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.

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.

		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

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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

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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

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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:

	2004	2003
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):

Revenue:	2004	2003
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

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    Barry Bedford


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


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(4)

Salary for Mr. Eisenberg includes a deferral of $275,000, $42,308 and $222,115 for fiscal 2010, 2009 and 2008, respectively, pursuant to the terms of the Company s Nonqualified Deferred Compensation Plan. Such amount for fiscal 2010 is also reported in the Nonqualified Deferred Compensation Table below.

(5) All Other Compensation for Mr. Eisenberg includes incremental costs to the Company for tax preparation services of $23,822, $23,312 and $21,688, car service of $28,140, $27,429 and $26,300 and car allowance of $20,760, $22,777 and $23,757, and an employer nonqualified deferred compensation plan matching contribution of $7,350, $0 and $6,900, for fiscal 2010, 2009 and 2008, respectively.

(6) Salary for Mr. Feinstein includes a deferral of $275,000, $42,308 and $222,115 for fiscal 2010, 2009 and 2008, respectively, pursuant to the terms of the Company s Nonqualified Deferred Compensation Plan. Such amount for fiscal 2010 is also reported in the Nonqualified Deferred Compensation Table below.

(7) All Other Compensation for Mr. Feinstein includes incremental costs to the Company for tax preparation services of $23,822, $23,313 and $21,687, car service of $88,840, $86,229 and $82,731 and car allowance of $26,314, $28,934 and $28,991, and an employer nonqualified deferred compensation plan matching contribution of $7,350, $0 and $6,900, for fiscal 2010, 2009 and 2008, respectively.

(8) Salary for Mr. Temares includes a deferral of $26,000, $26,000 and $20,923 for fiscal 2010, 2009 and 2008, respectively, pursuant to the terms of the Company s Nonqualified Deferred Compensation Plan. Such amount for fiscal 2010 is also reported in the Nonqualified Deferred Compensation Table below.

(9) The change in pension value for fiscal 2010 is the result of Mr. Temares increase in base salary for fiscal 2010, discussed above, which followed a year (fiscal 2009) in which he received no salary increase. As a consequence, the actuarial present value of the benefits payable under the supplemental executive retirement benefit agreement with Mr. Temares, which is discussed more fully below, increased from fiscal 2009 to fiscal 2010 as indicated. There was no cash payment as a result of this increase. See also Potential Payments Upon Termination or Change in Control Messrs. Temares, Castagna and Stark below.

(10) All Other Compensation for Mr. Temares includes incremental costs to the Company for car allowance of $7,703, $13,779 and $14,209 and employer 401(k) plan and nonqualified deferred compensation plan matching contributions of $7,349, $7,350 and $6,895, for fiscal 2010, 2009 and 2008, respectively.

(11) Salary for Mr. Stark includes a deferral of $10,000, $10,000 and $219,159 for fiscal 2010, 2009 and 2008, respectively, pursuant to the terms of the Company s Nonqualified Deferred Compensation Plan. Such amount for fiscal 2010 is also reported in the Nonqualified Deferred Compensation Table below.

(12) All Other Compensation for Mr. Stark includes incremental costs to the Company for car allowance of $3,450, $9,832 and $3,487 and employer 401(k) plan and nonqualified deferred compensation plan matching contributions of $7,347, $7,350 and $6,900, for fiscal 2010, 2009 and 2008, respectively. Additionally, during fiscal 2010, the Compensation Committee determined to pay Mr. Stark $185,916 in connection with the resolution of certain state tax withholding issues, including professional fees incurred in connection with the resolution of these issues, for the years 2004-2006.

(13) Salary for Mr. Castagna includes a deferral of $111,346, $78,185 and $67,054 for fiscal 2010, 2009 and 2008, respectively, pursuant to the terms of the Company s Nonqualified Deferred Compensation Plan. Such amount for fiscal 2010 is also reported in the Nonqualified Deferred Compensation Table below.

(14) All Other Compensation for Mr. Castagna includes incremental costs to the Company for car allowance of $11,006, $6,801 and $6,570 and employer 401(k) plan and nonqualified deferred compensation plan matching contributions of $7,349, $7,350 and $6,898, for fiscal 2010, 2009 and 2008, respectively.

EMPLOYMENT AGREEMENTS AND POTENTIAL PAYMENTS UPON TERMINATION OR CHANGE IN CONTROL

Employment Agreements

Messrs. Eisenberg and Feinstein

Messrs. Eisenberg and Feinstein have employment agreements with the Company which were amended as of August 13, 2010 to, among other things, extend their employment terms until June 30, 2013, or as further extended by mutual agreement. These agreements provide for salaries at the rate of $800,000 per year which may be increased from time to time by the Company. The current annual salary for each of Messrs. Eisenberg and Feinstein is $1,100,000. Under these agreements, each of Messrs. Eisenberg and Feinstein may at any time elect senior status (i.e., to be continued to be employed to provide non-line executive consultative services) at an annual salary of the greater of $400,000 (increased for cost of living adjustments) or 50% of his average salary over the three-year period prior to such election for a period (the Senior Status Period) of up to ten years from the date of such election. During the Senior Status Period, the executive must provide services at a level of at least 25% of the average level of services the executive performed for the prior 36 month period. During the Senior Status Period, the Company is required to provide to the executive an office at a location specified by the executive, a secretary, car service and car allowance, all on a basis comparable to that which is currently provided to the executive. The agreements contain non-competition, non-solicitation and confidentiality provisions. These provisions generally apply through the term of employment, including the Senior Status Period and any other time when salary payments are required to be made under the agreements. The agreements provide, in addition, for some of Messrs. Eisenberg s and Feinstein s employee benefits to continue during their active employment, their Senior Status Period and during the period of supplemental pension payments. For a complete description of payments due to Messrs. Eisenberg and Feinstein upon termination of their employment with the Company, see Potential Payments Upon Termination or Change in Control below.

Messrs. Temares, Stark and Castagna

Messrs. Temares, Stark and Castagna have employment agreements with the Company which provide for severance pay and other benefits upon a termination of their employment. For a complete description of payments due to Messrs. Temares, Stark and Castagna upon termination of their employment with the Company, see Potential Payments Upon Termination or Change in Control below. These agreements also provide for non-competition and non-solicitation of the Company s employees during the term of employment and for one year thereafter (two years in the case of Mr. Castagna), and confidentiality during the term of employment and surviving the end of the term of employment.

Potential Payments Upon Termination or Change in Control

The named executive officers employment agreements and certain of the plans in which the executives participate require the Company to pay compensation to the executives if their employment terminates.

