices of the common stock for the indicated fiscal periods as provided by the National Quotation Bureau. These quotations reflect inter-dealer prices without retail mark-up, markdown, or commission and may not necessarily represent actual transactions.

	2004		2003	
	High	Low	High	Low
First Quarter	.30	.16	.18	.09
Second Quarter	.24	.17	.25	.06
Third Quarter	.40	.16	.25	.12
Fourth Quarter	.36	.18	.19	.10

The Company has not paid any cash dividends since 1997 and it does not anticipate paying cash dividends in the foreseeable future.

The table below details information regarding equity compensation plans of the Company as of May 31, 2004:

Plan category	Number of shares to be issued upon exercise of outstanding options, warrants and rights	Weighted average exercise price of outstanding options, warrants and rights	Number of shares securities available for future issuances
Approved by Shareholders	406,000	$.68	--
Not approved By Shareholders	100,000	$1.00	
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	506,000		--

ITEM 6 - MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

This Form 10-KSB contains forward-looking statements. The words "believe", "expect," "anticipate," "intend," "estimate," and other expressions which are predictions of, or indicate future events and trends and which do not relate to historical matters identify forward-looking statements. These financial statements include statements regarding the Company's intent, belief or current expectations. You are cautioned that any forward-looking statements are not guarantees of future performance and involve a number of risks and uncertainties that may cause the Company's actual results to differ materially from the results discussed in the forward-looking statements. Among the factors that could cause actual results to differ materially from those indicated by such forward-looking statements include, but are not limited to, market acceptance of the Company's PROSPECTOR(TM) and DesignGateway(TM) technologies, continued revenue generated from the CADRA(TM) product family, the ability of the Company to integrate the most recent acquisition of WTC and the ability of the Company to attract and retain qualified personnel both in our existing markets and in new office locations.

DESCRIPTION OF THE BUSINESS

SofTech, Inc. was formed in Massachusetts on June 10, 1969. The Company had an initial public offering in August 1981 and a subsequent offering in December 1982. From inception until the disposition of the Government Systems Division in December 1993, the Company's primary business was that of custom software development for the U.S. Government, primarily the Department of Defense.

After the sale of the Company's Government Systems Division through the end of calendar year 1996, the Company's only business was reselling hardware and software products of third parties and offering services related to such products (the "Reseller Model"). Between December 1996 and May 1999, the Company

acquired seven entities involved in developing, supporting and/or marketing software products and/or services to the Computer Aided Design and Manufacturing ("CAD/CAM") marketplace. The two most significant acquisitions during that time period were the purchases of Adra Systems, Inc. in May 1998 and the Advanced Manufacturing Technology ("AMT") in November 1997. In December 2002 the Company acquired WTC thereby obtaining complementary technology. The acquisition of WTC had a positive impact on fiscal 2003 and 2004 results and is expected to be a key element in the Company's growth strategy. The aggressive acquisition strategy that was funded primarily through debt, substantially increased the Company's risk profile but was required in order to create a viable and sustainable business.

INCOME STATEMENT ANALYSIS

The table below presents the relationship, expressed as a percentage, between income and expense items and total revenue, for each of the two years ended May 31, 2004. In addition, the change in those items, again expressed as a percentage, for each of the two years ended May 31, 2004 is presented.

	Items as a percentage of revenue		Percentage change year to year
	2004	2003	2003 to 2004
Revenue			
Products	24.6%	31.7%	(10.6)%
Services	75.4	68.3	26.9
Total revenue	100.0	100.0	15.0
Cost of sales			
Products	.6	.6	25.8
Services	13.0	7.8	89.2
Total cost of sales	13.6	8.4	84.8
Total gross margin	86.4	91.6	8.6
Research and development	25.3	19.8	47.1
S.G.& A.	48.1	59.3	(6.7)
Amortization of capital software and other intangible assets	19.8	19.1	19.5
Interest expense	8.2	10.6	(11.1)
Loss before income tax	(15.0)	(17.2)	--

Critical Accounting Policies and Significant Judgments and Estimates

The Securities and Exchange Commission ("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.

The Company's significant accounting policies are described in Note A to these financial statements. The Company believes that the following accounting

policies require the application of management's most difficult, subjective or

complex judgments:

REVENUE RECOGNITION

The Company has adopted the provisions of Statement of Position No. 97-2, "Software Revenue Recognition" (SOP 97-2) as amended by SOP No. 98-9, "Modification of SOP 97-2, Software Revenue Recognition with Respect to Certain Transactions" (SOP 98-9) in recognizing revenue from software transactions. Revenue from software license sales are recognized when persuasive evidence of an arrangement exists, delivery of the product has been made, and a fixed fee and collectibility 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 elements using the residual method set forth in SOP 98-9. Revenue from customer maintenance support agreements is deferred and recognized ratably over the term of the agreements. Revenue from engineering, consulting and training services is recognized as those services are rendered.

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 collectibility of our accounts receivable and our future operating results.

VALUATION OF LONG-LIVED AND INTANGIBLE ASSETS

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

VALUATION OF GOODWILL

Effective June 1, 2002, the Company adopted the provisions of SFAS No. 142, Goodwill and Other Intangible Assets. This statement requires that goodwill existing at the date of adoption be reviewed for possible impairment and that impairment tests be periodically repeated, with impaired assets written down to fair value. Additionally, existing goodwill and intangible assets must be assessed and classified within the statement's criteria. Intangible assets with finite useful lives will continue to be amortized over those periods. Amortization of goodwill and intangible assets with indeterminable lives ceased as of June 1, 2002.

The Company completed the first step of the transitional goodwill impairment test during the three months ended November 30, 2002 based on the amount of goodwill as of the beginning of fiscal year 2003, as required by SFAS No. 142. The Company utilized a third party independent valuation to determine

the fair value based on a discounted cash flow income approach. Based on the results of the first step of the transitional goodwill impairment test, the Company determined that the fair value exceeded the carrying amount and, therefore, no goodwill impairment existed as of June 1, 2002. As a result, the second step of the transitional goodwill impairment test was not required to be completed.

As of May 31, 2004, the Company conducted its annual impairment test of goodwill by comparing fair value to the carrying amount of its underlying assets and liabilities. 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 the Company generating sufficient taxable income in future years during the period over which temporary differences reverse. The Company's deferred tax assets are currently fully reserved.

RESULTS OF OPERATIONS

Total revenue for fiscal year 2004 was $12.3 million, an increase of $1.6 million or 15% from fiscal year 2003 revenue of $10.7 million. Product revenue decreased $.4 million or 11% during the current year as compared to the prior year and service revenue increased $2.0 million or 27%.

WTC was acquired in December 2002 and its results were included in the Company results of operations from the acquisition date. Therefore, fiscal 2003 results included about five and a half months of WTC results while fiscal 2004 included WTC results for the entire period. The product line known as ProductCenter is the technology acquired in that transaction.

The product revenue decrease of $.4 million was composed of an increase in product revenue from our ProductCenter offering of about $.3 million and decreases in product revenue of about $.5 million in our Cadra technology and $.2 million in our AMT technology when compared to the prior year.

The increase in service revenue from 2003 to 2004 of about $2.0 million was due to an increase in maintenance and consulting revenue from the ProductCenter offering of $2.2 million which was partially offset by a decrease in service revenue of about $.2 million from our Cadra and AMT technologies. The ProductCenter increase in maintenance revenue is due to the inclusion of service revenue for all 12 months of fiscal 2004 but only five and a half months of fiscal 2003. The service revenue from our Cadra and AMT technologies declined by about 3% in fiscal 2004 as compared to the prior year due to erosion in the number of customers and the users attributed to the worldwide manufacturing slump over the last several years.

Product gross margin was 97.4% in fiscal 2004 as compared to 98.2% in fiscal 2003. This small decrease in margin is due to the decrease in product revenue and the relatively low amount of incremental cost from that change in product revenue.

Service gross margin was 82.8% in fiscal 2004 as compared to 88.5% in fiscal 2003. This decrease in gross margin is a direct result of the inclusion of WTC's service revenue and service cost for 12 months in the current year as compared to only a portion of the year in fiscal 2003. WTC has a much larger

component of consulting revenue than the Cadra and AMT product lines. Consulting revenue was $1.0 million of service revenue in 2004 as compared to only $.5 million in fiscal 2003. This component of service revenue has a much lower gross margin due to the labor intensive effort as compared to software maintenance revenue. It is the Company's expectation that the consulting revenue will be an important element of its business plans in the future.

Research and development expenditures totaled approximately $3.1 million in fiscal 2004 as compared to $2.1 million in fiscal 2003, an increase of about 47%. This increase in R&D is a direct result of a full year of development expenses in fiscal 2004 as compared to only about half the year in fiscal 2003 following the acquisition of WTC in December 2002. In addition, we invested approximately $120,000 in fiscal 2004 in third party expenditures to translate the ProductCenter technology for our European customers. This investment was charged to operations.

