

MANATRON INC
Form 10-Q
December 12, 2003

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

☒ **Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

For the quarterly period ended October 31, 2003

☐ **Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

For the transition period from _____ to _____

Commission File Number: **0-15264**

MANATRON, INC.

(Exact Name of Registrant as Specified in Its Charter)

Michigan

(State or Other Jurisdiction of
Incorporation or Organization)

38-1983228

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

510 E. Milham Avenue

Portage, Michigan

(Address of Principal Executive Offices)

49002

(Zip Code)

(269) 567-2900

(Registrant's Telephone Number, Including Area Code)

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

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes _____. No **X**.

On December 12, 2003, there were 4,221,519 shares of the registrant's common stock, no par value, outstanding.

MANATRON, INC.

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PART I - FINANCIAL INFORMATION**Item 1. Financial Statements.****MANATRON, INC. AND SUBSIDIARY
CONSOLIDATED CONDENSED BALANCE SHEETS**

	October 31, 2003	April 30, 2003
	(Unaudited)	
<u>ASSETS</u>		
CURRENT ASSETS:		
Cash and equivalents	\$ 7,037,809	\$ 9,349,165
Short-term investments	2,000,000	1,000,000
Accounts receivable, net	5,727,972	6,120,880
Revenues earned in excess of billings on long-term contracts	1,173,925	1,130,447
Unbilled retainages on long term contracts	581,750	546,893
Notes receivable	1,039,347	1,085,694
Inventories	210,995	276,590
Deferred tax assets	1,691,512	1,551,512
Other current assets	220,587	283,999
	<hr/>	<hr/>
Total current assets	19,683,897	21,345,180
	<hr/>	<hr/>
NET PROPERTY AND EQUIPMENT	2,984,609	3,060,408
	<hr/>	<hr/>
OTHER ASSETS:		
Notes receivable, less current portion	345,019	242,003
Computer software development costs, net of accumulated amortization	1,968,588	1,745,955
Goodwill	4,886,676	4,886,676
Other, net	229,966	50,345
	<hr/>	<hr/>
Total other assets	7,430,249	6,924,979
	<hr/>	<hr/>
Total assets	\$ 30,098,755	\$ 31,330,567
	<hr/>	<hr/>

LIABILITIES AND SHAREHOLDERS' EQUITY**CURRENT LIABILITIES:**

Accounts payable	\$ 691,231	\$ 835,688
Billings in excess of revenues earned on long-term contracts	2,633,533	3,086,372
Billings for future services	6,221,893	8,329,056
Accrued liabilities	2,448,843	3,878,869
	<hr/>	<hr/>
Total current liabilities	11,995,500	16,129,985
	<hr/>	<hr/>

DEFERRED INCOME TAXES

164,000	150,000
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SHAREHOLDERS' EQUITY:

Common stock	12,540,716	11,130,096
Common stock pending issuance	--	924,350
Retained earnings	6,665,478	3,869,618
Deferred stock compensation	(1,266,939)	(873,482)
	<hr/>	<hr/>
Total shareholders' equity	17,939,255	15,050,582
	<hr/>	<hr/>
Total liabilities and shareholders' equity	\$ 30,098,755	\$ 31,330,567
	<hr/>	<hr/>

See accompanying notes to consolidated condensed financial statements.

MANATRON, INC. AND SUBSIDIARY
CONSOLIDATED CONDENSED STATEMENTS OF INCOME
(Unaudited)

	Three Months Ended October 31,		Six Months Ended October 31,	
	2003	2002	2003	2002
NET REVENUES	\$ 8,997,696	\$ 9,698,714	\$ 18,095,294	\$ 19,196,251
COST OF REVENUES	5,126,773	5,533,017	10,600,513	11,069,835
	<hr/>	<hr/>	<hr/>	<hr/>
Gross profit	3,870,923	4,165,697	7,494,781	8,126,416
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	3,696,514	3,807,326	7,044,536	7,398,198
	<hr/>	<hr/>	<hr/>	<hr/>

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Income from operations	174,409	358,371	450,245	728,218
GAIN ON SALE (SEE NOTE 5)	--	--	3,442,148	--
OTHER INCOME, NET	66,143	46,265	134,167	88,482
	<hr/>	<hr/>	<hr/>	<hr/>
Income before provision for income taxes	240,552	404,636	4,026,560	816,700
PROVISION FOR INCOME TAXES	81,700	135,000	1,230,700	275,000
	<hr/>	<hr/>	<hr/>	<hr/>
NET INCOME	\$ 158,852	\$ 269,636	\$ 2,795,860	\$ 541,700
	<hr/>	<hr/>	<hr/>	<hr/>
BASIC EARNINGS PER SHARE	\$.04	\$.07	\$.71	\$.14
	<hr/>	<hr/>	<hr/>	<hr/>
DILUTED EARNINGS PER SHARE	\$.04	\$.07	\$.66	\$.14
	<hr/>	<hr/>	<hr/>	<hr/>
BASIC WEIGHTED AVERAGE SHARES OUTSTANDING	4,000,899	3,835,517	3,952,856	3,794,106
	<hr/>	<hr/>	<hr/>	<hr/>
DILUTED WEIGHTED AVERAGE SHARES OUTSTANDING	4,281,038	3,952,726	4,250,221	3,911,989
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See accompanying notes to consolidated condensed financial statements.