The estimated amount of compensation payable to the named executive officers in each termination situation is listed in the table below. The table is presented using an assumed termination date and an assumed change in control date of February 26, 2011, the last day of fiscal 2010 and a price per share of common stock of $47.85 (the Per Share Closing Price), the closing per share price as of February 25, 2011, the last business day of fiscal 2010. Descriptions of the agreements under which such payments would be made follow:

Messrs. Eisenberg and Feinstein

Pursuant to their employment agreements, following the Senior Status Period, Messrs. Eisenberg and Feinstein are each entitled to supplemental pension payments of $200,000 per year (as adjusted for a cost of living increase) until the death of the survivor of him and his current spouse. The agreements provide, in addition, for some of Messrs. Eisenberg s and Feinstein s employee benefits to continue during their Senior Status Period and during the period of supplemental pension payments or following a termination upon a change in control.

Under the agreements, if Messrs. Eisenberg and Feinstein are terminated without cause (as defined below) or if the executive is removed from or not reelected to any officer or director position prior to his Senior Status Period (or any officer position during his Senior Status Period), there is a material diminution in the executive s salary, benefits or perquisites or, prior to his Senior Status Period, there is a material diminution in the executive s duties or the Company s principal office or the executive s own office location as assigned to him by the Company is relocated and the executive elects to terminate his employment, the executive shall be paid through the end of the term of employment and the Senior Status Period. Following a change in control of the Company (as defined in the agreements), each of the executives may, at his option, upon 90 days written notice, terminate employment and shall be paid an amount equal to three times salary then in effect, if the written notice is given before the Senior Status Period, or, if during the Senior Status Period, one half of Senior Status Salary for the number of years (including fractions), if any, remaining in the Senior Status Period, payable over such applicable period in accordance with normal payroll practices. The agreements were amended effective as of August 13, 2010 to provide that in the event any amounts paid or provided to the executive in connection with a change in control are determined to constitute excess parachute payments under Section 280G of the Code which would be subject to the excise tax imposed by Section 4999 of the Code, the payments and benefits due to the executive will be reduced if the reduction would result in a greater amount payable to the executive after taking into account the excise tax imposed by Section 4999 of the Code. The agreements also provide that upon a change in control of the Company, the Company will fund a rabbi trust for each of the executives to hold an amount equal to the value of the payments and certain benefits payable to each of the executives upon his termination of employment with the Company. In the event of termination of employment, the executives are under no obligation to seek other employment and there is no reduction in the amount payable to the executive on account of any compensation earned from any subsequent employment. In the event of termination due to death of either of the executives, the executive s estate or beneficiary shall be entitled to his salary for a period of one year following his death and payment of expenses incurred by executive and not yet reimbursed at the time of death. In the event of termination due to the inability to substantially perform his duties and responsibilities for a period of 180 consecutive days, the executive shall be entitled to his salary for a period of one year following the date of termination (less any amounts received under the Company s benefit plans as a result of such disability). To the extent that any payments under the employment agreements due following the termination of Messrs. Eisenberg and Feinstein are considered to be deferred compensation under Section 409A, such amounts will commence to be paid on the earlier of the six-month anniversary of termination of employment or the executive s death.

Either of the executives may be terminated for cause upon written notice of the Company s intention to terminate his employment for cause, such notice to state in detail the particular act or acts or failure or failures to act that constitute the grounds on which the proposed termination for cause is based. The executives shall have ten days after such notice is given to cure such conduct, to the extent a cure is possible. Cause means (i) the executive is convicted of a felony involving moral turpitude or (ii) the executive is guilty of willful gross neglect or willful gross misconduct in carrying out his duties under the agreement, resulting, in either case, in material economic harm to the Company, unless the executive believed in good faith that such act or non-act was in the best interests of the Company. In addition, pursuant to their respective restricted stock agreements, shares of restricted stock granted to Messrs. Eisenberg and Feinstein will vest upon death, disability, termination of employment without cause or constructive termination, and for restricted stock awards granted since fiscal 2009, vesting upon termination without cause or constructive termination will be subject to attainment of performance goals.

In substitution for a split dollar insurance benefit previously provided to such executives, in fiscal 2003, the Company entered into deferred compensation agreements with Messrs. Eisenberg and Feinstein under which the Company is obligated to pay Messrs. Eisenberg and Feinstein $2,125,000 and $2,080,000, respectively, in each case payable only on the last day of the first full fiscal year of the Company in which the total compensation of Mr. Eisenberg or Feinstein, as applicable, will not result in the loss of a deduction for such payment pursuant to applicable federal income tax law.

Messrs. Temares, Stark and Castagna

The agreements with Messrs. Temares and Stark provide for severance pay equal to three years salary, and the agreement with Mr. Castagna provides for severance pay equal to one year s salary, if the Company terminates their employment other than for cause (including by reason of death or disability) and one year s severance pay if the executive voluntarily leaves the employ of the Company. Severance pay will be paid in accordance with normal payroll, however any amount due prior to the six months after termination of employment will be paid in a lump sum on the date following the six month anniversary of termination of employment. Any severance payable to these executives will be reduced by any monetary compensation earned by them as a result of their employment by another employer or otherwise. Cause is defined in the agreements as when the executive has: (i) acted in bad faith or with dishonesty; (ii) willfully failed to follow reasonable and lawful directions of the Company s Chief Executive Officer or the Board of Directors, as applicable, commensurate with his titles and duties; (iii) performed his duties with gross negligence; or (iv) been convicted of a felony. Upon a termination of employment by the Company for any reason other than for cause, all unvested options will vest and become exercisable. In addition, pursuant to their respective restricted stock agreements, shares of restricted stock granted to Messrs. Temares, Stark and Castagna will vest upon death, disability or termination of employment without cause, and for restricted stock awards granted since fiscal 2009, vesting upon termination without cause will be subject to attainment of performance goals. These agreements also provide for non-competition and non-solicitation during the term of employment and for one year thereafter (two years in the case of Mr. Castagna), and confidentiality during the term of employment and surviving the end of the term of employment.

On November 16, 2009, the Company entered into an amendment and restatement of the supplemental executive retirement benefit agreement, dated January 11, 2006, with Mr. Steven H. Temares, and a related escrow agreement, as described below. Under the supplemental executive retirement benefit agreement, if he remains employed by the Company through June 12, 2012 (the twentieth anniversary of his employment with the Company) or the earlier occurrence of a change of control of the Company (as defined in the agreement), he is entitled to receive a supplemental retirement benefit on his retirement or other separation from service from the Company. The retirement benefit will be payable in the form of a lump sum equal to the present value of an annual amount equal to 50% of Mr. Temares annual base salary on the date of termination of employment if such annual amount were paid for a period of 10 years in accordance with the Company s normal payroll practices. In the event Mr. Temares is terminated without cause or his employment is terminated due to death or disability prior to June 12, 2012, he will also be eligible to receive the supplemental retirement benefit. Except in the case of Mr. Temares death (in which case the supplemental retirement benefit will be immediately payable) and the agreement as to escrow, the supplemental retirement benefit will be paid on the first business day following the six month anniversary of Mr. Temares termination and will be includible in his income for tax purposes at such time.