Selling, general and administrative expense for fiscal 2004 decreased by about $.4 million or about 7% from fiscal 2003. While we did increase the number of sales personnel with the WTC acquisition, we also realized significant cost synergies by consolidating facilities and eliminating redundant functions. These cost synergies more than offset the incremental cost of additional personnel and resulted in an overall reduction in SG&A as compared to fiscal 2003.

The non-cash expenses related to amortization of capitalized software and other intangible assets increased by approximately $.4 million or 20% in fiscal 2004 as compared to fiscal 2003. This increase is primarily the result of amortizing WTC's identifiable intangible assets during fiscal 2004.

Interest expense in fiscal 2004 declined by about $125,000 or 11% as compared to fiscal 2003. This reduced expense was the result of negotiated lower average borrowing costs on the Company's average outstanding debt partially offset by higher average borrowings in fiscal 2004 compared to 2003. In fiscal 2004 our average outstanding debt was $14.2 million as compared to about $13.2 million in 2003. This increase in average borrowing was the result of the debt financed acquisition of WTC in December 2002. The average interest rate for the current year was about 7.1% as compared to about 8.6% in fiscal 2003. In November 2002 we renegotiated our borrowing rate to prime plus 3%. As of June 1, 2004 our borrowing rate has been reduced to 6.25% for fiscal 2005.

The tax provision was essentially unchanged from fiscal 2003 to 2004 and related to state and local taxes.

The net loss for fiscal 2004 and 2003 was approximately $1.9 million in each year. The net loss per share was $(.15) and the weighted average number of shares outstanding was 12.2 million in both fiscal 2004 and 2003.

CAPITAL RESOURCES AND LIQUIDITY

The Company's cash position as of May 31, 2004 was $275,000. This represents a decrease of $444,000 from the fiscal 2003 year-end balance of $719,000.

Included in the Company's results of operations are significant non-cash expenses related to amortization of intangibles resulting from prior year acquisitions, which totaled approximately $2.4 million in fiscal 2004 and approximately $2.0 million in fiscal 2003.

For fiscal 2004, operating activities generated cash of approximately $56,000. The net loss together with non-cash expenses related primarily to amortization of intangibles and depreciation generated cash of approximately $732,000. The increase in accounts receivable as a result of increased revenue used about $123,000 of cash. A decrease in prepaid expenses and other assets provided about $36,000. A reduction in accounts payable and accrued expenses used cash of $252,000 and a decrease in deferred revenue used cash of $337,000. Investing activities utilized cash of approximately $.5 million primarily due to payments made in fiscal 2004 related to the WTC acquisition in fiscal 2003. Financing activities provided approximately $27,000.

At May 31, 2004, long-term obligations totaled approximately $12.9 million, related exclusively to our outstanding debt. The Company is dependent on availability under its debt facilities and its cash flow from operations to meet its near term working capital needs and to make debt service payments. The monthly principal and interest payments are approximately $175,000 on these borrowings.

The Company currently funds its operations through a combination of cash flow from operations and its debt facilities with Greenleaf Capital. The $3.0 million Line of Credit expires annually in June. As of May 31, 2004, approximately $1.6 million was available under this facility which has been extended an additional year through June 2005. (See Note I to the Consolidated Financial Statements.)

The Company currently believes that its cash flow from operations together with the availability of capital under its line of credit is sufficient to meet its obligations for at least the next year.

MARKET RISK DISCLOSURE

The Company has assets and liabilities outside the United States that are subject to fluctuations in foreign currency exchange rates. The Company's primary exposure is related to local currency revenue and operating expenses in Europe. However, the Company does not engage in forward foreign exchange or similar contracts to reduce its economic exposure to changes in exchange rates as the associated risk is not considered significant. Because the Company markets, sells and licenses its products throughout the world, it could be significantly affected by weak economic conditions in foreign markets that could reduce demand for its products.

The Company is exposed to changes in interest rates primarily as a result of its long-term debt requirements. The Company's interest rate risk management objectives are to limit the effect of interest rate changes on earnings and cash flows and to lower overall borrowing costs. However, due to the Company's relatively small size, its highly leveraged balance sheet and the difficulties in raising capital in the current economic environment, the Company is dependent on both long term and short term borrowing arrangements with Greenleaf Capital for its financing needs. Based on the debt balance at May 31, 2004, a hypothetical change in the interest rate of +2% or -2% would result in a hypothetical change to interest expense of about $284,000 and $(284,000), respectively.

The Company does not enter into contracts for speculative or trading purposes, nor is it a party to any leveraged derivative instruments.

FACTORS THAT MAY AFFECT FUTURE RESULTS

The Company's business is subject to many uncertainties and risks. This Form 10-KSB also contains certain forward-looking statements within the meaning

of the Private Securities Reform Act of 1995. The Company's future results may differ materially from its current results and actual results could differ materially from those projected in the forward looking statements as a result of certain risk factors, including but not limited to those set forth below, other one-time events and other important factors disclosed previously and from time to time in the Company's other filings with the SEC.

OUR QUARTERLY RESULTS MAY FLUCTUATE. The Company's quarterly revenue and operating results are difficult to predict and may fluctuate significantly from quarter to quarter. Our quarterly revenue may fluctuate significantly for several reasons, including: the timing and success of introductions of our new products or product enhancements or those of our competitors; uncertainty created by changes in the market; difficulty in predicting the size and timing of individual orders; competition and pricing; customer order deferrals as a result of general economic decline. Furthermore, the Company has often recognized a substantial portion of its 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 its results of operations are not necessarily meaningful and should not be relied upon as indications of future performance.

WE MAY NOT GENERATE POSITIVE CASH FLOW IN THE FUTURE. During fiscal years 1998 through 2001 we generated significant cash losses from operations. The Company took aggressive cost cutting steps and reorganized its operations at the beginning of fiscal 2002. These actions have greatly reduced our fixed costs and resulted in positive cash flow from operations for the last two fiscal years. It is our expectation that we can continue to improve on our recent success, however, there can be no assurances that the Company will continue to generate positive cash in the future.

CONTINUED DECLINE IN BUSINESS CONDITIONS AND INFORMATION TECHNOLOGY (IT) SPENDING COULD CAUSE FURTHER DECLINE IN revenue. The level of future IT spending remains very uncertain as does the prognosis for an economic recovery in the manufacturing sector. If IT spending continues to decline and the manufacturing sector continues to experience economic difficulty, the Company's revenues could be adversely impacted.

THE COMPANY IS DEPENDENT ON ITS LENDER FOR CONTINUED SUPPORT. We have a very strong relationship with our sole lender, Greenleaf Capital. They currently represent our sole source of financing and it is our belief that it would be difficult to find alternative financing sources in the event whereby the relationship with Greenleaf changed. (See Note I to the Consolidated Financial Statements.)

THE CONTINUED INTEGRATION OF WTC MAY EXPERIENCE DIFFICULTY. Since acquiring WTC in December 2002, much progress has been made in integrating our operations, reducing redundant functions and facilities. The strategy includes more closely integrating our technologies and offering our combined customer base these solutions. The strategy also includes translating ProductCenter for users other than the U.S. English speaking market. There can be no assurance that this continued integration of our technologies or offering ProductCenter outside the U.S. will be successful.

ITEM 7 - FINANCIAL STATEMENTS

Financial statements are included herein.

ITEM 8 - CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

Effective May 26, 2004, the Company dismissed its current independent accountants, Grant Thornton, LLP ("Grant Thornton") and replaced them with Vitale, Caturano & Company PC ("VCC"). The Company had no accounting disputes with Grant Thornton. The reports of Grant Thornton on the Company's financial statements for the fiscal years ended May 31, 2003 and 2002 did not contain an adverse opinion or a disclaimer of opinion and were not qualified or modified as to uncertainty, audit scope, or accounting principles.

In connection with the audits of the Company's financial statements for each of the two fiscal years ended May 31, 2003, and in the subsequent interim periods from June 1, 2003 through May 26, 2004, there were no disagreements between the Company and Grant Thornton on any matters of accounting principles or practices, financial statement disclosure, or auditing scope of procedures which, if not resolved to the satisfaction of Grant Thornton would have caused Grant Thornton to make reference to the matter in their report. During the years ended May 31, 2003 and 2002 and through May 26, 2004, there were no "reportable events" as that term is described in Item 304 (a)(1)(v) of Regulation S-K.

As of May 26, 2004, VCC was engaged as the Company's new independent accountants, commencing with the audit for the year ending May 31, 2004. The appointment of VCC was approved by the Company's Audit Committee. During the Company's two most recent fiscal years ended May 31, 2003 and 2002 or during the interim periods from June 1, 2003 through and including May 26, 2004, the Company did not consult VCC regarding either the application of accounting principles to a specified transaction, either completed or proposed, or the type of audit opinion that might be rendered on Company's consolidated financial statements.