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MANATRON, INC. AND SUBSIDIARY
CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS
(Unaudited)

Six Months Ended
October 31,
2003 2002

CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 2,795,860	\$ 541,700
Adjustments to reconcile net income to net cash and equivalents provided by (used for) operating activities:		
Gain on sale (see Note 5)	(3,442,148)	--
Deferred income taxes	(126,000)	--
Depreciation and amortization expense	960,821	836,628
Deferred stock compensation expense	114,044	175,176
Decrease (increase) in current assets:		
Accounts and notes receivables, net	414,255	750,545
Revenues earned in excess of billings and retainages on long-term contracts	(78,335)	818,501
Inventories	65,595	24,346
Other current assets	46,300	157,096
Increase (decrease) in current liabilities:		
Accounts payable and accrued liabilities	(1,574,483)	(1,075,364)
Billings in excess of revenues earned on long-term contracts	(452,839)	1,357,408
Billings for future services	(1,546,008)	(244,996)
Net cash and equivalents provided by (used for) operating activities	(2,822,938)	3,341,040
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sale of financial product line (see Note 5)	2,931,491	--
Purchase of short-term investments	(1,000,000)	--
Net additions to property and equipment	(326,063)	(450,175)
(Increase) decrease in long-term receivables	(103,016)	155,031
Investments in computer software	(789,969)	(707,358)
Other, net	(179,621)	1,453
Net cash and equivalents provided by (used for) investing activities	532,822	(1,001,049)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Issuance of common stock	96,907	32,114
Repurchases of common stock	(118,147)	--
Net cash and equivalents provided by (used for) financing activities	(21,240)	32,114
CASH AND EQUIVALENTS:		
(Decrease) increase in cash and equivalents	(2,311,356)	2,372,105
Balance at beginning of period	9,349,165	5,648,184

Balance at end of period	\$ 7,037,809	\$ 8,020,289
Cash paid for interest on debt	\$ --	\$ --
Cash paid for income taxes	\$ 1,740,000	\$ 654,049

See accompanying notes to consolidated condensed financial statements.

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MANATRON, INC. AND SUBSIDIARY NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(1) GENERAL INFORMATION

The consolidated condensed financial statements included in this Form 10-Q have been prepared by Manatron, Inc. ("Manatron" or the "Company"), without audit, pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been omitted pursuant to such rules and regulations, although the Company believes that the disclosures are adequate to make the information presented not misleading. These consolidated condensed financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended April 30, 2003, as filed with the Securities and Exchange Commission on July 23, 2003.

In the opinion of management, the accompanying unaudited consolidated condensed financial statements contain all adjustments, consisting of only a normal and recurring nature, necessary to present fairly (a) the financial position of the Company as of October 31, 2003 and April 30, 2003, (b) the results of its operations for the three and six months ended October 31, 2003 and 2002, and (c) the cash flows for the six months ended October 31, 2003 and 2002.

Revenue Recognition

The Company's Software Systems and Services segment enters into contracts with customers to license or sell application software; third party software; hardware; professional services, such as installation, training, and conversion; and post-contract support and maintenance ("PCS") services. The Company recognizes revenue for contracts with multiple element software arrangements in accordance with Statement of Position ("SOP") 97-2, "Software Revenue Recognition," as amended. The Company allocates the total arrangement fee among each deliverable based on the relative fair value of each of the deliverables, determined based on vendor-specific objective evidence ("VSOE"). When discounts are offered in a software arrangement, the Company utilizes the residual method, as defined in SOP 97-2, and allocates revenue to the undelivered elements based on VSOE. The discount and remaining revenue are allocated to the delivered elements, which typically encompass the software and hardware components of the contract.

Certain of the Company's software arrangements involve "off-the-shelf" software and services that are not considered essential to the functionality of the software. For these arrangements, software revenue is recognized when the installation has occurred, customer acceptance is reasonably assured, the sales price represents an enforceable claim and is probable of collection, and the remaining services such as training and installation are considered nominal. Fees allocable to services under these arrangements are recognized as revenue as the services are performed.

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MANATRON, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS
(Continued)

(1) GENERAL INFORMATION (continued)

Revenue related to sales of computer hardware and supplies is recognized when title passes, which is normally the shipping or installation date.

PCS includes telephone support, bug fixes, enhancements and rights to upgrades on a when-and-if available basis. These support fees are typically billed in advance on a monthly, quarterly or annual basis and are recognized as revenue ratably over the related contract periods.

Billings for Future Services, as reflected in the accompanying consolidated balance sheets, includes PCS and other services that have been billed to the customer in advance of performance. It also includes customer deposits on new contracts and other progress billings for software and hardware that have not been completely installed.

For arrangements that include customization or modification of the software, or where software services are otherwise considered essential, or for real estate appraisal projects, revenue is recognized using contract accounting. Revenue from these arrangements is recognized using the percentage-of-completion method with progress-to-completion measured based primarily upon labor hours incurred or units completed. Revenue earned is based on the progress-to-completion percentage after giving effect to the most recent estimates of total cost. Changes to total estimated contract costs, if any, are recognized in the period they are determined. Provisions for estimated losses on uncompleted contracts are made in the period in which such losses are determined. As of October 31, 2003 and 2002, the reserves for contract losses, as well as billed retainages outstanding associated with revenue that has been recognized, was not material. The Company reflects Revenues Earned in Excess of Billings and Retainages as well as Billings in Excess of Revenues for contracts in process at the end of the reporting period in the accompanying consolidated balance sheets.

Reserves against Accounts Receivable and reserves against Revenues in Excess of Billings and Retainages are established based on the Company's collection history and other known risks associated with the related contracts. These reserves contain a general provision of 2% as well as a specific provision for accounts the Company believes will be difficult to collect. Because of the nature of its customers, which are predominantly governmental entities, the Company does not generally incur losses resulting from the inability of its customers to make required payments. Alternatively, customers may become dissatisfied with the functionality of the software products and/or the quality of the services provided and request a reduction to the aggregate contract price. Management reviews on a quarterly basis

significant past due accounts receivable and the related adequacy of the Company's reserves.

The Company's contracts do not typically contain a right of return. Accordingly, as of October 31, 2003 and 2002, the reserve for returns was not material.