In the event Mr. Temares elects to retire or voluntarily terminates his employment with the Company after June 12, 2012, a portion of the supplemental retirement benefit, net of withholdings, will be deposited into an escrow account governed by a separate agreement. No portion of the supplemental retirement benefit will be deposited into the escrow account, however, in the event Mr. Temares dies, is terminated by the Company without cause (as such term is defined in his employment agreement), terminates due to disability, or terminates employment within 12 months following a change of control. In the event Mr. Temares elects to retire or voluntarily terminates his employment with the Company after June 12, 2012, 1/10 of the lump sum supplemental retirement benefit distribution (net of applicable withholding taxes) will be distributed to Mr. Temares; and 9/10 of the lump sum supplemental retirement benefit distribution (net of applicable withholding taxes) will be deposited into an escrow account to be distributed in nine equal annual installments on each of the following nine anniversaries of the deposit date, subject to acceleration in the case of Mr. Temares death or a change of control of the Company. The entire escrow account will be distributed to Mr. Temares beneficiary no later than 30 days following his death or to Mr. Temares no later than 30 days following a change of control of the Company. If Mr. Temares does not comply with the restrictive covenant not to compete with the Company (as described in his employment agreement, for the term of the escrow agreement) prior to the payment of the entire escrow amount, the Company will have the right to direct the escrow agent to pay the remaining escrow amount to the Company no later than 15 days after notice to the escrow agent and Mr. Temares will forfeit any and all rights to such remaining escrow amount. Mr. Temares has agreed that in the event any amount in escrow is forfeited, he will use commercially reasonable efforts to obtain a refund of applicable taxes and remit such refund to the Company and the Company has agreed to reimburse Mr. Temares, or to pay on his behalf, reasonable legal fees and expenses incurred in connection with such a refund request. Although the amended SERP provides that Mr. Temares will be protected from any impact resulting from the possible application of Section 409A to the terms of the SERP due to the complexities surrounding Section 409A, the Company believes that no such payment will be required.

Table and related footnotes follow on the next two pages.

	Cash Severance	Senior Status Salary Continuation(3)	Option Acceleration(4)	Restricted Stock Acceleration(4)	Benefit Continuation(5)	Nonqualified Deferred Compensation Balance(6)	Supplemental Pension(7)	Split-Dollar Life Insurance Substitute Payment(8)	Total
Warren Eisenberg(9)									
Termination Without Cause/ Constructive Termination(1)(2)	$ 2,577,372	$ 5,500,000	$	$ 7,750,982	$ 818,499	$ 841,107	$ 476,852	$ 2,125,000	$ 20,089,812
Change in Control (No Termination)	$	$	$	$	$	$	$	$	$
Change in Control + Termination(1)	$ 2,577,372	$ 5,500,000	$	$ 7,750,982	$ 818,499	$ 841,107	$ 476,852	$ 2,125,000	$ 20,089,812
Change in Control + Voluntary Termination(10)	$ 3,300,000	$	$	$	$ 818,499	$ 841,107	$ 2,287,863	$ 2,125,000	$ 9,372,469
Leonard Feinstein(9)									
Termination Without Cause/ Constructive Termination(1)(2)	$ 2,577,372	$ 5,500,000	$	$ 7,750,982	$ 1,690,246	$ 841,107	$ 862,071	$ 2,080,000	$ 21,301,778
Change in Control (No Termination)	$	$	$	$	$	$	$	$	$
Change in Control + Termination(1)	$ 2,577,372	$ 5,500,000	$	$ 7,750,982	$ 1,690,246	$ 841,107	$ 862,071	$ 2,080,000	$ 21,301,778
Change in Control + Voluntary Termination(10)	$ 3,300,000	$	$	$	$ 1,690,246	$ 841,107	$ 2,866,279	$ 2,080,000	$ 10,777,632
Steven H. Temares(11)									
Termination Without Cause(10)	$ 7,500,000	$	$ 9,599,772	$ 13,303,066	$	$ 128,132	$ 12,186,192	$	$ 42,717,162
Voluntary Termination(12)	$ 2,500,000	$	$	$	$	$ 128,132	$	$	$ 2,628,132
Change in Control (No Termination)	$	$	$	$	$	$	$	$	$
Change in Control + Termination(10)	$ 7,500,000	$	$ 9,599,772	$ 13,303,066	$	$ 128,132	$ 12,186,192	$	$ 42,717,162
Arthur Stark(13)									
Termination Without Cause(10)	$ 3,765,000	$	$ 2,075,548	$ 6,264,474	$	$ 597,031	$	$	$ 12,702,053
Voluntary Termination(12)	$ 1,255,000	$	$	$	$	$ 597,031	$	$	$ 1,852,031
Change in Control (No Termination)	$	$	$	$	$	$	$	$	$
Change in Control + Termination(10)	$ 3,765,000	$	$ 2,075,548	$ 6,264,474	$	$ 597,031	$	$	$ 12,702,053
Eugene A. Castagna(14)									
Termination Without Cause(12)	$ 1,040,000	$	$ 2,075,548	$ 4,869,025	$	$ 435,965	$	$	$ 8,420,538
Voluntary Termination(12)	$ 1,040,000	$	$	$	$	$ 435,965	$	$	$ 1,475,965
	$	$	$	$	$	$	$	$	$

Change in Control (No Termination)												
Change in Control + Termination(12)	$	1,040,000	$		$	2,075,548	$	4,869,025	$		$	435,965	$		$		$	8,420,538

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(1) Cash severance represents current salary continuation through June 30, 2013.

(2) In the event of a termination of employment due to death or disability, each of Messrs. Eisenberg and Feinstein (or their respective estates) will receive the same payments as if there was a Termination Without Cause/Constructive Termination , except that neither Mr. Eisenberg nor Mr. Feinstein (nor their respective estates) will receive either Senior Status Salary Continuation or Benefit Continuation payments.

(3) Represents 50% of current salary payable for 10 years during the Senior Status Period.

(4) Represents the value of unvested outstanding stock options and restricted stock that would accelerate and vest on a termination occurring on February 26, 2011. In the case of stock options, the value is calculated by multiplying the number of shares underlying each accelerated unvested stock option by the difference between the Per Share Closing Price and the per share exercise price. In the case of restricted stock, the value is calculated by multiplying the number of shares of restricted stock that accelerate and vest by the Per Share Closing Price.

(5) Represents the estimated present value of continued health and welfare benefits and other perquisites for the life of the executive and his spouse.

(6) Reflects executives vested account balances as of February 26, 2011.