There were no disagreements with accountants on accounting or financial disclosure matters.

Item 8A. - CONTROLS AND PROCEDURES

The Company's Chief Operating Officer is responsible for establishing and maintaining disclosure controls and procedures for the Company. Such officer has concluded (based upon their evaluation of these controls and procedures as of a date within 90 days of the filing of this report) that the Company's disclosure controls and procedures are effective to ensure that information required to be disclosed by the Company in this report is accumulated and communicated to the Company's management, including its principal executive officers as appropriate, to allow timely decisions regarding required disclosure.

The Certifying Officer also has indicated that there were no significant changes in the Company's internal controls or other factors that could significantly affect such controls subsequent to the date of their evaluation, and there were no corrective actions with regard to significant deficiencies and material weaknesses.

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PART III

ITEM 9 - DIRECTORS, EXECUTIVE OFFICERS, PROMOTERS AND CONTROL PERSONS; COMPLIANCE WITH SECTION 16(A) OF THE EXCHANGE ACT

Set forth below is certain information regarding the Directors and executive officers of SofTech, Inc. (the "Company") as of August 16, 2004, based on information furnished by them to the Company.

DIRECTORS

Ronald A. Elenbaas, 51, term expires in 2006; Mr. Elenbaas is currently retired. From 1975 to 2000, Mr. Elenbaas was employed by Stryker Corporation in various positions, most recently as President of Stryker Surgical Group, a division of Stryker Corporation. Mr. Elenbaas also serves on the Board of the American Red Cross (Kalamazoo and Cass County, Michigan) as well as director of Greenleaf Trust and a Special Consultant to Keystone Bank. Mr. Elenbaas was appointed a Director of the Company in September 1996.

William D. Johnston, 57, term expires in 2004; Mr. Johnston serves as Chairman of the Company and has been a Director since 1996. Mr. Johnston is President, Chairman and CEO of the Greenleaf Companies. Included in the Greenleaf Companies are Greenleaf Trust, a Michigan chartered bank, Greenleaf Capital, Inc. a venture capital company and primary and secondary lender to SofTech, Greenleaf Ventures, Inc. a management company delivering management services to the host industry and Greenleaf Holdings L.L.C., a commercial real estate development company. Mr. Johnston has served as President, Chairman and CEO of the Greenleaf Companies since 1991.

Timothy L. Tyler, 50, term expires in 2005; Mr. Tyler has served since 1995 as President of Borroughs Corporation, a privately held, Michigan-based business that designs, manufactures and markets industrial and library shelving units, metal office furniture and check out stands primarily in the United States. Mr. Tyler served as President and General Manager of Tyler Supply Company from 1979 to 1995. Mr. Tyler was appointed a Director of the Company in September 1996.

Barry Bedford, 46, term expires in 2004; Mr. Bedford has served as Chief Financial Officer of the Greenleaf Companies since April 2000. Prior to joining Greenleaf, Mr. Bedford was the Chief Financial Officer of Johnson and Rauhofs, a Michigan advertising firm, since 1991. Mr. Bedford was appointed a Director of the Company in July 2000.

Frederick A. Lake, 69, term expires in 2006; Mr. Lake is a partner in the law firm of Lake, Stover & Schau, PLC, a Michigan based law firm. Mr. Lake has been with Lake, Stover & Schau, PLC, and its predecessors for more than five years. Mr. Lake also serves as corporate counsel for Greenleaf Ventures. Mr. Lake was appointed a Director of the Company in July 2000.

Each member of the Board of Directors also serves on the Audit Committee of the Board of Directors. The Audit Committee recommends the engagement of the Company's independent accountants. In addition, the Audit Committee reviews comments made by the independent accountants with respect to internal controls and considers any corrective action to be taken by management; reviews internal accounting procedures and controls within the Company's financial and accounting staff; and reviews the need for any non-audit services to be provided by the independent accountants. Mr. Bedford has been designated as the audit committee financial expert. Mr. Bedford is independent of management.

Each member of the Board of Directors also serves on the Compensation Committee of the Board of Directors. The Compensation Committee recommends

salaries and bonuses for officers and general managers and establishes general policies and procedures for salary and performance reviews and the granting of bonuses to other employees. It also administers the Company's 1994 Stock Option Plan (the "Plan") and the SofTech Employee Stock Purchase Plan.

EXECUTIVE OFFICERS

The current executive officers of the Company are as follows:

Name	Age	Position
Joseph P. Mullaney	47	President and Chief Operating Officer
Jean J. Croteau	49	Vice President, Operations
Victor G. Bovey	47	Vice President, Engineering

Executive officers of the Company are elected at the first Board of Directors meeting following the Stockholders' meeting at which the Directors are elected.

The following provides biographical information with respect to the Executive Officers not identified in Item 10 of this Annual Report on Form 10-KSB:

Joseph P. Mullaney was appointed President and Chief Operating Officer in June 2001. Previously he served as Vice President, Treasurer, and Chief Financial Officer of the Company from November 1993 to June 2001. He joined the Company in May 1990 as Assistant Controller and was promoted to Corporate Controller in June 1990. Prior to his employment with SofTech he was employed for seven years at the Boston office of Coopers & Lybrand LLP (now PriceWaterhouseCoopers LLP) as an auditor in various staff and management positions.

Jean Croteau was appointed Vice President, Operations at the July 2001. He started with the Company in 1981 as Senior Contracts Administrator and was promoted to various positions of greater responsibilities until his departure in 1995. Mr. Croteau rejoined SofTech in 1998. From 1995 through 1998 he served as the Director of Business Operations for the Energy Services Division of XENERGY, Inc.

Victor G. Bovey was appointed Vice President of Engineering of the Company in March 2000. He started with the Company in November 1997 as Director of Product Development. Prior to his employment with SofTech he was employed for thirteen years with CIMLINC Incorporated in various engineering and product development positions.

COMPLIANCE WITH SECTION 16(a) OF THE SECURITIES EXCHANGE ACT OF 1934

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

To the Company's knowledge, based solely on a review of the copies of such reports furnished to the Company and on written representations that no other reports were required, during the fiscal year ended May 31, 2004, the

Section 16 reporting persons complied with all Section 16(a) filing requirements applicable to them.

ITEM 10 - EXECUTIVE COMPENSATION

COMPENSATION OF NON-EMPLOYEE DIRECTORS

For fiscal 2004, non-employee Directors received options in lieu of cash remuneration for their services. Employee Directors were not paid any fees or additional compensation for service as members of the Board of Directors or any committee thereof.

Pursuant to the Company's 1994 Stock Option Plan (the "1994 Stock Option Plan"), non-employee Directors may be granted non-qualified options to purchase shares of Common Stock of the Company. The Compensation Committee of the Board of Directors administers the 1994 Stock Option Plan and determines which Directors will receive stock options, the number of shares subject to each stock option, the vesting schedule of the options, and the other terms and provisions of the options granted. Stock options typically terminate upon a Director leaving his or her position for any reason other than death or disability. No option may be exercised after the expiration of ten years from its date of grant. Under the Plan, all non-employee Directors receive 10,000 options upon appointment to the Board and receive 3,000 options on the anniversary date of the initial award for as long as the Director serves as a Director of the Company. During the fiscal year ended May 31, 2004, there were 15,000 options granted to non-employee Directors.

SUMMARY COMPENSATION TABLE

The following table summarizes the compensation paid to the President and Chief Executive Officer of the Company and each of the Company's two other most highly compensated executive officers (the "Named Executives") during or with respect to fiscal 2002, 2003 and 2004 fiscal years for services in all capacities to the Company.

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		Annual Compensation			Long Term Compensation Awards	
Name and Principal Position ($)(2)	Fiscal Year	Salary($) (1)	Bonus ($)	Other Annual Compensation ($)	Securities Underlying Options(#)	All O Compens ($)
Joseph P. Mullaney - President and COO	2004	216,300	--	--	--	(5) 13
	2003	210,000	75,000	--	100,000	(5) 16
	2002	195,000	45,000	--	--	(5) 16
Jean Croteau - Vice President, Operations	2004	154,500	62,799	--	--	3
	2003	150,000	103,515	--	--	1
	2002	127,348	33,000	--	50,000	1

Victor G. Bovey - Vice President, Research & Development	2004	133,900	--	--	--	2
	2003	130,000	9,486	--	--	2
	2002	125,000	4,000	--	15,000	2
Mark R. Sweetland (3) - Former President and CEO	2004	--	--	--	--	
	2003	--	--	--	--	
	2002	80,388	--	--	--	
Timothy J. Weatherford(4) - Former Vice President, Sales	2004	--	--	--	--	
	2003	--	--	--	--	
	2002	25,960	--	--	--	

(1) Includes amounts deferred by Messrs. Sweetland, Mullaney, Weatherford, Bovey and Croteau under the Company's 401(k) plan.