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MANATRON, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS
(Continued)

(1) GENERAL INFORMATION (continued)

Notes Receivable result from certain software contracts in which customers pay for the application software, hardware or related services over an extended period of time, generally three to five years. Interest on these notes range from 8% to 10%. The Company recognizes revenue for these contracts when the related elements are delivered, as the contract terms are fixed and determinable and the Company has a longstanding history of collecting on the notes under the original payment terms without providing concessions. Certain of the Company's contracts with customers include lease terms which meet the criteria of sales type leases as defined by Statement of Financial Accounting Standards ("SFAS") No. 13, "Accounting for Leases." However, the Company's leasing activities are not a material part of its business activities and, accordingly, are not broken out separately in the consolidated condensed financial statements.

(2) BUSINESS REPORTABLE SEGMENTS

Under the provisions of SFAS No. 131, the Company has historically disclosed two reportable segments: Software Systems and Services, and Appraisal Services.

The following table summarizes certain information regarding these reportable segments as of October 31, 2003 and 2002. However, it should be noted that the Appraisal Services segment has not been charged with any selling, general or administrative expenses as the Company primarily monitors this segment on a direct contribution basis only. In addition, the Company has begun to evaluate appraisal as a service integrated in its Software Systems and Services rather than a separate operating segment and as a result the Company is evaluating whether it is meaningful to continue presenting this segment information.

	Software Systems and Services	Appraisal Services	Consolidated
For the Six Months Ended October 31, 2003			
Net revenues	\$13,839,628	\$4,255,666	\$18,095,294
Depreciation and			

amortization expense	933,427	27,394	960,821
Income (loss) from operations	(894,143)	1,344,388	450,245
Capital expenditures	325,321	742	326,063
Segment assets	25,958,705	4,140,050	30,098,755

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MANATRON, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS
(Continued)

(2) BUSINESS REPORTABLE SEGMENTS (continued)

	Software Systems and Services	Appraisal Services	Consolidated
For the Six Months Ended October 31, 2002			
Net revenues	\$15,840,898	\$ 3,355,353	\$19,196,251
Depreciation and amortization expense	777,563	59,065	836,628
Income from operations	589,171	139,047	728,218
Capital expenditures	432,368	17,807	450,175
Segment assets	24,654,116	3,983,194	28,637,310
For the Three Months Ended October 31, 2003			
Net revenues	\$ 6,947,041	\$ 2,050,655	\$ 8,997,696
Depreciation and amortization expense	473,364	12,769	486,133
Income (loss) from operations	(400,257)	574,666	174,409
Capital expenditures	182,619	742	183,361
Segment assets	25,958,705	4,140,050	30,098,755
For the Three Months Ended October 31, 2002			
Net revenues	\$ 8,050,188	\$ 1,648,526	\$ 9,698,714
Depreciation and amortization expense	406,723	28,238	434,961

Income from operations	257,572	100,799	358,371
Capital expenditures	210,998	--	210,998
Segment assets	24,654,116	3,983,194	28,637,310

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MANATRON, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS
(Continued)

(3) STOCK-BASED COMPENSATION

The Company accounts for stock-based compensation to employees under stock option plans using the intrinsic value method presented in Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees." As a result, no compensation cost has been recognized with respect to options granted to employees at fair value at the measurement date. Had compensation costs for these plans been determined based on the fair value at the date of grant consistent with SFAS 123, "Accounting for Stock-Based Compensation," the Company's net income and earnings per share would have been reduced to the following pro forma amounts for the three and six months ended October 31, 2003 and 2002:

	Three Months Ended October 31,		Six Months Ended October 31,	
	2003	2002	2003	2002
Net Income as Reported	\$ 158,852	\$ 269,636	\$ 2,795,860	\$ 541,700
Deduct: compensation expense- fair value method	(50,390)	(58,415)	(91,657)	(117,232)
Pro forma	\$ 108,462	\$ 211,221	\$ 2,704,203	\$ 424,468
Basic EPS:				
As reported	\$.04	\$.07	\$.71	\$.14
Pro forma	\$.03	\$.06	\$.68	\$.11

Diluted EPS:

As reported	\$.04	\$.07	\$.66	\$.14
Pro forma	\$.03	\$.06	\$.65	\$.11

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MANATRON, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS
(Continued)

(4) EARNINGS PER SHARE

The following table reconciles the numerators and denominators used in the calculation of basic and diluted earnings per share for each of the periods presented:

	Three Months Ended October 31,		Six Months Ended October 31,	
	2003	2002	2003	2002
Numerators:				
Net income	\$ 158,852	\$ 269,636	\$ 2,795,860	\$ 541,700
Denominators:				
Denominator for basic earnings per share, weighted average outstanding common shares (1)	4,000,899	3,835,517	3,952,856	3,794,106
Potential dilutive shares	280,139(3)	117,209(2)	297,365	117,883(2)
Denominator for diluted earnings per share	4,281,038	3,952,726	4,250,221	3,911,989

Earnings Per Share:

Basic	\$.04	\$.07	\$.71	\$.14
Diluted	\$.04	\$.07	\$.66	\$.14

- (1) 202,250 and 178,725 shares of unvested restricted stock as of October 31, 2003 and 2002, respectively, are excluded from the basic weighted average shares outstanding.
- (2) Options to purchase 386,452 shares of common stock at prices ranging from \$4.21 to \$7.00 per share that were outstanding for the three and six months ended October 31, 2002, have been excluded from the computation of diluted earnings per share because the exercise prices are greater than the average market price of the common stock for these periods.
- (3) Options to purchase 20,000 shares of common stock at \$7.25 per share that were outstanding for the three months ended October 31, 2003, have been excluded from the computation of diluted earnings per share because the exercise price is greater than the average market price of the common stock for this period.