(7) For Messrs. Eisenberg and Feinstein, represents the estimated present value of lifetime supplemental pension payments, commencing six months following the conclusion of the Senior Status Period, except in the case of a voluntary termination following a change in control, when such payments would commence after the cash severance has been paid. For Mr. Temares, present value will be paid out six months following (1) termination without cause or (2) any termination (including voluntary termination) following a change in control.

(8) This amount will be paid on the last day of the following fiscal year.

(9) The employment agreements of Messrs. Eisenberg and Feinstein provide that in the event any amounts paid or provided to the executive in connection with a change in control are determined to constitute excess parachute payments under Section 280G of the Code which would be subject to the excise tax imposed by Section 4999 of the Code, the payments and benefits due to the executive will be reduced if the reduction would result in a greater amount payable to the executive after taking into account the excise tax imposed by Section 4999 of the Code. However, no reduction of payments and benefits are disclosed above since neither of these executives would have been subject to excise taxes as a result of payments subject to Section 280G of the Code that would have been made in connection with a change in control occurring on February 26, 2011.

(10) Cash severance represents three times current salary payable over a period of three years.

(11) In the event of a termination of employment due to death or disability, Mr. Temares (or his estate) will receive the same payments as if there was a Termination Without Cause .

(12) Cash severance represents one times current salary payable over a period of one year.

(13) In the event of a termination of employment due to death or disability, Mr. Stark (or his estate) will receive the same payments as if there was a Termination Without Cause .

(14) In the event of a termination of employment due to death or disability, Mr. Castagna (or his estate) will receive the same payments as if there was a Termination Without Cause .

GRANTS OF PLAN BASED AWARDS

Grants of Stock Options and Restricted Stock Awards for Fiscal 2010

The following table sets forth information with respect to stock options granted and restricted stock awarded during fiscal 2010 to each of the named executive officers under the Company s 2004 Incentive Compensation Plan (the 2004 Plan). The Company did not grant any non-equity incentive plan awards in fiscal 2010.

Name	Grant Date	All Other Stock Awards: Number of Shares of Stock or Units(1) (#)	All Other Option Awards: Number of Securities Underlying Options(1) (#)	Exercise or Base Price of Option Awards ($/Sh)	Closing Market Price on Date of Grant ($/Sh)	Grant Date Fair Value of Stock and Option Awards(2) ($)
Warren Eisenberg	5/10/10	33,186	29,326	$ 45.20	$ 46.11	$ 2,000,015
Leonard Feinstein	5/10/10	33,186	29,326	$ 45.20	$ 46.11	$ 2,000,015
Steven H. Temares	5/10/10	99,558	263,930	$ 45.20	$ 46.11	$ 9,000,029
Arthur Stark	5/10/10	27,655	32,101	$ 45.20	$ 46.11	$ 1,797,328
Eugene A. Castagna	5/10/10	22,124	32,101	$ 45.20	$ 46.11	$ 1,547,327

(1) Number of shares when converted from dollars to shares, which number is rounded up to the nearest whole share.

(2) Pursuant to the SEC rules, stock option awards are valued in accordance with ASC 718. See footnote 2 to the Summary Compensation Table in this Proxy Statement.

Vesting of restricted stock awards depends on (i) the Company s achievement of a performance-based test for the fiscal year of the grant, and (ii) assuming the performance-based test is met, time vesting, subject in general to the executive remaining in the Company s employ on specific vesting dates. The performance-based test for fiscal 2010 was met. The performance test is designed to meet the standard for performance-based compensation under the Code, so that restricted stock awards will be deductible compensation for certain executives if their annual compensation exceeds $1,000,000. The stock awards granted in fiscal 2010 to Messrs. Eisenberg, Feinstein and Temares time vest in five equal installments starting on the first anniversary of the grant date. The stock awards granted in fiscal 2010 to Messrs. Stark and Castagna time vest in five equal installments starting on the third anniversary of the grant date.

Vesting of stock option awards depends on time vesting, subject in general to the executive remaining in the Company s employ on specific vesting dates. The options granted in fiscal 2010 to Messrs. Eisenberg and Feinstein vest in three equal installments starting on the first anniversary of the grant date. The options granted in fiscal 2010 to Messrs. Temares, Stark and Castagna vest in five equal installments starting on the first anniversary of the grant date. At the time of grant or thereafter, option awards and underlying shares of common stock, are not transferable other than by will or the laws of descent and distribution, except as the Compensation Committee may permit.

OUTSTANDING EQUITY AWARDS AT FISCAL YEAR END

The following table sets forth information for each of the named executive officers with respect to the value of all unexercised options and unvested restricted stock awards as of February 26, 2011, the end of fiscal 2010.

	Option Awards (1)					Stock Awards	
Name	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable		Option Exercise Price ($)	Option Expiration Date	Number of Shares or Units of Stock That Have Not Vested (#)	Market Value of Shares or Units of Stock That Have Not Vested (2) ($)
Warren Eisenberg	200,000	0	$	31.6150	3/06/12	161,985	$ 7,750,982
	100,000	0	$	32.5200	3/06/12		
	133,333	0	$	38.2200	4/25/13		
	266,667	0	$	38.7650	4/25/13		
	300,000	0	$	41.3450	3/03/14		
	100,000	0	$	37.5100	4/20/13		
	100,000	0	$	38.5150	4/17/14		
	100,000	0	$	41.1150	5/10/15		
	54,245	27,122	$	32.8700	5/12/16		
	28,201	56,402	$	28.3300	5/11/17		
	0	29,326	$	45.2000	5/10/18		
Leonard Feinstein	200,000	0	$	31.6150	3/06/12	161,985	$ 7,750,982
	100,000	0	$	32.5200	3/06/12		
	133,333	0	$	38.2200	4/25/13		
	266,667	0	$	38.7650	4/25/13		
	300,000	0	$	41.3450	3/03/14		
	100,000	0	$	37.5100	4/20/13		
	100,000	0	$	38.5150	4/17/14		
	100,000	0	$	41.1150	5/10/15		
	54,245	27,122	$	32.8700	5/12/16		
	28,201	56,402	$	28.3300	5/11/17		
	0	29,326	$	45.2000	5/10/18		
Steven H. Temares	120,000	0	$	31.6150	3/06/12	278,016	$ 13,303,066
	180,000	0	$	32.5200	3/06/12		
	80,000	0	$	38.2200	4/25/13		
	320,000	0	$	38.7650	4/25/13		
	300,000	0	$	41.3450	3/03/14		
	200,000	0	$	37.5100	4/20/13		
	160,000	40,000	$	38.5150	4/17/14		
	120,000	80,000	$	41.1150	5/10/15		
	149,715	224,573	$	32.8700	5/12/16		
	59,221	236,888	$	28.3300	5/11/17		
	0	263,930	$	45.2000	5/10/18		
Arthur Stark	100,000	0	$	38.7650	4/25/13	130,919	$ 6,264,474
	80,000	20,000	$	41.3450	3/03/14		
	15,000	10,000	$	37.5100	4/20/13		
	10,000	15,000	$	38.7950	4/17/14		
	5,000	20,000	$	41.1150	5/10/15		