(2) Except as otherwise noted, amounts listed in this column reflect the Company's contributions to each of the Named Executive's accounts under the Company's 401(k) plan.

(3) In June 2001, Mr. Sweetland resigned his employment and his position as a director.

(4) In July 2001, Mr. Weatherford departed his employment with the Company and shortly thereafter was removed as a Director at the regularly scheduled meeting of the Board of Directors in July 2001.

(5) Includes imputed compensation related to the non-interest bearing note receivable described in Note K to the financial statements.

OPTION GRANTS IN THE LAST FISCAL YEAR

No stock appreciation rights ("SARs") or options to purchase Company stock have been granted to the Named Executive Officers of the Company during fiscal year 2004. During fiscal 2003, Mr. Mullaney received an option grant of 100,000 shares with an exercise price of $.09 per share and an expiration date of August 2012. This represented 87% of the options granted in fiscal 2003.

AGGREGATE OPTION EXERCISES IN THE LAST FISCAL YEAR AND OPTION VALUE AT MAY 31, 2004.

The following table sets forth certain information concerning the number and value of unexercised options held by the President and Chief Operating Officer and each Named Executive.

Name	Number of Shares Acquired On Exercise	Value Realized ($)	Number of Unexercised Options at May 31, 2004 Exercisable/Unexercisable	Value In-t At M Exercisab
Joseph P. Mullaney	--	--	20,000/80,000	

Victor G. Bovey	--	--	9,000/6,000
Jean Croteau	--	--	30,000/20,000

(1) Market value of underlying securities at May 30, 2004 based on a per share value of $.25 less the aggregate exercise price.

EMPLOYMENT CONTRACTS

The Company does not have employment contracts with its Named Executives.

COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

Each of the members of the Board of Directors served as members of the Compensation Committee of the Company's Board of Directors during the fiscal year ended May 31, 2004.

ITEM 11 - SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

SECURITY OWNERSHIP OF MANAGEMENT AND PRINCIPAL STOCKHOLDERS

Information concerning beneficial ownership of the Company's Common Stock, as of August 16, 2004, for (i) each person named in the "Summary Compensation Table" below as a Named Executive of the Company during the fiscal year ended May 31, 2004, (ii) each Director and each of the Company's nominees to the Board of Directors and (iii) all Directors and executive officers of the Company as a group is set forth below.

Name of Beneficial Owner	Shares of Common Stock Beneficially Owned as of August 16, 2004 (1)	Percentage of Outstanding Common Stock Beneficially Owned as of August 16, 2004 (2)
Joseph P. Mullaney	134,319(3)	1.1%
Jean Croteau	30,000(3)	*
Victor G. Bovey	29,350(3)	*
William Johnston	5,466,204(3)(4)	44.7
Timothy L. Tyler	26,400(3)	*
Ronald Elenbaas	64,100(3)	*
Frederick Lake	11,000(3)	*
Barry Bedford	9,000(3)	*
All Directors and executive officers as a group (8 persons)	5,770,373(5)	46.6%

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* Less than one percent (1%).

(1) Based upon information furnished by the persons listed. Except as otherwise noted, all persons have sole voting and investment power over

the shares listed. A person is deemed, as of any date, to have "beneficial ownership" of any security that such person has the right to acquire within 60 days after such date.

(2) There were 12,205,236 shares outstanding on August 16, 2004. In addition, 168,200 shares issuable upon exercise of stock options held by certain Directors and executive officers of the Company are deemed to be outstanding as of August 16, 2004 for purposes of certain calculations in this table. See notes 3, 4 and 5 below.

(3) Includes shares issuable under stock options as follows: Mr. Mullaney - 40,000; Mr. Croteau - 30,000; Mr. Bovey - 9,000; Mr. Johnston - 21,400; Mr. Tyler - 26,400; Mr. Elenbaas - 21,400; Mr. Lake - 11,000 and Mr. Bedford - 9,000.

(4) Mr. Johnston's business address is Greenleaf Capital, 100 West Michigan Ave., Kalamazoo, Michigan, 49007.

(5) Includes 168,200 shares issuable upon exercise of stock options held by all Directors and executive officers as a group.

ITEM 12 - CERTAIN RELATIONSHIPS AND RELATED TRANACTIONS

As disclosed in Note H and I to the Company's 2004 Annual Report on Form 10-KSB, the Company has entered into various financing arrangements with Greenleaf Capital over the last several years. Greenleaf Capital,a wholly-owned subsidiary of Greenleaf Companies is the Company's primary source of capital. William D. Johnston, a director of SofTech since September 1996, is the President and sole principal of Greenleaf Companies. The Company paid Greenleaf Capital approximately $1.4 million and $1.6 million in fiscal 2004 and 2003, respectively, in finance charges and management fees. Greenleaf Trust, a

wholly-owned subsidiary of Greenleaf Companies, also serves as the trustee and investment advisor for the Company's 401-K Plan.

ITEM 13 - EXHIBITS AND REPORTS ON FORM 8-K

The following items are filed as part of this report:

(a) Exhibits:

(2)(i) Asset Purchase Agreement by and among SofTech, Inc., Information Decisions, Inc., System Constructs, Inc., and Data Systems Network Corporation filed as Exhibit 2.1 to Form 8-K, dated September 12, 1996, is incorporated by reference.

(2)(ii) Stock Purchase Agreement dated as of December 31, 1996 by and among SofTech, Inc., Information Decisions, Inc., Computer Graphics Corporation, and the Stockholders of Computer Graphics Corporation, filed as Exhibit 2.1 to Form S-3, dated June 30, 1997, is incorporated by reference.

(2)(iii) Stock Purchase Agreement dated as of February 27, 1997 by and among SofTech, Inc., Information Decisions, Inc., Ram Design and Graphics Corporation, and the Stockholders of Ram Design and Graphics Corp., filed as Exhibit 2.2 to Form S-3, dated June 30, 1997, is incorporated by reference.

(2)(iv) Asset Purchase Agreement by and among SofTech, Inc., Information Decisions, Inc., CIMLINC Incorporated and CIMLINC GmbH, filed as Exhibit 2.1 to Form 8-K, dated November 10, 1997, is incorporated by reference.

(2)(v) Asset Purchase Agreement by and among SofTech, Inc., Adra Systems, Inc., Adra Systems, GmbH, and MatrixOne, Inc., filed as Exhibit 2.1 for

Form 8-K, dated May 7, 1998, is incorporated by reference.

(2)(vi)Agreement and Plan of Merger by and among SofTech, Inc., SofTech Acquisition Corporation, and Workgroup Technology Corporation dated November 13, 2002, filed as Exhibit 6 to Form SC 13D/A, dated November 15, 2002, is incorporated by reference.

(3)(i) Articles of Organization filed as Exhibit 3(a) to Registration Statement No. 2-73261 are incorporated by reference. Amendment to the Articles of Organization filed as Exhibit (19) to Form 10-Q for the fiscal quarter ended November 28, 1986 is incorporated by reference.

(3)(ii) By-laws of the Company, filed as Exhibit (3)(b) to 1990 Form 10K are incorporated herein by reference. Reference is made to Exhibit (3)(a) above, which is incorporated by reference. Form of common stock certificate, filed as Exhibit 4(A), to Registration statement number 2-73261, is incorporated by reference.

(10)(i) Greenleaf Capital $11.0 million Promissory Note, filed as Exhibit 10.2 to the Form 10-K for the fiscal year ended May 31, 2001, is incorporated by reference.

(10)(ii)Greenleaf Capital $3.0 million Revolving Line of Credit, filed as Exhibit 10.3 to the Form 10-K for the fiscal year ended May 31, 2001, is incorporated by reference.

(10)(iii) Amendment to Promissory Note dated November 8, 2002, filed as Exhibit 4 to Form SC 13D/A filed November 15, 2002, is incorporated by reference.

(14) Code of Ethics for Officers, filed herwith.

(21) Subsidiaries of the Registrant, filed herewith.

(23)(i) Consent of Vitale, Caturano & Company PC, filed herewith.
(23)(ii) Consent of Grant Thornton LLP, filed herewith.

(31) Certification Pursuant to 18 U.S.C. Section 1350 as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

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(32) Certification Pursuant to 18 U.S.C. Section 1350 as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

(b) Reports on Form 8-K

The Company filed a Form 8-K on April 15, 2004 regarding its press release of third quarter fiscal 2004 results.