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MANATRON, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS
(Continued)

(5) SALE OF FINANCIAL PRODUCT LINE

Effective May 29, 2003, the Company sold substantially all of the assets and certain liabilities associated with the Company's Financial Product line to N. Harris Computer Corporation ("Harris") for approximately \$3.5 million. The Company received \$3 million in cash and Harris assumed the liabilities for approximately \$500,000 of existing software support contracts on May 29, 2003, which resulted in a gain of \$3,442,148. On December 1, 2003, subsequent to the end of the second quarter, the Company received the entire holdback of \$520,000 in cash from Harris and will recognize a corresponding additional gain on this sale in the third quarter.

Software license fees, professional services and recurring support revenues from this product line represented approximately 5% of the Company's total revenue. This divestiture included all of the Fund Accounting, Payroll, Utility Billing and related financial software that the Company had developed or acquired over the last fifteen years, including but not limited to the Open Windows series products, UB5, the ATEK legacy financial products, the Sabre legacy financial products and the SDS Administrator financial software. The sale also included the assumption by Harris of the existing software support and other agreements related to this product line.

(6) CONTINGENT LIABILITIES AND GUARANTEES

The Company and its subsidiary are periodically parties, both as plaintiff and defendant, to lawsuits and claims arising out of the normal course of business. The Company does not believe that the liabilities resulting from these proceedings, if any, would be material to the Company's consolidated financial position or results of operations.

The Company provides to its customers a one-year warranty on its internally developed application software; however, warranty expenses are not and have not been significant.

The Company is periodically required to obtain bid and performance bonds to provide certain assurances to current and prospective customers regarding its ability to fulfill contractual obligations. The Company has agreed to indemnify the surety for any and all claims made against the bonds. Historically, the Company has not had any claims for indemnity from its surety. As of October 31, 2003, the Company had approximately \$18 million in outstanding performance bonds which are anticipated to expire at various times over the next three to 24 months.

The Company utilizes subcontractors at times to help complete contractual obligations; however, the Company is still ultimately responsible for the performance of the subcontractors.

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.
Critical Accounting Policies and Estimates

Management's discussion and analysis of its results of operations and financial condition are based upon the Company's consolidated condensed financial statements which have been prepared in accordance with accounting principles generally accepted in the United States for interim periods. The preparation of these financial statements requires the Company to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosures of contingent assets and liabilities. On an on-going basis, the Company evaluates its estimates, including those related to receivable allowances, long-term service contracts, intangible assets, contingencies and litigation. As these are condensed financial statements, reference should be made to the Company's Form 10-K Annual Report for the year ended April 30, 2003, for expanded information about these critical accounting policies and estimates.

Results of Operations

Total net revenues of \$9.0 million and \$18.1 million for the three and six months ended October 31, 2003, decreased by approximately 7% and 6% respectively, in comparison to the \$9.7 million and \$19.2 million of net revenues that were reported for the comparable periods in the prior fiscal year.

Software Systems and Services segment revenues have decreased 14% from \$8.1 million to \$6.9 million for the three months ended October 31, 2003, and 13% from \$15.8 million to \$13.8 million for the six months ended October 31, 2003, compared to the same periods in the prior fiscal year. These revenues generally include software license fees, hardware sales, forms and supplies sales, and various professional services, such as software support, data conversions, installation, training, project management, hardware maintenance, forms processing and printing. There are a number of reasons for the revenue decrease in this segment.

First, the sale of the Financial Product line (see Note 5) resulted in a \$509,000 and \$908,000 reduction in net revenues in this segment's revenues for the three and six months ended October 31, 2003, respectively. The three and six months ended October 31, 2002, included approximately \$611,000 and \$1,323,000 of revenues related to this product line compared to approximately \$102,000 and \$415,000 for the three and six months ended October 31, 2003.

Second, revenues from the Software Systems and Services segment can vary significantly from quarter to quarter due

to the timing of software installations/implementations and the related recognition of license fees and professional services. For the three months ended October 31, 2003, software license fees of approximately \$1.1 million were actually comparable to the amount recorded in the prior year second quarter. However, for the six months ended October 31, 2003, software license fees were approximately \$650,000 lower than they were for the first half of the prior fiscal year. This reduction in license fees is primarily due to a slower than expected execution of the backlog in the Florida market and several delays in the sales

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cycles for prospective new accounts. In addition, the Company had a \$160,000 third party software license fee to a single client during the prior six month period that was not recurring.

While one additional County did go live on a limited version of the new tax system in Florida during the second quarter, this software is still not ready for general release. The Company has been extending additional resources and focus toward the development and implementation of its new Florida tax product for the five counties who have been using this software and expects to have it available for general release by February of 2004. Professional service revenues have also decreased by approximately \$968,000 during the first half of this fiscal year because the number of new software implementations is down.

The Company is also continuing to aggressively invest in its sales and marketing efforts to build off of its successful implementation of tax in Cuyahoga County (Cleveland), Ohio and to extend its tax and appraisal products into new markets. While lengthy sales cycles in local government, as well as the current budget constraints felt nation wide have had an impact on these sales activities on October 30, 2003, the Company announced the award of a new \$5.5 million contract with Gwinnett County, Georgia. Gwinnett purchased the Company's Government Revenue Management (GRM) system. In addition, on November 13, 2003, the Company announced the award of an additional \$8 million in new tax and appraisal business from three existing and two new clients. This will increase the backlog, exclusive of appraisal services contracts and recurring revenue to approximately \$24 million.

The Company has also recently deployed its first CAMA implementation in Florida and expects to build off of this momentum. In addition, the Company continues to roll out its new tax product in Indiana, where 38 counties are now live on the system and 3 more currently in backlog are scheduled for implementation in the second half of this fiscal year.

Finally, hardware sales for the six months ended October 31, 2003, were approximately \$200,000 lower than the comparable prior year period because the Company had a large sale to a single client during the first quarter of the prior year. While the Company offers hardware to those clients seeking a total solution from one provider, hardware sales have been less of a focus as it is more of a commodity item with low gross margins.