	0	41,029	$	32.8700	5/12/16			
	0	44,664	$	28.3300	5/11/17			
	0	32,101	$	45.2000	5/10/18			
Eugene A. Castagna	100,000	0	$	38.7650	4/25/13	101,756	$	4,869,025
	80,000	20,000	$	41.3450	3/03/14			
	15,000	10,000	$	37.5100	4/20/13			
	10,000	15,000	$	38.7950	4/17/14			
	5,000	20,000	$	41.1150	5/10/15			
	0	41,029	$	32.8700	5/12/16			
	0	44,664	$	28.3300	5/11/17			
	0	32,101	$	45.2000	5/10/18			

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(1) During fiscal 2006, an independent committee of the Company s Board of Directors identified various deficiencies in the process of granting and documenting stock options and restricted shares, with the result, among other things, that for purposes of Section 409A of the Code, certain stock options were deemed to have been granted with an exercise price less than the value of underlying common stock on the date of grant. Under Section 409A, this would have subjected certain stock options held by a significant number of the Company s associates (including Messrs. Eisenberg, Feinstein, Temares, Stark and Castagna) to adverse tax consequences unless brought into compliance with Section 409A. In order to effect such compliance, the exercise price of certain options held by Messrs. Eisenberg, Feinstein and Temares was increased without any payment or other consideration to the affected executive. As a consequence, individual option grants to Messrs. Eisenberg, Feinstein and Temares may appear in this table as multiple entries where the exercise price was increased for only a portion of such grant.

(2) Market value is based on the closing price of the Company s common stock of $47.85 per share on February 25, 2011, the last trading day in fiscal 2010.

OPTION EXERCISES AND STOCK VESTED

Option Exercises and Restricted Stock Vested for Fiscal 2010

The following table includes certain information with respect to the exercise of options and vesting of restricted stock by named executive officers during fiscal 2010.

	Option Awards		Stock Awards	
Name	Number of Shares Acquired on Exercise (#)	Value Realized on Exercise ($)	Number of Shares Acquired on Vesting (#)	Value Realized on Vesting ($)
Warren Eisenberg(1)(4)	100,000	2,175,850	63,222	2,901,547
Leonard Feinstein(1)(4)	100,000	2,175,850	63,222	2,901,547
Steven H. Temares(1)(5)	300,000	7,498,050	76,245	3,503,213
Arthur Stark(2)(6)	15,000	366,128	11,958	544,069
Eugene A. Castagna(3)(7)	30,000	446,550	9,963	453,662

(1) Messrs. Eisenberg, Feinstein and Temares each acquired 12,463 shares with a market price of $45.50 on April 17, 2010, 12,797 shares with a market price of $45.95 on April 20, 2010 and 11,674 shares with a market price of $45.20 on May 10, 2010, upon the lapse of restrictions on previously granted shares of restricted stock. Messrs. Eisenberg, Feinstein and Temares also acquired 14,119, 14,119 and 24,708 shares, respectively, with a market price of $46.09 on May 11, 2010, and 12,169, 12,169, and 14,603 shares, respectively, with a market price of $46.68, on May 12, 2010, upon the lapse of restrictions on previously granted shares of restricted stock.

(2) Mr. Stark acquired 3,895 shares with a market price of $45.50 on April 17, 2010, 3,199 shares with a market price of $45.95 on April 20, 2010, and 4,864 shares with a market price of $45.20 on May 10, 2010, upon the lapse of restrictions on previously granted shares of restricted stock.

(3) Mr. Castagna acquired 3,116 shares with a market price of $45.50 on April 17, 2010, 3,199 shares with a market price of $45.95 on April 20, 2010, and 3,648 shares with a market price of $45.20 on May 10, 2010, upon the lapse of restrictions on previously granted shares of restricted stock.

(4) Messrs. Eisenberg and Feinstein each exercised 100,000 stock options on April 9, 2010, with an exercise price of $23.7815 and a market price of $45.54.

(5) Mr. Temares exercised 180,000 stock options on January 25, 2011, with an exercise price of $23.7815 and a market price of $49.10 and 120,000 stock options with an exercise price of $24.5940 and a market price of $49.10.

(6) Mr. Stark exercised 15,000 stock options on April 26, 2010, with an exercise price of $23.7815 and a market price of $48.19.

(7) Mr. Castagna exercised 30,000 stock options on April 20, 2010, with an exercise price of $31.6150 and a market price of $46.50.

NONQUALIFIED DEFERRED COMPENSATION

Effective January 1, 2006, the Company adopted a nonqualified deferred compensation plan for the benefit of employees defined by the Internal Revenue Service as highly compensated. A certain percentage of an employee s contributions may be matched by the Company, subject to certain plan limitations, as more fully described below. The following table provides compensation information for the Company s nonqualified deferred compensation plan for each of the named executive officers for fiscal 2010.

Nonqualified Deferred Compensation for Fiscal 2010

Name	Executive Contributions for Fiscal 2010(1) ($)	Company Contributions for Fiscal 2010(2) ($)	Aggregate Earnings (Losses) in Fiscal 2010 ($)	Aggregate Withdrawals/ Distributions ($)	Aggregate Balance at Fiscal Year End 2010 ($)
Warren Eisenberg	275,000	7,350	114,859		841,107
Leonard Feinstein	275,000	7,350	114,859		841,107
Steven H. Temares	26,000	1,533	14,383		128,132
Arthur Stark	10,000	4,853	46,069	313,490	597,031
Eugene A. Castagna	111,346	4,105	47,080		435,965

(1) All amounts reported in this column were also reported in this Proxy Statement in the Salary column of the Summary Compensation Table for the applicable named executive officer.

(2) All amounts reported in this column were also reported in this Proxy Statement in the All Other Compensation column of the Summary Compensation Table for the applicable named executive officer.

Under the Company s nonqualified deferred compensation plan, a participant s regular earnings may be deferred at the election of the participant, excluding bonus or incentive compensation, welfare benefits, fringe benefits, noncash remuneration, amounts realized from the sale of stock acquired under a stock option or grant, and moving expenses.

When a participant elects to make a deferral under the plan, the Company credits the account of the participant with a matching contribution equal to fifty percent of the deferral, offset dollar for dollar by any matching contribution that the Company makes to the participant under the Company s 401(k) plan. The payment of this matching contribution is made upon the conclusion of the fiscal year. The maximum matching contribution to be made by the Company to a participant between the Company s nonqualified deferred compensation plan and the Company s 401(k) plan cannot exceed the lesser of $7,350 and three percent of a participant s eligible compensation.