ITEM 14 - PRINCIPAL ACCOUNTANT FEES AND SERVICES

AUDIT FEES

The following table presents the aggregate fees of the principal accountants for professional services rendered for the audit of the Company's annual financial statements and review of financial statements included in the Company's Form 10-QSB's for the years ended May 31,:

	2004	2003
Audit and quarterly review fees (1)	$ 88,605	$ 118,479

Tax related fees (2)	17,500	30,300
Other fees (3)	900	9,683
Total fees	$ 107,005	$ 158,462

(1) Audit and quarterly review fees consists of audit work performed in the preparation of the financial statements to be included in the Company's Form 10-KSB and reviews of the Company's financials statements to be included in the Company's Form 10-QSB's filed with the Securities and Exchange Commission for the respective years.
(2) Tax related fees consisted of preparation of the Company's tax returns for each of the fiscal years.
(3) Other fees consist of professional services related to the audit of the Company's 401-K plan and advisory services related to a preferred share issuance.

The Company's Audit Committee (the "Committee") is solely responsible for the nomination, approval, compensation, evaluation and discharge of the independent public accountants. The independent public accountants report directly to the Committee and the Committee is responsible for the resolution of disagreements between management and the independent public accountants. Consistent with the Securities and Exchange Commission requirements, the Committee has adopted a policy to pre-approve all audit and permissible non-audit services provided by the independent public accountants. The Company's independent public accountants for the current fiscal year have been appointed by the Committee.

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

To the Board of Directors and Stockholders
SofTech, Inc.

We have audited the accompanying consolidated balance sheet of SofTech, Inc. and subsidiaries as of May 31, 2004 and the related consolidated statements of operations, changes in stockholders' deficit and comprehensive loss and cash flows for the year ended May 31, 2004. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of SofTech, Inc. and subsidiaries as of May 31, 2004, and the consolidated results of its operations and its consolidated cash flows for the year ended May 31, 2004, in conformity with accounting principles generally accepted in the United States of America.

/s/ Vitale, Caturano & Company LTD.

Boston Massachusetts
July 30, 2004

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Stockholders
SofTech, Inc.

We have audited the accompanying consolidated statements of operations, changes in stockholders' deficit and comprehensive loss and cash flows for the fiscal year ended May 31, 2003 of SofTech, Inc. and subsidiaries. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated results of operations and consolidated cash flows of SofTech, Inc. and subsidiaries for the year ended May 31, 2003, in conformity with accounting principles generally accepted in the United States of America.

/s/ Grant Thornton LLP

Boston Massachusetts
August 8, 2003

SOFTECH, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
For Fiscal Years Ended May 31,

	2004	2003
	(in thousands, except per share data)	
Revenue:		

Products	$ 3,030	$ 3,389
Services	9,264	7,299
Total Revenue	12,294	10,688
Cost of Revenue:		
Cost of products sold	78	62
Cost of services provided	1,589	840
Total Cost of Revenue	1,667	902
Gross margin	10,627	9,786
Research and development expenses	3,108	2,113
Selling, general and administrative	5,919	6,345
Amortization of capitalized software and other intangible assets	2,438	2,040
Loss from operations	(838)	(712)
Interest expense	1,005	1,130
Loss before income taxes	(1,843)	(1,842)
Provision for income taxes	10	10
Net Loss	$(1,853)	$(1,852)
Per Common Share Data:		
Net Loss - basic and diluted	$ (.15)	$ (.15)
Weighted Average Shares Outstanding, basic and diluted	12,205	12,205

The accompanying notes are an integral part of the consolidated financial statements.

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SOFTECH, INC.
CONSOLIDATED BALANCE SHEET
AS OF MAY 31, 2004

(in thousands, except share data)

Assets:	
Current assets:	
Cash and cash equivalents	$ 275
Accounts receivable (less allowance for uncollectible accounts of $101)	2,175
Prepaid expenses and other assets	194
Total current assets	2,644
Property and equipment, at cost:	

Data processing equipment	3,127
Office furniture	551
Leasehold improvements	189
Total property and equipment	3,867
Less accumulated depreciation and amortization	(3,668)
Property and equipment, net	199
Other assets:	
Capitalized software costs, net of amortization of $9,802	7,043
Identifiable intangible purchased assets, net of Amortization of $550	550
Goodwill, net of amortization of $7,229	4,598
Note receivable from officer	134
Other assets	165
Total Assets	15,333
Liabilities and Stockholders' Deficit:	
Current liabilities:	
Accounts payable	205
Accrued expenses	1,575
Deferred revenue	3,941
Current portion of long term debt with related party	1,293
Total current liabilities	7,014
Long-term liabilities:	
Long term debt with related party, less current portion	12,917
Total liabilities	19,931
Commitments and Contingencies (Note J)	
Stockholders' deficit:	
Common stock, $.10 par value; authorized 20,000,000 shares; issued 12,743,536	1,274
Capital in excess of par value	19,544
Accumulated deficit	(23,624)
Cumulative translation adjustment	(231)
Treasury stock at cost, 538,300 shares	(1,561)
Total stockholders' deficit	(4,598)
Total Liabilities and Stockholders Deficit	$15,333

The accompanying notes are an integral part of the consolidated financial statements.

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SOFTECH, INC.
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS'

DEFICIT AND COMPREHENSIVE LOSS
For Fiscal Years Ended May 31,

	2004	2003
	(in thousands, except share data)	
Common Stock:		
Balance at beginning of year	$ 1,274	$ 1,274
Shares issued	--	--
Balance at end of year	1,274	1,274
Capital in Excess of Par Value:		
Balance at beginning of year	19,544	19,544
Shares issued	--	--
Balance at end of year	19,544	19,544
Accumulated Deficit:		
Balance at beginning of year	(21,771)	(19,919)
Net loss	(1,853)	(1,852)
Balance at end of year	(23,624)	(21,771)
Cumulative Translation Adjustment:		
Balance at beginning of year	(234)	(166)
Foreign currency translation adjustments	3	(68)
Balance at end of year	(231)	(234)
Unrealized Loss on Marketable Securities:		
Balance at beginning of year	--	(48)
Change in market value of marketable securities	--	48
Balance at end of year	--	--
Treasury Stock:		
Balance at beginning of year	(1,561)	(1,561)
Reacquired shares	--	--
Balance at end of year	(1,561)	(1,561)
Total stockholders' deficit at end of year	$ (4,598)	$ (2,748)
Comprehensive Loss		
Net loss	$ (1,853)	$ (1,852)
Foreign currency translation adjustments	3	(68)
Gain on marketable equity securities	--	48
Total comprehensive loss	$ (1,850)	$ (1,872)

The accompanying notes are an integral part of the consolidated financial statements.

SOFTECH, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
For Fiscal Years Ended May 31,

(in thousands)	2004	2003
Cash flows from operating activities:		
Net loss	$ (1,853)	$ (1,852)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	2,585	2,323
Change in operating assets and liabilities, net of effects of business acquired:		
Accounts receivable	(123)	(1)
Prepaid expenses and other assets	36	17
Accounts payable and accrued expenses	(252)	496
Deferred revenue	(337)	(266)
Other	--	(20)
Total adjustments	1,909	2,549
Net cash provided by operating activities	56	697
Cash flows from investing activities:		
Payments for business acquisition, net of cash acquired	(487)	(3,277)
Capital expenditures	(40)	(187)
Net cash used in investing activities	(527)	(3,464)
Cash flows from financing activities:		
Borrowings under Greenleaf debt agreements	1,975	3,700
Repayments under Greenleaf debt agreements	(1,918)	(850)
Principal payments on capital lease obligations	(30)	(72)
Net cash provided by financing activities	27	2,778
Net (decrease) increase in cash and cash equivalents	(444)	11
Cash and cash equivalents, beginning of year	719	708
Cash and cash equivalents, end of year	$ 275	$ 719
Supplemental disclosures of cash flow information:		
Interest paid	$ 998	$ 1,145
Income taxes paid	$ 10	$ 11

The accompanying notes are an integral part of the consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

A. DESCRIPTION OF THE BUSINESS AND BASIS OF PRESENTATION

SofTech, Inc. (the "Company") was formed in Massachusetts on June 10, 1969. The Company had an initial public offering in August 1981 and a subsequent offering in December 1982. The Company is engaged in the development, marketing, distribution and support of computer software solutions that serve the Product Lifecycle Management ("PLM") industry. These solutions include software technology offerings for Computer Aided Design ("CAD"), Computer Aided Manufacturing ("CAM") as well as Product Data Management and Collaboration ("PDM") technologies, all of which fit under the broadly defined PLM industry. The Company's operations are organized geographically with European sales and customer support offices in France, Germany and Italy.

The consolidated financial statements of the Company include the accounts of SofTech, Inc. and its wholly-owned subsidiaries, Information Decisions, Inc. ("IDI"), Workgroup Technology Corporation ("WTC") acquired in December 2002, SofTech Technologies Ltd., SofTech, GmbH, Adra Systems, Srl, Adra Systems, Sarl, Compass, Inc. ("COMPASS"), System Constructs, Inc. ("SCI"), SofTech Investments, Inc. ("SII"), RAM Design and Graphics Corp. ("RAM"),AMG Associates, Inc. ("AMG") and SofTech Acquisition Corporation. SCI, SII, RAM, AMG and SofTech Technologies Ltd. are all inactive subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation.