On the positive side, recurring revenues generated in the Software Systems and Services segment from software support, hardware maintenance, and printing and processing services increased by approximately \$400,000 for the quarter ended October 31, 2003, and by approximately \$950,000 for the six months ended October 31, 2003, compared to the prior year periods excluding the impact of the financial product line divestiture noted above. This was due to price increases and the addition of new clients. Total recurring revenues on an annualized basis currently stand at approximately \$17.4 million.

Appraisal Services segment revenues, which include fees for mass real estate appraisals or revaluations, have increased for the three and six months ended October 31, 2003, by 24% and 27%, respectively. This revenue growth is

due to an increase in sales, primarily in Ohio. Since January 1, 2003, the Company has signed approximately \$9.9 million in new appraisal services contracts versus \$2.8 million for the same ten month period in the prior calendar year. The Company's backlog for appraisal services at October 31, 2003, of \$7.7 million is \$3.8 million or

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33% lower than the backlog of \$11.5 million reported as of April 30, 2003. The Company continues to actively pursue new appraisal service contracts primarily in its Ohio, Indiana and Pennsylvania markets.

As noted in prior years, the Company had reserved 100% of retainage revenue related to the Allegheny County appraisal project and a portion of the gross under-billed position associated with appraisal contracts recognized based on percentage of completion accounting, which historically approximated 13% of the gross under-billed amount. This reserve contains a general provision of 2% of the gross under billed position as well as a specific provision for accounts the Company believes will be difficult to collect. This reserve methodology is consistent with the methodology utilized in calculating the Company's allowance for doubtful accounts related to its accounts receivable. As of October 31, 2003 and 2002, the total reserve against retainage revenue remaining under all appraisal service projects (including Allegheny County) was approximately \$640,000 and \$665,000, respectively. As of October 31, 2003, the total reserve against retainage revenue under the Allegheny County project was \$418,000, which was the same amount reserved at October 31, 2002. The Company continues to believe it is appropriate to reserve 100% of the remaining unpaid Allegheny retention as well as certain other monies due for the performance of services under that contract, because certain officials of Allegheny County have continued to contest the payment of such amounts. While numerous depositions, conferences and meetings have occurred regarding this issue, the Company has been unable to settle this matter with Allegheny County. As a result, the ultimate resolution of this matter and collection of any money is in the hands of the judge who initially ordered the reassessment. The trial is scheduled for the end of December of 2003.

Cost of revenues decreased by 7% from \$5.5 million to \$5.1 million for the quarter ended October 31, 2003. In addition, cost of revenues decreased by 4% from \$11.1 million to \$10.6 million for the six months ended October 31, 2003. These decreases are directly related to the decline in revenues experienced for the comparable periods as previously noted. Gross margin was comparable at 43% for both the three months ended October 31, 2003 and 2002. Gross margin for the six months ended October 31, 2003 was 41% compared to 42% for the first half of the prior year. This slight change in margin is due to a shift in the composition of revenues.

Selling, general and administrative expenses have decreased by approximately 3% to \$3.7 million and 5% to \$7 million for the three and six months ended October 31, 2003, respectively over the prior year comparable periods. These decreases are primarily due to a decline in sales commission expense of \$100,000 and \$270,000 for the three and six months ended October 31, 2003, over the prior year comparable periods because of a lower volume of signed contracts. In addition, the sale of the Financial Product line on May 29, 2003, has resulted in slightly lower payroll and related expenses. Included in selling, general, and administrative expenses are \$1.7 million and \$3.3 million of product development expenses in the second quarter and six month periods of the current year versus \$1.6 million and \$3.2 million in the prior year, respectively. In addition, the Company capitalized \$383,000 and \$790,000 of development cost for the three and six months ended October 31, 2003, respectively compared to \$398,000 and \$707,000 for the prior year comparable periods.

As a result of the factors noted above, the Company reported a \$184,000 decrease in its operating income, from \$358,000 for the prior year period to \$174,000 for the quarter ended October 31,

2003. In addition, operating income for the six months ended October 31, 2003, has also decreased from \$728,000 to \$450,000.

As more fully described in Note 5, the Company recorded a gain of \$3.4 million or \$0.54 per diluted share on the sale of its Financial Product line during the quarter ended July 31, 2003. This gain is based on the amount of cash collected on the sale through October 31, 2003. The final payment of \$520,000 was received subsequent to the quarter ended October 31, 2003, and will be reflected as an additional gain in the third quarter of fiscal 2004.

Net other income for the quarter increased by 43% to \$66,000 for the three months and by 52% to \$134,000 for the six months ended October 31, 2003, primarily due to new rental income generated from leasing a portion of the building that was acquired in December 2002 in Portage, Michigan. The first two quarters of the prior fiscal year did not include any rental income associated with this transaction.

The Company's provision for income taxes generally fluctuate with the level of pretax income. The effective tax rate was 34% for both the quarters ended October 31, 2003 and 2002. The effective tax rate for the six months ended October 31, 2003, is 31% compared to 34% for the six months ended October 31, 2002. The decline in the effective tax rate on a year to date basis is due to a non-recurring adjustment related to the Company's deferred state tax assets recorded during the first quarter of fiscal 2004. The Company anticipates the effective tax rate for the year to be in the range of 32% to 34%.

Net income was \$159,000 or \$0.04 per diluted share for the quarter ended October 31, 2003, versus net income of \$270,000 or \$0.07 per diluted share for the quarter ended October 31, 2002. For the six months ended October 31, 2003, net income was \$2.8 million or \$0.66 per diluted share, compared to \$542,000 or \$0.14 per diluted share for the first half of the prior year. Diluted weighted average outstanding common shares increased by approximately 330,000 shares for both the quarter and six months ended October 31, 2003, over the prior year comparable periods, due to an increase in the average stock price, which caused the majority of the Company's options outstanding to be included in the diluted EPS base. In addition, the Company issued 133,000 shares of stock associated with the ProVal post-merger contingent stock payment. This was the final payment under this post-merger agreement.