A participant is fully vested in amounts deferred under the nonqualified deferred compensation plan. A participant has a vested right in matching contributions made by the Company under the nonqualified deferred compensation plan, depending on the participant s years of service with the Company: twenty percent at one to two years of service, forty percent at two to three years of service, sixty percent at three to four years of service, eighty percent at four to five years of service and one hundred percent at five or more years of service. As each of the named executive officers has more than five years of service to the Company, they are each fully vested in the matching contributions made by the Company under the plan.

Amounts in a participant s account in the nonqualified deferred compensation plan are payable either in a lump sum or substantially equal annual installments over a period of five or ten years, as elected by the participant. Such distributions may be delayed to a period of six months following a participant s termination of employment to comply with applicable law.

ADVISORY VOTE ON EXECUTIVE COMPENSATION (PROPOSAL 3)

In accordance with the requirements of Section 14A of the Securities Exchange Act of 1934 (which was added by the Dodd-Frank Wall Street Reform and Consumer Protection Act and the related rules of the SEC), the Company is providing its shareholders the opportunity to cast an advisory vote on the compensation of its named executive officers. This proposal, commonly known as a say-on-pay proposal, gives the Company s shareholders the opportunity to express their views on named executive officers compensation.

As described in detail in the Compensation Discussion and Analysis beginning on page 13 of this Proxy Statement, the Company s executive officer compensation program is designed to attract and retain the caliber of officers needed to ensure the Company s continued growth and profitability and to reward them for their performance, the Company s performance and for creating long-term value for shareholders. The primary objectives of the program are to:

- align rewards with performance that creates shareholder value;
- support the Company s strong team orientation;
- encourage high potential team players to build a career at the Company; and
- provide rewards that are cost-efficient, competitive with other organizations and fair to employees and shareholders.

The Company seeks to accomplish these goals in a manner that is aligned with the long-term interests of the Company s shareholders. The Company believes that its executive officer compensation program achieves this goal with its emphasis on long-term equity awards and performance-based compensation, which has enabled the Company to successfully motivate and reward its named executive officers. The Company believes that its compensation program is appropriate and has played an essential role in its continuing financial success by aligning the long-term interests of its named executive officers with the long-term interests of its shareholders.

For these reasons, the Board of Directors recommends a vote in favor of the following resolution:

RESOLVED, that the compensation paid to the Company s named executive officers for fiscal 2010, as disclosed pursuant to Item 402 of Regulation S-K, including the Compensation Discussion and Analysis, compensation tables and narrative discussion, is hereby APPROVED.

As an advisory vote, this proposal is not binding upon the Company. Notwithstanding the advisory nature of this vote, the Compensation Committee, which is responsible for designing and administering the Company s executive officer compensation program, values the opinions expressed by shareholders in their vote on this proposal, and will consider the outcome of the vote when making future compensation decisions for named executive officers. The affirmative vote of the holders of a majority of the votes cast by our shareholders in person or represented by proxy and entitled to vote is required to approve this Proposal 3.

THE BOARD OF DIRECTORS RECOMMENDS THAT THE SHAREHOLDERS VOTE FOR THE APPROVAL, ON AN ADVISORY BASIS, OF THE COMPENSATION OF THE COMPANY S NAMED EXECUTIVE OFFICERS FOR FISCAL 2010 AS DISCLOSED IN THIS PROXY STATEMENT.

ADVISORY VOTE ON FREQUENCY OF SAY-ON-PAY VOTE (PROPOSAL 4)

In accordance with the requirements of Section 14A of the Securities Exchange Act of 1934 (which was added by the Dodd-Frank Wall Street Reform and Consumer Protection Act and the related rules of the SEC), the Company is seeking the input of its shareholders on the frequency with which it will hold a non-binding, advisory vote on the compensation of its named executive officers (commonly known as a frequency of say-on-pay proposal). In voting on this Proposal 4, shareholders are provided with four choices. Shareholders may indicate their preference as to whether the advisory vote on the compensation of the Company s named executive officers should occur once every (i) one year, (ii) two years, or (iii) three years; or the shareholders may abstain from voting on this Proposal 4.

After careful consideration, it is the opinion of the Board of Directors that the frequency of the shareholder vote on the compensation of the Company s named executive officers should be once every year.The Board of Directors recommends an annual advisory vote because an annual vote will allow shareholders to provide direct input on the Company s compensation policies and practices, and the resulting compensation for the named executive officers, every year. Shareholders would have the opportunity to consider the Company s most recent compensation decisions in the context of its pay for performance philosophy and focus on increasing long-term shareholder value, and to provide feedback to the Company in a timely way.

While the Board recommends an annual vote, shareholders are not voting to approve or disapprove of the Board s recommendation. Rather, shareholders are being provided with the opportunity to cast an advisory vote through the resolution set forth below, on whether the shareholder advisory vote on executive officer compensation should occur once every (i) one year, (ii) two years, or (iii) three years, or to abstain from voting on the matter.

RESOLVED, that the shareholders determine, on an advisory basis, whether the preferred frequency of an advisory vote on the executive compensation of the Company s named executive officers as set forth in the Company s proxy statement should be once every one year, two years, or three years.

As an advisory vote, this proposal is not binding on the Company. Notwithstanding the advisory nature of this vote, the Board of Directors values the opinions expressed by shareholders in their vote on this proposal, and will consider the outcome of the vote when making a determination as to the frequency of future advisory votes on executive compensation. The alternative receiving the greatest number of votes (every one year, two years or three years) will be the frequency that shareholders approve.

THE BOARD OF DIRECTORS RECOMMENDS THAT THE SHAREHOLDERS VOTE, ON AN ADVISORY BASIS, FOR A FREQUENCY OF SAY-ON-PAY VOTE OF ONCE EVERY YEAR.

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table below sets forth certain information regarding the beneficial ownership of shares of our common stock as of May 6, 2011 by (i) each person or group of affiliated persons known by us to beneficially own more than five percent of our common stock; (ii) our named executive officers; (iii) each of our directors and nominees for director; and (iv) all of our directors and executive officers as a group.

The following table gives effect to the shares of common stock issuable within 60 days of May 6, 2011 upon the exercise of all options and other rights beneficially owned by the indicated stockholders on that date. Beneficial ownership is determined in accordance with Rule 13d-3 promulgated under Section 13 of the Exchange Act, and includes voting and investment power with respect to shares. Percentage of beneficial ownership is based on 249,128,440 shares of our common stock outstanding at May 6, 2011. Except as otherwise noted below, each person or entity named in the following table has sole voting and investment power with respect to all shares of our common stock that he, she or it beneficially owns.

Unless otherwise indicated, the address of each beneficial owner listed below is c/o Bed Bath & Beyond Inc., 650 Liberty Avenue, Union, New Jersey 07083.