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

USE OF ESTIMATES:

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The most significant estimates included in the financial statements pertain to revenue recognition, the allowance for doubtful accounts receivable, the valuation of long term assets including intangibles (goodwill, capitalized software costs and other intangible assets) and deferred tax assets. Actual results could differ from those estimates.

CASH AND CASH EQUIVALENTS:

The Company considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents. As of May 31, 2004, $150,000 of cash was restricted as follows: $100,000 held in escrow until December 2005 to be utilized by the former WTC Directors to reimburse them for legal representation in the event of a claim related to their service in that capacity and $50,000 restricted to secure a guarantee on an office lease which ends December 31, 2004. The $100,000 cash escrow and the $50,000 security on the lease guarantee have been included in Other assets on the May 31, 2004 balance sheet. Cash held in foreign bank accounts at May 31, 2004 totaled $178,000.

CONCENTRATION OF RISK:

The Company believes there is no concentration of risk with any single customer or small group of customers whose failure or nonperformance would

materially affect the Company's results. No customer exceeds ten percent of net sales. The Company generally does not require collateral on credit sales. Management evaluates the creditworthiness of customers prior to delivery of products and services and provides allowances at levels estimated to be adequate to cover any potentially uncollectible accounts. Bad debts are written off against the allowance when identified. The changes in the accounts receivable reserve are as follows:

For the Years Ended May 31,	Balance, Beginning of Period	Charged to Costs and Expenses	Deductions	Balance, End of Period
2003	$ 475,000	$ 75,000	$ 457,000	$ 93,000
2004	93,000	8,000	--	101,000

PROPERTY AND EQUIPMENT:

Property and equipment is stated at cost. The Company provides for depreciation and amortization on a straight-line basis over the following estimated useful lives:

Data processing equipment	2-5 years
Office furniture	5-10 years
Leasehold improvements	Lesser of useful life or life of lease

Depreciation expense, including amortization of assets under capital lease, was approximately $147,000 and $283,000, for fiscal 2004 and 2003, respectively.

Maintenance and repairs are charged to expense as incurred; betterments are capitalized. At the time property and equipment are retired, sold, or otherwise disposed of, the related costs and accumulated depreciation are removed from the accounts. Any resulting gain or loss on disposal is credited or charged to income.

INCOME TAXES:

The provision for income taxes is based on the earnings or losses reported in the consolidated financial statements. The Company recognizes deferred tax liabilities and assets for the expected future tax consequences of events that have been recognized in the Company's financial statements or tax returns. Deferred tax liabilities and assets are determined based on the difference between the financial statement carrying amounts and tax bases of assets and liabilities using enacted tax rates in effect in the years in which the differences are expected to reverse. The Company provides a valuation allowance against deferred tax assets if it is more likely than not that some or all of the deferred tax assets will not be realized.

REVENUE RECOGNITION:

The Company has adopted the provisions of Statement of Position No. 97-2, "Software Revenue Recognition" (SOP 97-2) as amended by SOP No. 98-9, "Modification of SOP 97-2, Software Revenue Recognition with Respect to Certain Transactions" (SOP 98-9) in recognizing revenue from software transactions. Revenue from software license sales are recognized when persuasive evidence of an arrangement exists, delivery of the product has been made, and a fixed fee

and collectibility 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 elements using the residual method set forth in SOP 98-9. Revenue from customer maintenance support agreements is deferred and recognized ratably over the term of the agreements. Revenue from engineering, consulting and training services is recognized as those services are rendered.

CAPITALIZED SOFTWARE COSTS AND RESEARCH AND DEVELOPMENT:

The Company capitalizes certain costs incurred to internally develop and/or purchase software that is licensed to customers. Capitalization of internally developed software begins upon the establishment of technological feasibility. Costs incurred prior to the establishment of technological feasibility are expensed as incurred. Purchased software is recorded at cost. The Company evaluates the realizability and the related periods of amortization on a regular basis. Such costs are amortized over estimated useful lives ranging from three to ten years. The Company did not capitalize any internally developed software in fiscal 2003 or 2004. Amortization expense related to capitalized software costs for the year ended May 31, 2004 and 2003 was $2,071,000 and $1,857,000, respectively.

Research and development expense for the years ended May 31, 2004 and 2003 was $3,108,000 and $2,113,000, respectively.

GOODWILL:

Effective June 1, 2002, the Company adopted the provisions of SFAS No. 142, "Goodwill and Other Intangible Assets". This statement requires that goodwill existing at the date of adoption be reviewed for possible impairment and that impairment tests be periodically repeated, with impaired assets written down to fair value. Additionally, existing goodwill and intangible assets must be assessed and classified within the statement's criteria. Intangible assets with finite useful lives continue to be amortized over those periods. Amortization of goodwill ceased as of May 31, 2002.

The Company completed the first step of the transitional goodwill impairment test during the three months ended November 30, 2002 based on the amount of goodwill as of the beginning of fiscal year 2003, as required by SFAS No. 142. Based on the results of the first step of the transitional goodwill impairment test, the Company determined that the fair value exceeded their carrying amounts and, therefore, no goodwill impairment existed as of June 1, 2002.

As of May 31, 2004, the Company conducted its annual impairment test of goodwill by comparing fair value to the carrying amount of its underlying assets and liabilities. 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.

LONG-LIVED ASSETS:

The Company periodically reviews the carrying value of all intangible (primarily capitalized software costs and other intangible assets) and other long-lived assets. If indicators of impairment exist, the Company compares the undiscounted cash flows estimated to be generated by those assets over their estimated economic life to the related carrying value of those assets to determine if the assets are impaired. If the carrying value of the asset is

greater than the estimated undiscounted cash flows, the carrying value of the

assets would be decreased to their fair value through a charge to operations. The Company does not have any long-lived assets it considers to be impaired.

FINANCIAL INSTRUMENTS:

The Company's financial instruments consist of cash, accounts receivable, notes receivable, accounts payable, and short and long term debt. The Company's estimate of the fair value of these financial instruments approximates their carrying amounts at May 31, 2004. The interest rate on the Company's debt facilities are variable and fluctuate with changes in the prime rate. In addition, the Company considers the premium in excess of the prime rate on the debt facilities to be reasonable based on the Company's revenue, current cash flow and near term prospects. For these reasons the Company considers the fair value of the debt to approximate the carrying value.

The Company sells its products to a wide variety of customers in numerous industries. A large portion of the Company's revenue is derived from customers for which the Company has an existing relationship and established credit history. For new customers for which the Company does not have an established credit history, the Company performs evaluations of the customer's credit worthiness prior to accepting an order. The Company does not require collateral or other security to support customer receivables. The Company's provision for uncollectible accounts has been less than 1% of revenue for both fiscal year 2003 and 2004.

FOREIGN CURRENCY TRANSLATION:

The functional currency of the Company's foreign operations (England, France, Germany and Italy) is the local currency. As a result, assets and liabilities are translated at period-end exchange rates and revenues and expenses are translated at the average exchange rates. Adjustments resulting from translation of such financial statements are classified in accumulated other comprehensive loss. Foreign currency gains and losses arising from transactions were included in operations in fiscal 2004 and 2003, but were not significant.

COMPREHENSIVE INCOME:

Financial Accounting standards No. 130, "Reporting Comprehensive Income" ("SFAS 130") requires the reporting of comprehensive income in addition to net income from operations. Comprehensive income is a more inclusive reporting methodology that includes disclosure of certain financial information that historically has not been recognized in the calculation of net income. To date, the Company's comprehensive income items include foreign translation adjustments and unrealized gains and losses on marketable securities. Comprehensive income has been included in the consolidated Statement of Changes in Stockholder's Deficit and Comprehensive Loss for all periods.

NET INCOME (LOSS) PER COMMON SHARE:

The basic and diluted weighted average shares outstanding during fiscal years 2004 and 2003 used in the computation of basic and diluted earnings per share calculated in accordance with Statement of Financial Accounting Standards (SFAS) No. 128, "Earnings per Share" were 12,205,000.

After the application of assumed proceeds, options to purchase shares of

common stock of 123,649 and 57,323, respectively, have been excluded from the denominator for the computation of diluted earnings per share in fiscal 2004 and 2003, respectively, because their inclusion would be antidilutive.

In addition, the calculation of dilutive earnings per share also excludes the effect prior to the issuance of common stock in connection with the debt conversion as discussed in Note H.