Financial Condition and Liquidity

At October 31, 2003, the Company had working capital of \$7.7 million compared to the April 30, 2003, amount of \$5.2 million. These levels reflect a current ratio of 1.64 and 1.32, respectively. The improvement in working capital is primarily due to the proceeds resulting from the sale of the Financial Product line.

Shareholders' equity at October 31, 2003, increased by \$2.9 million to \$17.9 million from the balance reported at April 30, 2003, as a result of \$97,000 of employee stock purchases, \$114,000 of deferred stock compensation expense and \$2.8 million of net income for the six months ended October 31, 2003. These increases were offset by \$118,000 of Company stock repurchases. As a result, book value per share has increased to \$4.27 as of October 31, 2003, from \$3.64 at

April 30, 2003. Book-value per share was calculated by dividing total shareholders' equity of \$17.9 million by total shares outstanding of 4,202,769, at October 31, 2003.

Net capital expenditures were \$183,000 for the three months and \$326,000 for the six months ended October 31, 2003, compared to \$211,000 and \$450,000, respectively, for the prior year periods. These decreases are primarily attributable to the prior year periods including approximately \$75,000 of non-recurring furniture and fixture purchases for office expansions and relocations. The remaining current year expenditures, as well as the prior year expenditures primarily relate to purchases or upgrades of computer hardware and software used by the Company's development and support personnel.

Since the Company's revenues are generated from contracts with local governmental entities, it is not uncommon for certain of its accounts receivable to remain outstanding for approximately three to four months, thereby having a negative impact upon cash flow. The Company currently has a secured line of credit agreement with Comerica Bank at the prime rate of interest less .25% up to \$6 million. Borrowings under this agreement are contingent upon meeting certain funded debt to EBITDA levels. As of October 31, 2003, the Company was eligible for the full \$6 million of borrowings. As of October 31, 2003, the Company had no borrowings outstanding under its \$6 million line of credit. The Company anticipates that its \$6 million line of credit, together with existing cash and short-term investment balances of approximately \$9 million, and cash generated from future operations will be sufficient for the Company to meet its working capital requirements for at least the next 12 months.

On October 13, 2003, the Board of Directors authorized the Company to repurchase up to \$500,000 of the Company's common stock over the next 12 months. This was essentially a renewal of the prior year repurchase program, which was approved on October 10, 2002, that terminated. During the quarter ended October 31, 2003, the Company repurchased 14,200 shares of common stock for approximately \$91,000, under the 2002 program. The Company repurchased 9,200 shares of common stock for approximately \$39,000 during the quarter ended October 31, 2002, under a similar program approved on October 4, 2001. Since October 10, 2002, the Company purchased a total of 59,450 shares of common stock for approximately \$371,000 under the 2002 program. No stock repurchases have been made under the 2003 program as of the date of this report.

The Company cannot precisely determine the effect of inflation on its business. The Company continues, however, to experience relatively stable costs for its inventory as the computer hardware market is very competitive. Inflationary price increases related to labor and overhead will have a negative effect on the Company's cash flow and net income to the extent that they cannot be offset through improved productivity and price increases.

"Safe Harbor Statement" Under the Private Securities Litigation Reform Act of 1995

This Form 10-Q contains statements that are not historical facts. These statements are called "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. These statements involve important known and unknown risks, uncertainties and other factors and can be identified by phrases using "estimate," "anticipate," "believe," "project," "expect," "intend," "predict," "potential," "future,"

"may," "should" and similar expressions or words. The Company's future results, performance or achievements may differ materially from the results, performance or achievements discussed in the forward-looking statements. There are numerous factors that could cause actual results to differ materially from the results discussed in forward-looking statements, including:

The impact that the following factors can have on the Company's business and the computer software and service industry in general:

Changes in competition and pricing environments: if competition increases in the computer software and service industry (particularly the segment of the industry that supplies governmental units), companies with greater capital reserves and greater diversification may have more options at their disposal for handling increased competition than we do.

Potential negative side effects stemming from the Company's expansion into new regional markets, including Canada: as a result of this expansion, the Company may face unanticipated pitfalls.

Pricing and availability of equipment, materials, inventories and programming.

Changes in existing computer software and service industry laws or the introduction of new laws, regulations or policies that could affect the Company's business practices, including, by way of example, intellectual property laws and laws affecting software providers' liability: these laws, regulations or policies could impact the computer software and service industry as a whole, or could impact only those portions of the computer software and service industry in which we are currently active, for example, privacy laws regulating how governmental units store and provide access to information; in either case, the Company's profitability could be injured due to an industry-wide market decline or due to the Company's inability to compete with other computer software and service industry companies that are unaffected by these laws, regulations or policies.

Changes in technology that render our products obsolete or incompatible with hardware or other software.

The Company's success in and expense associated with the development, production, testing, marketing and shipping of products, including a failure to ship new products and technologies when anticipated, failure of customers to accept these products and technologies when planned and any defects in products.

The Company's ability to implement successfully its business strategy of developing and licensing client/server decision support applications software designed to address specific industry markets.

significant portion of the Company's expenses do not vary with revenue; as a result, if revenue is below expectations, results of operations are likely to be materially adversely affected.

Continued availability of third party software and technology incorporated in the Company's products.

Potential negative impact of the fact that purchase of the Company's products is relatively discretionary and generally involves a significant commitment of capital; in the event of any downturn in any potential customer's business or the economy in general, purchases of the Company's products may be deferred or canceled.

