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SOFTECH INC
Form 10-K
August 29, 2003

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, 2003

Commission file number 0-10665

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

Massachusetts

(State or other jurisdiction of
Incorporation or organization)

04-2453033

(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 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.

State the aggregate market value of the voting stock held by non-affiliates of the registrant: \$1,361,699 as of August 15, 2003. On August 15, 2003 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

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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 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.

The acquisition of WTC in December 2002 significantly and positively impacted our fiscal 2003 performance and will be a critical element of our strategy in the future.

PRODUCTS AND SERVICES

The Company operates in one reportable segment and is engaged in the development, marketing, distribution and support of CAD/CAM and PDM computer solutions. 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 F 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 and CADRA NC, a comprehensive 2 through 5 axis NC programming application. The CADRA family offers 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

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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.

DesignGateway™ is an enabling technology that allows the user to extract engineering and geometric data from 3-D solid modeling applications for reviewing, manipulating and exporting to 2D drafting systems. DesignGateway works with Pro/Engineer, SolidWorks, Cadra and AutoCad. DesignGateway also organizes other engineering documents into project folders providing easy access for many users. The technology is easy to use and can be implemented company-wide within a short time period.

The design software technologies used by mechanical engineers make up a fragmented market composed of dueling, proprietary technologies. The proprietary technologies create huge inefficiencies for the global design and manufacturing enterprises trying to deal with these various design tools. There is no one solid modeling software company with more than 25% market share. For example, the big three automobile companies all use different design products as their primary design tool. The problems created for the suppliers to the automobile industry that do business with all three are simply enormous. DesignGateway is aimed at improving the interoperability between and among these numerous proprietary design tools thereby greatly increasing productivity and reducing cost.

Since its introduction, we have had little success in selling this interoperability solution to the manufacturing marketplace. It is our view that the interoperability problem described above exists and will continue to cause great inefficiencies. Our lack of success to date is the result of a business climate wherein little or no capital is being invested in new software technologies. This is, of course, a natural reaction when a company's revenue declines and cost cutting and reductions in the workforce become the focus of management.

This technology grew out of perceived interoperability problems of many of our large Cadra customers. Our marketing strategy to date has been to offer this technology primarily to those Cadra users that also have some need to work with Pro/Engineer, SolidWorks and/or AutoCad. To date we have primarily marketed it as a stand-alone product under a traditional perpetual license arrangement. We are currently offering this product under a 90 day free trial period as a means of attempting to attract users who might otherwise be restrained from experiencing the productivity enhancements offered by this unique technology given the depressed levels of investment in technology throughout the manufacturing sector. We expect to market the product in this fashion over the next 6 to 9 months and then make a decision, based on the results of the free trial offer, on how best to market and distribute this product.

The AMT group has two 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.

The Company markets and distributes its products and services primarily through a direct sales force and through its service organization in North

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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 15, 2003, the Company employed 83 persons, 77 on a full time basis and 6 part time. These employees were distributed over functional lines as follows: Sales = 13; Product Development = 28; Engineers = 23; General and Administrative = 19.

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

Backlog as of May 31, 2003 and 2002 was insignificant. Deferred revenue, which represents primarily software maintenance contracts to be performed during the following year, totaled approximately \$4,074,000 and \$2,627,000 at May 31, 2003 and 2002, respectively. As of May 31, 2003, the Company also had \$204,000 of deferred revenue that will be delivered in fiscal 2005. In addition, as of May 31, 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 28 engineers in its research and development groups located in Michigan and Massachusetts. In fiscal 2003 and 2002 the

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Company incurred research and development expense of \$2.1 million and \$1.6 million, respectively, related to the continued development of technology. The Company's ability to continue to maintain the ADRA software so it is compatible with the other 3D offerings in the marketplace and to continue to improve the PROSPECTOR(TM) technology is critical to its future success.

CUSTOMERS

No single customer accounted for more than 10% of the Company's revenue in fiscal 2003 or 2002. 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 2003 rent was approximately \$443,000. 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, 2003 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 SECURITYHOLDERS

On April 16, 2003, the Company held its Annual Meeting of Shareholders. The shareholders were asked to elect all five directors to terms of office that expire on a staggered basis from 2003 through 2005. The results for each candidate were as follows:

Candidate Name . . .	Votes For	Votes Against	Votes Withheld	Abstentions
-----	-----	-----	-----	-----
Timothy L. Tyler . . .	6,377,610	0	11,550	0
-----	-----	-----	-----	-----
Ronald A. Elenbaas . . .	6,377,610	0	11,550	0
-----	-----	-----	-----	-----
Frederick A. Lake . . .	6,377,410	0	11,750	0
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William D. Johnston	6,377,510	0	11,650	0
Barry Bedford . . .	6,377,410	0	11,750	0

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, 2003, there were approximately 2,900 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.