STOCK BASED COMPENSATION

The Company applies Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations in accounting for its stock option plans. Because the number of shares is known and the exercise price of options granted has been equal to fair value at date of grant, no compensation expense has been recognized in the statements of operations. The Company has adopted the disclosure-only provisions of SFAS No. 123, "Accounting for Stock-Based Compensation" and SFAS No. 148 "Accounting for Stock-Based Compensation - An Amendment of SFAS No. 123." Had compensation cost for the Company's stock option plans been determined based on the fair value at the grant date for awards under these plans, consistent with the methodology prescribed under SFAS 123, the Company's net loss and loss per share at May 31 would have approximated the pro forma amounts indicated below:

(in thousands, except per share data)	2004	2003
Net loss - as reported	$ (1,853)	$ (1,852)
Stock based compensation expense determined under fair value based method	(10)	(23)
Net loss - pro forma	(1,863)	(1,875)
Loss per share - diluted - as reported	(.15)	(.15)
Loss per share - diluted - pro forma	(.15)	(.15)

The weighted-average fair value of each option granted in fiscal 2004 and 2003 is estimated as $.03 on the date of grant using the Black-Scholes model with the following weighted average assumptions:

Expected life	5 years
Assumed annual dividend growth rate	0%
Expected volatility	1.12
Risk free interest rate (the month-end yields on 4 year treasury strips equivalent zero coupon)	2.68% - 3.35%

The effects of applying SFAS 123 in this pro forma disclosure may not be indicative of future amounts.

NEW ACCOUNTING PRONOUNCEMENTS:

In August 2001, the FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations. SFAS No. 143 requires entities to record the fair value of a liability for an asset retirement obligation in the period in which it is incurred. When the liability is initially recorded, an entity capitalizes a cost by increasing the carrying amount of the long-lived asset. Over time, the liability is accreted to its present value each period and the capitalized cost is depreciated over the useful life of the related asset. Upon settlement of the liability, an entity either settles the obligation for its recorded amount or

incurs a gain or loss upon settlement. The standard is effective for fiscal

years beginning after June 15, 2002. The adoption of SFAS 143 did not have a material impact on the Company's financial position or results of operations.

On December 31, 2002, the Financial Accounting Standards Board ("FASB") issued FASB Statement No. 148 (SFAS 148), Accounting for Stock-Based Compensation -- Transition and Disclosure, amending FASB Statement No. 123 (SFAS 123), Accounting for Stock-Based Compensation. This Statement amends SFAS 123 to provide alternative methods of transition for an entity that voluntarily changes to the fair value based method of accounting for stock-based employee compensation. It also amends the disclosure provisions of that Statement to require prominent disclosure about the effects on reported net income of an entity's accounting policy decisions with respect to stock-based employee compensation. Finally, SFAS 148 amends APB Opinion No. 28, Interim Financial Reporting, to require disclosure about those effects in interim financial information. For entities that voluntarily change to the fair value based method of accounting for stock-based employee compensation, the transition provisions are effective for fiscal years ending after December 15, 2002. The adoption of SFAS 148 did not have a material impact on the Company's financial position or results of operations.

In April 2003, FASB issued Statement No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities", which is effective for contracts entered into or modified after June 30, 2003. This Statement amends and clarifies financial accounting and reporting for derivative instruments and for hedging activities for the purpose of improving financial reporting by requiring contracts with comparable characteristics to be accounted for similarly. The adoption of SFAS No. 149 did not have a material impact on the Company's financial position or results of operations.

In May 2003, FASB issued Statement No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity", which is effective for financial instruments entered into or modified after May 31, 2003. This Statement establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. The adoption of SFAS No. 150 did not have a material impact on the Company's financial position or results of operations.

C. LIQUIDITY

The Company generated positive cash flow from operations of approximately $1.2 million over the last three fiscal years after restructuring its operation at the beginning of fiscal 2002. The fiscal 2002 restructuring was necessitated by significant cash losses from operations for four consecutive fiscal years from 1998 through 2001 which totaled approximately $4.5 million.

While the improved performance detailed above for the last three fiscal years represents significant operational improvement, the Company remains a highly leveraged operation that is dependent on cash flow from opertions and its debt facilities with Greenleaf Capital to fund operations.

Although the Company believes its current cost structure together with reasonable revenue run rates based on historical performance will continue to generate positive cash flow in fiscal 2005, the current economic environment especially in the manufacturing sector makes forecasting revenue based on historical models difficult and somewhat unreliable. The Company is continuing to seek out market opportunities both through new products and acquisitions to

grow its revenue base and its product offerings to its customers.

D. INCOME TAXES:

The provision (benefit) for income taxes includes the following:

For Years ended May 31, (in thousands)	2004	2003
Federal	$ --	$ --
Foreign	--	--
State and Local	10	10
	10	10
Deferred	--	--
	$ 10	$ 10

The domestic and foreign components of loss from operations before income taxes of the consolidated companies were as follows (in thousands):

	2004	2003
Domestic	$ (1,858)	$ (1,960)
Foreign	5	108
	$ (1,853)	$ (1,852)

At May 31, 2004, the Company had net operating loss carryforwards of $15.3 million that begin expiring in 2013, and are available to reduce future taxable income. The Company also has tax credit carryforwards generated from research and development activities of approximately $646,000 that are available to offset income taxes payable in the future and expire from 2004 to 2006. In addition, an alternative minimum tax credit of approximately $200,000 that has no expiration date was available as of May 31, 2004.

The Company's effective income tax rates can be reconciled to the federal statutory income tax rate as follows:

For the Years ended May 31,	2004	2003
Statutory rate	(34)%	(34)%
Expenses not deductible for tax purposes	1	1
Valuation reserve	33	33
Effective tax rate	0%	0%

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

(in thousands)	2004	2003

Deferred tax assets (liabilities):		
Net operating loss carryforwards	$ 5,687	$ 4,907
Tax credit carryforwards	946	775
Receivable allowances	34	31
Vacation pay accrual	5	16
Other accruals	193	70
Depreciation	6	6
Differences in book and tax basis of assets of acquired businesses	3,107	1,766
Deferred tax assets	9,978	7,571
Less: valuation allowance	(9,978)	(7,571)
Net deferred tax assets recognized	$ 0	$ 0

Due to the uncertainties regarding the realization of certain favorable tax attributes in future tax returns, the Company has established a valuation reserve against the otherwise recognizable net deferred tax assets. Changes in the valuation reserve impacted deferred tax expense as follows: fiscal 2004 $(2,407,000) and fiscal 2003 $(616,000).

The Company acquired approximately 89% of the common shares of WTC on December 19, 2002. As a result, WTC filed a short period tax return for the period from April 1, 2002 through December 18, 2002. Thereafter, the Company will include WTC's results in its consolidated tax return. The Company made a Section 338 election in the WTC short period tax return which allows this stock purchase to be treated as an asset purchase for tax purposes. This election will provide the consolidated entity with a tax deduction totaling approximately $3.8 million to be realized in equal increments over 15 years. This deferred tax asset is included in the table above in fiscal 2004 as a difference in book and tax basis of assets of acquired businesses.

WTC had substantial net operating loss carryforwards. As a result of the election, the Company will not be able to utilize such losses and they have not been included in the table above. As the losses will not carryfoward, no limitation calculation has been made.

E. EMPLOYEE RETIREMENT PLANS:

The Company maintains two Internal Revenue Code Section 401(k) plans covering substantially all U.S. based employees. One Plan which covers substantially all of the U.S. SofTech employees offers an employer match of a portion of an employee's voluntary contributions. The aggregate expense related to this employer match for fiscal 2004 and 2003 was $36,000 and $43,000, respectively. The second Plan which covers substantially all WTC employees provided for a discretionary employer match as determined by the Board of Directors prior to an amendment dated January 1, 2004. This amendment offers the same employer match of a portion of an employee's voluntary contribution that is offered in the SofTech plan. The aggregate expense related to this employer match for the years ended May 31, 2004 and 2003 were $15,000 and $0, respectively.

F. EMPLOYEE STOCK PLANS:

The Company's 1994 Stock Option Plan (the "1994 Plan") provides for the granting of both incentive and non-qualified options. Incentive stock options granted under the Plan have an exercise price not less than fair market value of

the stock at the grant date and have vesting schedules as determined by the Company's Board of Directors. The Plan permits the granting of non-qualified options at exercise prices and vesting schedules as determined by the Board of Directors. The 1994 Plan calls for the adjustment of option exercise prices to reflect equity transactions such as stock issuances, dividend distributions and stock splits.