Changes in economic conditions, including changes in interest rates, financial market performance and the computer software and service industry: these types of changes can impact the economy in general, resulting in a downward trend that impacts not only the Company's business, but all computer software and service industry companies; or, the changes can impact only those parts of the economy upon which the Company relies in a unique fashion, including, by way of example:

Economic factors that affect local governmental budgets.

Economic factors that may affect the success of the Company's acquisition strategy.

Changes in the financial markets, the economy, governmental spending and the demand for software and related services and products resulting from events relating to the terrorist attacks on September 11, 2001, and other terrorist activities that have created significant global economic and political uncertainties.

This list provides examples of factors that could affect the results described by forward-looking statements contained in this Form 10-Q. However, this list is not intended to be exhaustive; many other factors could impact the Company's business and it is impossible to predict with any accuracy which factors could result in which negative impacts.

Although the Company believes that the forward-looking statements contained in this Form 10-Q are reasonable, the Company cannot provide any guarantee that the anticipated results will be achieved. All forward-looking statements in this Form 10-Q are expressly qualified in their entirety by the cautionary statements contained in this section and readers are cautioned not to place undue reliance on the forward-looking statements contained in this Form 10-Q. In addition to the risks listed above, other risks may arise in the future, and the Company disclaims any obligation to update information contained in any forward-looking statement.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

The Company's primary market risk exposure is a potential change in interest rates in connection with its outstanding line of credit. As of October 31, 2003, there were no borrowings outstanding under this line of credit. However, the Company does have the ability to draw on this

line of credit, which could result in a potential interest rate risk. Based on the Company's historical borrowings, a change of 1% in interest rates would not have a material adverse effect on the Company's financial position. The Company does not enter into market risk sensitive instruments for trading purposes.

The Company does not believe that there has been a material change in the nature or categories of the primary market risk exposures, or the particular markets that present the primary risk of loss to the Company. As of the date of this report, the Company does not know of or expect any material changes in the general nature of its primary market risk exposure in the near term. In this discussion, "near term" means a period of one year following the date of the most recent balance sheet contained in this report.

Prevailing interest rates and interest rate relationships are primarily determined by market factors that are beyond the Company's control. All information provided in response to this item consists of forward-looking statements. Reference is made to the section captioned "'Safe Harbor Statement' Under the Private Securities Litigation Reform Act of 1995" in Item 2 of this report for a discussion of the limitations on the registrant's responsibility for such statements.

Item 4. Controls and Procedures.

As of October 31, 2003, an evaluation was performed under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures. Based on that evaluation, the Company's management, including the Chief Executive Officer and Chief Financial Officer, concluded that the Company's disclosure controls and procedures were effective as of October 31, 2003.

There was no change in the Company's internal control over financial reporting that occurred during the quarter ended October 31, 2003 that has materially affected, or that is reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II - OTHER INFORMATION.

Item 1. Legal Proceedings.

The Company is not a party to any material pending legal proceedings other than routine litigation incidental to its business. In the opinion of management, the liabilities resulting from these proceedings, if any, would not be material to the Company's consolidated financial position or results of operations.

Item 4. Submission of Matters to a Vote of Security Holders.

The annual meeting of shareholders of the Company was held on October 9, 2003. The purpose of the meeting was to elect directors and approve the Employee Stock Purchase Plan of 2003 and the Stock Option and Restricted Stock Plan of 2003. The name of each director elected (along with the number of votes cast for or authority withheld) is as follows:

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<u>Elected Directors</u>	<u>Votes Cast</u>		<u>Broker Non-Votes</u>
	<u>For</u>	<u>Authority Withheld Against</u>	
Richard J. Holloman	3,534,567	27,697	0
Harry C. Vorys	3,531,083	31,181	0
W. Scott Baker	3,534,683	27,581	0

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The following persons also continue to serve as directors: Gene Bledsoe, Paul R. Sylvester, Randall L. Peat, and Stephen C. Waterbury. Allen F. Peat resigned from the Board of Directors effective October 9, 2003.

The number of votes cast for the Employee Stock Purchase Plan of 2003 and the Stock Option and Restricted Stock Plan of 2003 is as follows:

	Votes Cast		Broker Non-Votes
	<u>For</u>	<u>Authority Withheld Against</u>	
Employee Stock Purchase Plan of 2003	1,702,447	54,587	1,805,230
Stock Option and Restricted Stock Plan of 2003	1,645,564	111,470	1,805,230

Item 6. Exhibits and Reports on Form 8-K.

(a) Exhibits. The following documents are filed as exhibits to this report on Form 10-Q:

<u>Exhibit Number</u>	<u>Document</u>
2.1	Bills of Sale and Court Orders concerning the purchase of certain assets of CPS Systems, Inc., dated March 31, 2000 and June 13, 2000. Previously filed as an exhibit to the Company's Form 10-K Annual Report for the fiscal year ended April 30, 2000, and incorporated herein by reference.
2.2	Asset Purchase Agreement between the Company and N. Harris Computer Corporation, dated May 29, 2003. Previously filed as an exhibit to the Company's Form 8-K Current Report filed on June 4, 2003, and incorporated herein by reference.
3.1	Restated Articles of Incorporation. Previously filed as an exhibit to the Company's Form 10-K Annual Report for the fiscal year ended April 30, 2001, and incorporated herein by reference.

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3.2	Bylaws. Previously filed as an exhibit to the Company's Form 10-K Annual Report for the fiscal year ended April 30, 1999, and incorporated herein by reference.
4.1	Restated Articles of Incorporation. See Exhibit 3.1 above.
4.2	Bylaws. See Exhibit 3.2 above.
4.3	Rights Agreement dated June 2, 1997, between Manatron, Inc. and Registrar and Transfer Company. Previously filed as an exhibit to the Company's Form 8-A filed on June 11, 1997, and incorporated herein by reference.
10.1	Manatron, Inc. 1989 Stock Option Plan.* Previously filed as an exhibit to the Company's Form 10-K Annual Report for the fiscal year ended April 30, 2001, and incorporated herein by reference.
10.2	Manatron, Inc. 1994 Long-Term Incentive Plan.* Previously filed as an exhibit to the Company's

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Form 10-K Annual Report for the fiscal year ended April 30, 2001, and incorporated herein by reference.