	2003		2002	
	High	Low	High	Low
First Quarter	.18	.09	.22	.08
Second Quarter	.25	.06	.15	.06
Third Quarter	.25	.12	.15	.05
Fourth Quarter	.19	.10	.19	.09

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

The Company issued 1,463,452 shares of Common Stock on April 1, 2002 in connection with a debt conversion as described in Note H to the financial statements.

The table below details information regarding equity compensation plans of the Company as of May 31, 2003:

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 . . .	403,000	\$.70	15,335

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Not Approved by Shareholders	100,000	\$ 1.00	
	-----		-----
	503,000		15,335

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

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. This acquisition of WTC had a positive impact on fiscal 2003 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, 2003. In addition, the change in those items, again expressed as a percentage, for each of the two years ended May 31, 2003 is presented.

Items as a percentage Percentage change

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	of revenue		year to year
	2003	2002	2002 to 2003
Revenue			
Products	31.7%	26.2%	47.3%
Services	68.3	73.8	12.6
Total revenue	100.0	100.0	21.7
Cost of sales			
Products	.6	.6	6.9
Services	7.8	4.2	129.5
Total cost of sales	8.4	4.8	112.7
Total gross margin	91.6	95.2	17.1
Research and development	19.8	17.9	34.4
S.G.& A.	59.3	64.3	12.4
Amortization of capital software and other intangible assets	19.1	18.2	27.4
Amortization of goodwill	--	10.6	(100.0)
Interest expense	10.6	14.6	(11.5)
Loss before income tax	(17.2)	(30.4)	(31.0)

Critical Accounting Policies and Significant Judgements 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:

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

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We assess the recoverability of long-lived assets and intangible assets whenever we determine that events or changes in circumstances indicate that their carrying amount may not be recoverable. Our assessment is primarily based upon our estimate of future cash flows associated with these assets. These valuations contain certain assumptions concerning estimated future revenues and future expenses for each of our two reporting units. We have determined that there is no indication of impairment of any of our assets. However, should our operating results deteriorate, we may determine that some portion of our long-lived assets or intangible assets are impaired. Such determination could result in non-cash charges to income that could materially affect our financial position or results of operations for that period.

Valuation of Goodwill

Effective June 1, 2002, the Company adopted the provisions of SFAS No. 142, Goodwill and Other Intangible Assets. This statement affects the Company's treatment of 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. Based on the results of the first step of the transitional goodwill impairment test, the Company has determined that the fair value of each of the reporting units exceeded their carrying amounts and, therefore, no goodwill impairment existed as of June 1, 2002. As a result, the second step of the transitional goodwill impairment test is not required to be completed. The Company will be required to continue to perform a goodwill impairment test on an annual basis.

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 2003 was \$10.7 million, an increase of \$1.9 million or 22% from fiscal year 2002 revenue of \$8.8 million. Product revenue increased \$1.1 million or 47% during the current year as compared to the prior year and service revenue increased \$.8 million or 13%.

The increase in product revenue is due to the acquisition of WTC in December 2002 and the inclusion of that entity's results for approximately half of our fiscal year. Product revenue from our Cadra and AMT technology offerings was essentially unchanged from fiscal 2002 to 2003.

The increase in service revenue from 2002 to 2003 was due to the inclusion of the WTC results for a portion of fiscal 2003 which was offset by a decline of approximately \$1.4 million or 22% in service revenue from our Cadra and AMT technology offerings. The majority of this decrease in service revenue was from lower Cadra software maintenance renewals in North America.

Product gross margin improved to 98.2% in fiscal 2003 from 97.5% in fiscal

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2002. This small increase in margin is due to the addition of WTC product revenue and the relatively low amount of incremental cost from that additional product revenue.

Service gross margin was 88.5% in fiscal 2003 as compared to 94.4% in fiscal 2002. This decrease in gross margin is a direct result of the inclusion of WTC's consulting revenue and the lower margin earned on that type of 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 \$2.1 million in fiscal 2003 as compared to \$1.6 million in fiscal 2002, an increase of about 34%. This increased R&D spending is due to the inclusion of the WTC development group for approximately half of our fiscal year.

Selling, general and administrative expense for fiscal 2003 increased by \$.7 million or about 12% from fiscal 2002 levels. The addition of WTC for approximately half of the current fiscal year increased this category of expenses by approximately \$1.3 million which was partially offset by reduced spending of about 10% from the Company's SG&A spending from its existing business.

The non-cash expenses related to amortization of capitalized software and other intangible assets increased by approximately \$.4 million or 27% in fiscal 2003 as compared to fiscal 2002. This increase is primarily the result of amortizing WTC's identifiable intangible assets during fiscal 2003. Goodwill amortization was \$934,000 in fiscal 2002. Beginning May 31, 2002, goodwill was no longer amortized in accordance with SFAS 142.