Information for fiscal 2003 through 2004 with respect to this plan is as follows:

Stock Options	Number of Shares	Weighted Average Option Price
Outstanding at May 31, 2002	313,000	$ 1.03
Options granted	115,000	.10
Options terminated	(25,000)	1.22
Options lapsed	--	--
Options exercised	--	--
Outstanding at May 31, 2003	403,000	$ .70
Options granted	15,000	.26
Options terminated	(10,000)	.09
Options lapsed	(2,000)	3.38
Options exercised	--	--
Outstanding at May 31, 2004	406,000	$ .68

The following table summarizes information about stock options outstanding at May 31, 2004 under the 1994 Plan:

	Options Outstanding			Options Exercisable	
Exercise Price Range Price	Options Outstanding at May 31, 2004	Weighted Average Contractual Remaining Life	Weighted Average Exercise Price	Options Exercisable at May 31, 2004	Weighted Average Exercise Price
$.09 to $.26	251,000	7.53 years	$ .11	90,800	$ .10
$.78 to $1.69	102,000	2.37 years	1.21	92,600	1.22
$1.88 to $2.06	44,000	3.29 years	1.92	44,000	1.92
$4.63	9,000	3.88 years	4.63	9,000	4.63
Total	406,000		$ .68	236,400	$ 1.05

In addition, during fiscal 2001, 100,000 options to purchase shares at $1.00 were extended to a third party to settle a dispute. These options expire in January 2006 if not exercised.

In 1998, the Company adopted an Employee Stock Purchase Plan, under which all employees of the Company and certain of its subsidiaries who meet certain minimum requirements will be able to purchase shares of SofTech common

stock through payroll deductions. The purchase price per share is 85% of the fair market value of the common stock on the Offering Date or the Exercise Date, whichever is less. As of May 31, 2004, 150,000 shares of SofTech common stock were available for sale to employees under the plan. No shares have been issued under this Employee Stock Purchase Plan.

G. SEGMENT INFORMATION:

The Company operates in one reportable segment and is engaged in the development, marketing, distribution and support of CAD/CAM and Product Data Management ("PDM") computer solutions. The Company's operations are organized geographically with foreign offices in England, France, Germany and Italy. Components of revenue and long-lived assets (consisting primarily of intangible assets, capitalized software and property, plant and equipment) by geographic location, are as follows (in thousands):

	2004	2003
Revenue:		
North America	$ 9,367	$ 7,734
Asia	1,058	1,115
Europe	2,337	2,558
Eliminations	(468)	(719)
Consolidated Total	$ 12,294	$ 10,688

Long-Lived Assets:	
North America	$ 12,495
Europe	194
Consolidated Total	$ 12,689

Foreign revenue is based on the country in which the sale originates. Revenues from Germany and Japan were 11% and 9%, respectively, of total consolidated revenue in fiscal year 2004 and 13% and 10%, respectively, of total consolidated revenue in fiscal year 2003. No other customer or foreign country accounted for 10% or more of total revenue in fiscal 2004 or 2003.

H. DEBT OBLIGATION WITH RELATED PARTY:

Debt obligations of the Company consist of the following obligations at May 31, 2004 (in thousands):

$15,000,000 Promissory Note	$ 13,259
$3,000,000 Revolving Line of Credit	951
	14,210
Less current portion	(1,293)
	$ 12,917

During fiscal 2000, the Company entered into a $11 million borrowing

arrangement ("Promissory Note") with Greenleaf Capital ("Greenleaf"). On November 8, 2002, the Company amended the Promissory Note. Under the amended agreement the Company increased its borrowing from $11.0 million to $15.0 million. In addition, the interest rate was reduced from 9.75% to Prime Rate

plus 3.0%. Effective June 1, 2004 the interest rate was reduced to 6.25%. Principal and interest is payable monthly and the Promissory Note has a 15-year loan amortization with the remaining principal of approximately $11,141,000 due in a single payment in June 2007. The Promissory Note expires on June 12, 2007.

In addition, the Company has a $3.0 million Revolving Line of Credit with Greenleaf. This facility is used to supplement cash flows from operations to meet the Companies short term capital needs. Amounts borrowed under this facility are due annually in June unless otherwise extended. As discussed further below, the due date of the revolving line of credit was extended subsequent to year end.

During fiscal year 2000, the Company entered into a debt conversion agreement with Greenleaf. Under the terms of this agreement the Company has the right to repurchase up to 4,054,424 shares at the average price of $1.233 per share. There is no expiration to this repurchase right.

William D. Johnston, a director of SofTech since September 1996, is the sole principal and the President of Greenleaf. Management recommended and the Board of Directors, other than Mr. Johnston who abstained from such vote, unanimously approved all transactions with Greenleaf.

On June 1, 2004, the Company and Greenleaf agreed to extend the due date on the revolving line of credit to June 2005 and to extend certain principal payments due under the Promissory Note. Annual maturities of debt obligations subsequent to May 31, 2004, as amended, are as follows: 2005 - $ 1,293,000; 2006 - $1,026,000; 2007 - $750,000; 2008 - $11,141,000.

I. RELATED PARTY TRANSATIONS:

The Company is dependent upon Greenleaf for all of its funding needs. The Company does not believe that it could obtain similar debt facilities from other third party lenders. The Company currently funds its operations through a $3.0 million Line of Credit facility as described in Note H above that expires annually in June. In addition, the Company has a senior credit facility with Greenleaf as described in Note H above. Greenleaf's President serves as the Chairman of the Board for the Company. In addition, Greenleaf provides advisory services and its President and its CFO serve as Board members to the Company. Greenleaf is the Company's largest shareholder owning approximately 45% of its outstanding shares. The Company paid Greenleaf a management fee of approximately $363,000 in fiscal 2004 and $420,000 in fiscal 2003 in exchange for these services. The Greenleaf management and advisory fee has been included in SG&A expense.

J. LEASE COMMITMENTS:

OPERATING LEASES

The Company conducts its operations in office facilities leased through October 2008. Rental expense for fiscal years 2004 and 2003 was approximately $408,000 and $443,000, respectively.

At May 31, 2004, minimum annual rental commitments under noncancellable

leases and non-cancellable sub-lease arrangements were as follows:

Fiscal Year	Gross Commitment	Sub-lease Commitment	Net
2005	$ 730,000	$ (188,000)	$ 542,000
2006	478,000	--	478,000
2007	482,000	--	482,000
2008	280,000	--	280,000
2009	25,000	--	25,000

In December 2002 the Company extended its lease for office space at its headquarters in Massachusetts through 2008. As part of that extension, the Company provided the lessor with a letter of credit for $390,000 from a commercial bank. In addition, the lessor assumed the Company's financial obligations for an abandoned office lease in Massachusetts that had previously been utilized by WTC prior to the Company's acquisition of that company. These monies are included above under the column labeled "Sub-lease Commitment". The benefits derived from the lessor's assumption of this obligation have been treated as a marketing concession and will reduce rent expense over the life of the lease extension.

K. NOTE RECEIVEABLE FROM OFFICER:

The President of the Company has been extended a non-interest bearing note in the amount of $134,000 related to a stock transaction in May 1998. The note is partially secured by all Company shares and stock options held by that officer. The Company has accounted for the note as a fixed arrangement.

L. ACQUISITION

On December 18, 2002, the Company closed its all cash tender offer ("Offer") for all of the outstanding shares of common stock of Workgroup Technology Corporation, a Delaware corporation ("WTC"), at a price of $2.00 per share. WTC was a publicly traded company listed on the Over the Counter Bulletin Board. WTC develops, supports and markets a software product to mechanical CAD ("Computer Aided Design") users that allows them to manage and share their electronic product information across an enterprise. Its product offerings are compatible with SofTech's.

The aggregate purchase price for WTC was approximately $5.1 million. Based on the Company's estimates, $2.7 million of identifiable intangible assets were specified. These identifiable intangible assets will be amortized over their estimated useful lives of three (3) years. The remaining $2.4 million of the purchase price has been allocated to goodwill.

The operating results of WTC have been included in the Company's results since the acquisition date. The unaudited pro forma results of operations set forth below for the fiscal year ended May 31, 2003 assume that the WTC acquisition had occurred as of the beginning of that period. The information for fiscal year 2003 is provided for illustrative purposes only and is not necessarily indicative of the consolidated results of operations for future periods or that actually would have been realized had the Company and WTC been a consolidated entity during that period (for fiscal year ended May 31, in thousands, except per share data):

	Pro Forma 2003

	(Unaudited)
Revenue	$ 14,192
Net loss	(4,098)
Net loss per share as reported: Basic and diluted	$ (.15)
Pro Forma net loss per share: Basic and diluted	$ (.34)

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SIGNATURES

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

SofTech, Inc.

By /s/ Joseph P. Mullaney
Joseph P. Mullaney, President and COO

Date: August 30, 2004

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

Signature	Title	Date
/s/ Joseph P. Mullaney Joseph P. Mullaney	President and Chief Operating Officer (Principal executive officer and Principal financial officer)	8/30/04
/s/ Ronald A. Elenbaas Ronald A. Elenbaas	Director	8/30/04
/s/ William Johnston William Johnston	Director	8/30/04
/s/ Timothy Tyler Timothy Tyler	Director	8/30/04
/s/ Barry Bedford	Director	8/30/04

Barry Bedford

/s/ Frederick A. Lake	Director	8/30/04
Frederick A. Lake		

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