- 10.3 Manatron, Inc. 1995 Long-Term Incentive Plan.* Previously filed as an exhibit to the Company's Form 10-K Annual Report for the fiscal year ended April 30, 2001, and incorporated herein by reference.
- 10.4 Restricted Stock Plan of 1998.* Previously filed as an exhibit to the Company's Definitive Proxy Statement for its Annual Meeting of Shareholders held October 8, 1998, and incorporated herein by reference.
- 10.5 Manatron, Inc. Stock Incentive Plan of 1999.* Previously filed as an exhibit to the Company's Definitive Proxy Statement for its Annual Meeting of Shareholders held October 7, 1999, and incorporated herein by reference.
- 10.6 Manatron, Inc. Restricted Stock Plan of 2000.* Previously filed as an exhibit to the Company 10-Q Quarterly Report for the period ended October 31, 2000, and incorporated herein by reference.
- 10.7 Manatron, Inc. Executive Stock Plan of 2000.* Previously filed as an exhibit to the Company's Definitive Proxy Statement for its Annual Meeting of Shareholders held October 5, 2000, and incorporated herein by reference.
- 10.8 Manatron, Inc. Employee Stock Purchase Plan of 2003.* Previously filed as an exhibit to the Company's Form 10-K Annual Report for the fiscal year ended April 30, 2003, and incorporated herein by reference.

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- 10.9 Manatron, Inc. Stock Option and Restricted Stock Plan of 2003.* Previously filed as Appendix B to the Company's Definitive Proxy Statement for its Annual Meeting of Shareholders held October 9, 2003, and incorporated herein by reference.
- 10.10 Manatron, Inc. Amended and Restated Supplemental Executive Retirement Plan of 2002.* Previously filed as an exhibit to the Company's Form 10-K Annual Report for the fiscal year ended April 30, 2003, and incorporated herein by reference.
- 10.11 Executive Employment Agreement with Randall L. Peat.* Previously filed as an exhibit to the Company's Form 10-K Annual Report for the fiscal year ended April 30, 2001, and incorporated herein by reference.
- 10.12 Employment Agreement between Manatron, Inc. and Paul R. Sylvester dated October 10, 1996.* Previously filed as an exhibit to the Company's Form 10-K Annual Report for the fiscal year ended April 30, 2002, and incorporated herein by reference.
- 10.13 Employment Agreement between Manatron, Inc. and Early L. Stephens, dated March 21, 2002.* Previously filed as an exhibit to the Company's Form 10-K Annual Report for the fiscal year ended April 30, 2002, and incorporated herein by reference.

- 10.14 Employment Agreement between Manatron, Inc. and Krista L. Inosencio, dated July 17, 2002.* Previously filed as an exhibit to the Company's Form 10-K Annual Report for the fiscal year ended April 30, 2002, and incorporated herein by reference.
- 10.15 Employment Agreement between Manatron, Inc. and George William McKinzie, dated March 21, 2002.* Previously filed as an exhibit to the Company's Form 10-K Annual Report for the fiscal year ended April 30, 2002, and incorporated herein by reference.
- 10.16 Employment Agreement between Manatron, Inc. and Mary N. Gephart dated July 17, 2002.* Previously filed as an exhibit to the Company's Form 10-K Annual Report for the fiscal year ended April 30, 2002, and incorporated herein by reference.
- 10.17 Form of Indemnity Agreement.* Previously filed as an exhibit to the Company's Form 10-K Annual Report for the fiscal year ended April 30, 1998, and incorporated herein by reference.
- 10.18 Registration Rights Agreement dated May 28, 1999, between Manatron, Inc. and Jennings Wayne Moore. Previously filed as an exhibit to the Company's Form S-3, filed on September 21, 1999, and incorporated herein by reference.

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- 10.19 Loan Agreement with Comerica Bank dated May 17, 2002. Previously filed as an exhibit to the Company's Form 10-Q Quarterly Report for the period ended January 31, 2003, and incorporated herein by reference.
- 31.1 Certification of Chief Executive Officer under Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 Certification of Chief Financial Officer under Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1 Certification pursuant to 906 of the Sarbanes-Oxley Act of 2002.

*Management contract or compensatory plan or arrangement.

(b) Reports on Form 8-K.

The Company filed the following Current Report on Form 8-K during the quarter ended October 31, 2003:

Date of Report	Filing Date	Item(s) Reported
September 11, 2003	September 11, 2003	*This Form 8-K reported under Item 9 the Company's issuance of a press release announcing its fiscal 2004 first quarter results. Consolidated Condensed Statements of Income and Balance Sheet Highlights were included in this Form 8-K.
October 13, 2003	October 14, 2003	*This Form 8-K reported under Item 9 the Company's issuance

of a press release announcing Board approval of a stock repurchase program.

*This Form 8-K was furnished pursuant to Regulation FD and is considered to have been "furnished" but not "filed" with the Securities and Exchange Commission.

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SIGNATURES

Pursuant to the requirements 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.

MANATRON, INC.

Date: December 12, 2003

By

/s/ Paul R. Sylvester

Paul R. Sylvester
President, Chief Executive Officer and
Director (Principal Executive Officer,
and duly authorized signatory for the
Registrant)

Date: December 12, 2003

By

/s/ Krista L. Inosencio

Krista L. Inosencio
Chief Financial Officer
(Principal Finance and Accounting
Officer)

EXHIBIT INDEX

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