Interest expense in fiscal 2003 declined by about \$147,000 or 12% as compared to fiscal 2002. 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 2003 compared to 2002. In fiscal 2003 our average outstanding debt was \$13.2 million as compared to about \$11.5 million in 2002. 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 8.6% as compared to about 11.1% in fiscal 2002. In November 2002 we renegotiated our borrowing rate to prime plus 3%. As of May 31, 2003 our borrowing rate based on this agreement is 7.25%.

The tax provision was essentially unchanged from fiscal 2002 to 2003 and relates to state and local taxes.

The net loss for fiscal 2003 was approximately \$1.9 million as compared to \$2.7 million in fiscal 2002. The net loss per share was \$(.15) in fiscal 2003 as compared to \$(.24) in fiscal 2002.

The weighted average shares increased to 12.2 million for fiscal 2003 as compared to about 11.0 million in fiscal 2002 due to a share issuance of 1.5 million related to a debt conversion in April 2002 as described in Note H.

CAPITAL RESOURCES AND LIQUIDITY

The Company's cash position as of May 31, 2003 was \$719,000 including \$65,000 that is restricted. This represents an increase of \$11,000 from the fiscal 2002 year-end balance of \$708,000. Subsequent to the fiscal year end, the restrictions on \$65,000 were removed.

Included in the Company's results of operations are significant non-cash expenses related to amortization of intangibles resulting from prior year

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acquisitions, which totaled approximately \$2.0 million in fiscal 2003 and approximately \$2.5 million in fiscal 2002.

For fiscal 2003, operating activities generated cash of approximately \$864,000. The net loss together with non-cash expenses related primarily to amortization of intangibles and depreciation generated cash of approximately \$460,000. The reduction in accounts receivable and prepaid and other assets provided \$174,000 and a net increase in liabilities provided additional cash of \$230,000. Investing activities utilized cash of approximately \$3.6 million primarily due to the cash required to acquire WTC in December 2002. Financing activities provided approximately \$2.8 million with gross additional borrowings under our debt facilities totaling about \$3.7 million offset by principal pay downs of \$850,000.

At May 31, 2003, long-term obligations totaled approximately \$13.3 million, up about 20% from \$11.1 million as of the end of fiscal 2002. This increase is the result of the aforementioned additional borrowings to complete the WTC acquisition partially reduced by a decrease in deferred revenue to be earned in more than one year's time. 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 \$150,000 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, 2003, approximately \$2.2 million was available under this facility which has been extended an additional year through June 2004. In addition, the Company's \$15.0 million debt facility with Greenleaf has additional borrowing capacity of approximately \$1.3 million as of May 31, 2003.

The Company currently believes that its cash flow from operations together with the availability of capital under its existing debt agreements 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, 2003, a hypothetical change in the interest rate of +2% or -2% would result in a hypothetical change to interest expense of about \$283,000 and \$(283,000), respectively.

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

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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; and 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.

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

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Financial statements are included herein.

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

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

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 15, 2003, based on information furnished by them to the Company.

DIRECTORS

Ronald A. Elenbaas, 50, term expires in 2003; 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, 56, 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, 49, 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, 45, 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, 68, term expires in 2003; 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

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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.

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	46	President and Chief Operating Officer
Jean J. Croteau	48	Vice President, Operations
Victor G. Bovey	46	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 in 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

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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, 2003, 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 2003, 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, 2003, 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 2001, 2002 and 2003 fiscal years for services in all capacities to the Company.

Name and Principal Position	Fiscal Year	Annual Compensation			Long Term Compensation Awards	
		Salary(\$) (1)	Bonus (\$)	Other Annual Compensation (\$)	Securities Underlying Options(#)	All Other Compensation (\$)(2)
Joseph P. Mullaney - President and COO	2003	210,000	75,000	--	100,000	(6) 16,005
	2002	195,000	45,000	--	--	(6) 16,000

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2001	160,000	--	--	--	(6) 13,920
Jean Croteau (3) -					
Vice President, Operations					
2003	150,000	103,515	--	--	1,805
2002	127,348	33,000	--	50,000	1,573
2001	121,275	20,000	--	--	2,820
Victor G. Bovey(4) -					
Vice President, Research & Development					
2003	130,000	9,486	--	--	2,840
2002	125,000	4,000	--	15,000	2,604
2001	125,000	--	--	--	2,500
Mark R. Sweetland (5) -					
Former President and CEO					
2003	--	--	--	--	--
2002	80,388	--	--	--	--
2001	190,000	--	--	--	--
Timothy J. Weatherford(6) -					
Former Vice President, Sales					
2003	--	--	--	--	--
2002	25,960	--	--	--	--
2001	167,231	--	--	--	21,345