Name	**Position**	**Number of Shares of Common Stock Beneficially Owned and Percent of Class as of May 6, 2011**	
T. Rowe Price Associates, Inc.		25,285,640(1)	10.1%
Davis Selected Advisers, L.P.		22,991,947(2)	9.2%
FMR LLC		15,501,251(3)	6.2%
PRIMECAP Management Company		14,996,015(4)	6.0%
Warren Eisenberg	Co-Chairman and Director	5,511,537(5)	2.2%
Leonard Feinstein	Co-Chairman and Director	3,991,587(6)	1.6%
Steven H. Temares	Chief Executive Officer and Director	2,388,767(7)	*
Arthur Stark	President and Chief Merchandising Officer	195,255(8)	*
Eugene A. Castagna	Chief Financial Officer and Treasurer	371,479(9)	*
Dean S. Adler	Director	13,490	*
Stanley F. Barshay	Director	13,376	*
Klaus Eppler	Director	9,556	*
Patrick R. Gaston	Director	6,180	*
Jordan Heller	Director	9,468	*
Victoria A. Morrison	Director	7,251	*
All Directors and Executive Officers as a Group (12 persons)		12,968,446	5.2%

* Less than 1% of the outstanding common stock of the Company.

(1) Information regarding T. Rowe Price Associates, Inc. was obtained from a Schedule 13G filed with the SEC on February 10, 2011 by T. Rowe Price Associates, Inc. For purposes of the reporting requirements of the Securities Exchange Act of 1934, as amended, T. Rowe Price Associates, Inc. is deemed to be a beneficial owner of 25,285,640 shares of common stock, acquired in the ordinary course of business; however, T. Rowe Price Associates, Inc. expressly disclaims that it is, in fact, the beneficial owner of the securities. These securities are owned by various individual and institutional investors, for which T. Rowe Price Associates, Inc. serves as investment adviser with power to direct investments and/or sole power to vote the securities. The Schedule 13G also states that T. Rowe Price Associates, Inc. has the sole power to dispose or to direct the disposition of 25,285,640 shares of common stock. The address of T. Rowe Price Associates, Inc. is 100 E. Pratt Street, Baltimore, MD 21202.

(2) Information regarding Davis Selected Advisers, L.P. was obtained from a Schedule 13G filed with the SEC on February 14, 2011 by Davis Selected Advisers, L.P. The Schedule 13G states that Davis Selected Advisers, L.P. is deemed to have beneficial ownership of 22,991,947 shares of common stock, acquired in the ordinary course of business. The Schedule 13G also states that Davis Selected Advisers, L.P. has the sole power to dispose or to direct the disposition of 22,991,947 shares of common stock. The address of Davis Selected Advisers, L.P. is 2949 East Elvira Road, Suite 101, Tucson, AZ 85756.

(3) Information regarding FMR LLC was obtained from a Schedule 13G filed with the SEC on February 14, 2011 by FMR LLC. The Schedule 13G states that FMR LLC is deemed to have beneficial ownership of 15,501,251 shares of common stock, acquired in the ordinary course of business. The Schedule 13G also states that FMR LLC has the sole power to dispose or to direct the disposition of 15,501,251 shares of common stock. The address of FMR LLC is 82 Devonshire Street, Boston, MA 02109.

(4) Information regarding PRIMECAP Management Company was obtained from a Schedule 13G filed with the SEC on February 14, 2011 by PRIMECAP Management Company. The Schedule 13G states that PRIMECAP Management Company is deemed to have beneficial ownership of 14,996,015 shares of common stock, acquired in the ordinary course of business. The Schedule 13G also states that PRIMECAP Management Company has the sole power to dispose or to direct the disposition of 14,996,015 shares of common stock. The address of PRIMECAP Management Company is 225 South Lake Ave., #400, Pasadena, CA 91101.

(5) The shares shown as being owned by Mr. Eisenberg include: (a) 1,330,274 shares owned by Mr. Eisenberg individually; (b) 1,447,545 shares issuable pursuant to stock options granted to Mr. Eisenberg that are or become exercisable within 60 days; (c) 500,000 shares owned by a foundation of which Mr. Eisenberg and his family members are trustees and officers; (d) 1,794,946 shares owned by trusts for the benefit of Mr. Eisenberg and his family members; (e) 289,250 shares owned by his spouse; and (f) 149,522 shares of restricted stock. Mr. Eisenberg has sole voting power with respect to the shares held by him individually and in trust for his benefit but disclaims beneficial ownership of any of the shares not owned by him individually and 897,473 shares in trust for the benefit of his family members.

(6) The shares shown as being owned by Mr. Feinstein include: (a) 960,324 shares owned by Mr. Feinstein individually; (b) 1,447,545 shares issuable pursuant to stock options granted to Mr. Feinstein that are or become exercisable within 60 days; (c) 350,000 shares owned by a foundation of which Mr. Feinstein and his family members are trustees and officers; (d) 794,946 shares owned by trusts for the benefit of Mr. Feinstein and his family members; (e) 289,250 shares owned by his spouse; and (f) 149,522 shares of restricted stock. Mr. Feinstein has sole voting power with respect to the shares held by him individually and in trust for his benefit but disclaims beneficial ownership of any of the shares not owned by him individually and 397,473 shares in trust for the benefit of his family members.

(7) The shares shown as being owned by Mr. Temares include: (a) 162,413 shares owned by Mr. Temares individually; (b) 1,955,801 shares issuable pursuant to stock options granted to Mr. Temares that are or become exercisable within 60 days; (c) 5,000 shares owned by a family limited partnership; and (d) 265,553 shares of restricted stock. Mr. Temares has sole voting power with respect to the shares held by him individually but disclaims beneficial ownership of the shares owned by the family limited partnership, except to the extent of his pecuniary interest therein.

(8) The shares shown as being owned by Mr. Stark include: (a) 11,804 shares owned by Mr. Stark individually; (b) 59,625 shares issuable pursuant to stock options that are or become exercisable within 60 days; and (c) 123,826 shares of restricted stock.

(9) The shares shown as being owned by Mr. Castagna include: (a) 16,413 shares owned by Mr. Castagna individually; (b) 259,625 shares issuable pursuant to stock options that are or become exercisable within 60 days; and (c) 95,441 shares of restricted stock.

SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

The members of our Board of Directors, our executive officers and persons who hold more than 10% of our outstanding common stock are subject to the reporting requirements of Section 16(a) of the Exchange Act, which requires them to file reports with respect to their ownership of our common stock and their transactions in such common stock. Based solely upon a review of the copies of Section 16(a) reports that we have received from such persons or entities for transactions in our common stock and their common stock holdings for fiscal 2010, we believe that all reporting requirements under Section 16(a) for such fiscal year were met in a timely manner by our directors and executive officers.

NEXT YEAR S ANNUAL MEETING

Proposals which shareholders intend to present at the 2012 Annual Meeting of Shareholders must be received by the Company no later than January 26, 2012, to be presented at the meeting or to be eligible for inclusion in next year s proxy statement under the SEC s proxy rules. Such proposals can be sent to the Company at 650 Liberty Avenue, Union, New Jersey 07083, Attn: Warren Eisenberg, Co-Chairman and Secretary.

In addition, under the Company s Amended By-laws, any proposal for consideration at the 2012 Annual Meeting of Shareholders submitted by a shareholder other than pursuant to Rule 14a-8 will be considered timely if it is received by the Secretary of the Company at its principal executive offices at 650 Liberty Avenue, Union, New Jersey 07083 between the close of business on February 24, 2012 and the close of business on March 26, 2012, and is otherwise in compliance with the requirements set forth in the Company s Amended By-laws. If the date of the 2012 Annual Meeting of Shareholders is more than 30 days before or more than 60 days after the anniversary date of the 2011 Annual Meeting of Shareholders, notice must be received not earlier than the 120th day prior to the 2012 Annual Meeting of Shareholders and not later than the close of business on the 90th day prior to the 2012 Annual Meeting of Shareholders, or if the first public announcement of the date of the 2012 Annual Meeting of Shareholders is less than 100 days prior to the date of the 2012 Annual Meeting of Shareholders, the 10th day following the date on which notice of the date of the meeting is given to shareholders or made public, whichever occurs first.

BED BATH & BEYOND INC.
650 LIBERTY AVENUE
UNION, NJ 07083

VOTE BY INTERNET - www.proxyvote.com
Use the Internet to transmit your voting instructions and for electronic delivery of information up until 11:59 P.M. Eastern Time the day before the cut-off date or meeting date. Have your proxy card in hand when you access the web site and follow the instructions to obtain your records and to create an electronic voting instruction form.

ELECTRONIC DELIVERY OF FUTURE SHAREHOLDER COMMUNICATIONS
If you would like to reduce the costs incurred by Bed Bath & Beyond Inc. in mailing proxy materials, you can consent to receiving all future proxy statements, proxy cards and annual reports electronically via e-mail or the Internet. To sign up for electronic delivery, please follow the instructions above to vote using the Internet and, when prompted, indicate that you agree to receive or access shareholder communications electronically in future years.

VOTE BY PHONE - 1-800-690-6903
Use any touch-tone telephone to transmit your voting instructions up until 11:59 P.M. Eastern Time the day before the cut-off date or meeting date. Have your proxy card in hand when you call and then follow the instructions.

VOTE BY MAIL
Mark, sign and date your proxy card and return it in the postage-paid envelope we have provided or return it to Bed Bath & Beyond Inc., c/o Broadridge, 51 Mercedes Way, Edgewood, NY 11717.

IF VOTING BY MAIL, PLEASE DATE, SIGN AND MAIL YOUR PROXY CARD BACK
AS SOON AS POSSIBLE!

TO VOTE, MARK BLOCKS BELOW IN BLUE OR BLACK INK AS FOLLOWS:

M36588-P14066 KEEP THIS PORTION FOR YOUR RECORDS

DETACH AND RETURN THIS PORTION ONLY

THIS PROXY CARD IS VALID ONLY WHEN SIGNED AND DATED.

BED BATH & BEYOND INC.

1. ELECTION OF DIRECTORS

The Board of Directors Recommends a Vote FOR ALL NOMINEES with respect to Proposal 1.

Nominees for a one (1) year term:

		For	Against	Abstain
1a.	Warren Eisenberg	0	0	0
1b.	Leonard Feinstein	0	0	0
1c.	Steven H. Temares	0	0	0
1d.	Dean S. Adler	0	0	0
1e.	Stanley F. Barshay	0	0	0
1f.	Klaus Eppler	0	0	0
1g.	Patrick R. Gaston	0	0	0
1h.	Jordan Heller	0	0	0
1i.	Victoria A. Morrison	0	0	0

	For	Against	Abstain
2. RATIFICATION OF THE APPOINTMENT OF KPMG LLP	0	0	0

The Board of Directors Recommends a Vote FOR Proposal 2.

	For	Against	Abstain
3. To approve, by non-binding vote, the 2010 compensation paid to the Company's named executive officers.	0	0	0

The Board of Directors Recommends a Vote FOR Proposal 3.

	1 Year	2 Years	3 Years	Abstain
4. To recommend, by non-binding vote, the frequency of future advisory votes on executive compensation.	0	0	0	0

The Board of Directors Recommends a Vote for 1 Year on Proposal 4.

For address changes and/or comments, please check this box and write them on the back where indicated. 0

	Yes	No
Please indicate if you plan to attend this meeting.	0	0

5. In their discretion, the Proxies are authorized to vote upon such other business as may be brought before the meeting.

NOTE: Please sign exactly as name appears hereon. When shares are held by joint tenants, both should sign. When signing as attorney, executor, administrator, trustee or guardian, please give full title as such. If a corporation, please sign in full corporate name by President or other authorized officer. If a partnership, please sign in partnership name by authorized person.

Signature [PLEASE SIGN WITHIN BOX]	Date	Signature (Joint Owners)	Date

Important Notice Regarding the Availability of Proxy Materials for the Annual Meeting:

The Notice of 2011 Annual Meeting of Shareholders, Proxy Statement and 2010 Annual Report are available at www.bedbathandbeyond.com/annualmeeting2011.asp

M36589-P14066

PROXY

BED BATH & BEYOND INC.

650 LIBERTY AVENUE

UNION, NEW JERSEY 07083

ANNUAL MEETING OF SHAREHOLDERS

JUNE 23, 2011

THIS PROXY IS SOLICITED ON BEHALF OF THE BOARD OF DIRECTORS.

The undersigned hereby appoints Warren Eisenberg and Leonard Feinstein, or either one of them, acting singly, each with the power to appoint his substitute, and hereby authorizes them to represent and to vote, as designated on the reverse side hereof, all the shares of common stock of Bed Bath & Beyond Inc. held of record by the undersigned on May 6, 2011 at the Annual Meeting of Shareholders to be held on June 23, 2011 or any adjournment or adjournments thereof.

IF THIS PROXY IS PROPERLY EXECUTED AND RETURNED, THE SHARES REPRESENTED HEREBY WILL BE VOTED, IF NOT OTHERWISE SPECIFIED, FOR THE ELECTION OF ALL NOMINEES, FOR PROPOSAL 2, FOR

PROPOSAL 3, AND FOR 1 YEAR FOR PROPOSAL 4.

Address Changes/Comments:

(If you noted any Address Changes/Comments above, please mark corresponding box on the reverse side.)

(Continued on Reverse Side)