MANATRON INC
Form 10-Q
March 12, 2004

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended January 31, 2004

[ ] **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	**38-1983228**
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)
510 E. Milham Avenue Portage, Michigan	**49002**
(Address of Principal Executive Offices)	(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 March 12, 2004, there were 4,265,330 shares of the registrant's common stock, no par value, outstanding.

MANATRON, INC.

INDEX TO FORM 10-Q

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements.

MANATRON, INC. AND SUBSIDIARY
CONSOLIDATED CONDENSED BALANCE SHEETS

	January 31, 2004	April 30, 2003
	(Unaudited)	
ASSETS		
CURRENT ASSETS:		
Cash and equivalents	$ 7,217,203	$ 9,349,165
Short-term investments	2,250,000	1,000,000
Accounts receivable, net	8,801,002	6,120,880
Revenues earned in excess of billings on long-term contracts	1,285,922	1,130,447
Unbilled retainages on long term contracts	840,832	546,893
Notes receivable	838,501	1,085,694
Inventories	207,557	276,590
Deferred tax assets	1,691,512	1,551,512
Other current assets	273,531	283,999
Total current assets	23,406,060	21,345,180
NET PROPERTY AND EQUIPMENT	3,015,471	3,060,408
OTHER ASSETS:		
Notes receivable, less current portion	262,753	242,003
Computer software development costs, net of accumulated amortization	2,042,697	1,745,955
Goodwill	4,886,676	4,886,676
Other, net	386,516	50,345
Total other assets	7,578,642	6,924,979
Total assets	$ 34,000,173	$ 31,330,567
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	$ 847,293	$ 835,688
Billings in excess of revenues earned on long-term contracts	2,291,917	3,086,372

Billings for future services	9,180,799	8,329,056
Accrued liabilities	2,530,033	3,878,869
Total current liabilities	14,850,042	16,129,985
DEFERRED INCOME TAXES	164,000	150,000
SHAREHOLDERS' EQUITY:		
Common stock	12,760,016	11,130,096
Common stock pending issuance	--	924,350
Retained earnings	7,466,351	3,869,618
Deferred stock compensation	(1,240,236)	(873,482)
Total shareholders' equity	18,986,131	15,050,582
Total liabilities and shareholders' equity	$ 34,000,173	$ 31,330,567

See accompanying notes to consolidated condensed financial statements.

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

	Three Months Ended January 31,		Nine Months Ended January 31,	
	2004	**2003**	**2004**	**2003**
NET REVENUES	$ 9,050,583	$ 10,651,167	$ 27,145,877	$ 29,847,418
COST OF REVENUES	4,833,658	6,132,653	15,434,171	17,202,488
Gross profit	4,216,925	4,518,514	11,711,706	12,644,930
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	3,458,241	3,921,009	10,502,777	11,319,207
Income from operations	758,684	597,505	1,208,929	1,325,723
GAIN ON SALE (SEE NOTE 5)	520,000	--	3,962,148	--

OTHER INCOME, NET	57,189	52,523	191,356	141,005
Income before provision for income taxes	1,335,873	650,028	5,362,433	1,466,728
PROVISION FOR INCOME TAXES	535,000	225,000	1,765,700	500,000
NET INCOME	$ 800,873	$ 425,028	$ 3,596,733	$ 966,728
BASIC EARNINGS PER SHARE	$ .20	$ .11	$ .90	$ .25
DILUTED EARNINGS PER SHARE	$ .18	$ .11	$ .84	$ .25
BASIC WEIGHTED AVERAGE SHARES OUTSTANDING	4,024,817	3,846,830	3,977,813	3,811,680
DILUTED WEIGHTED AVERAGE SHARES OUTSTANDING	4,358,086	3,984,256	4,291,855	3,936,151

See accompanying notes to consolidated condensed financial statements.

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

	Nine Months Ended January 31,	
	2004	**2003**
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 3,596,733	$ 966,728
Adjustments to reconcile net income to net cash and equivalents provided by (used for) operating activities:		
Gain on sale (see Note 5)	(3,962,148)	--

Deferred income taxes	(126,000)	--
Depreciation and amortization expense	1,448,700	1,272,148
Deferred stock compensation expense	187,247	241,096
Decrease (increase) in current assets:		
Accounts and notes receivable, net	(2,457,929)	(1,418,038)
Revenues earned in excess of billings and retainages on long-term contracts	(449,414)	822,284
Inventories	69,033	145,403
Other current assets	(6,644)	202,316
Increase (decrease) in current liabilities:		
Accounts payable and accrued liabilities	(1,337,231)	(706,682)
Billings in excess of revenues earned on long-term contracts	(794,455)	846,645
Billings for future services	1,412,898	2,312,628
Net cash and equivalents provided by (used for) operating activities	(2,419,210)	4,684,528
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sale of Financial Product line (see Note 5)	3,451,491	--
Increase in short-term investments, net	(1,250,000)	--
Net additions to property and equipment	(554,865)	(1,138,123)
Decrease (increase) in long-term receivables	(20,750)	36,598
Investments in computer software	(1,153,746)	(1,071,739)
Other, net	(336,171)	(112,492)
Net cash and equivalents provided by (used for) investin activities	135,959	(2,285,756)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Issuance of common stock	269,436	98,016
Repurchases of common stock	(118,147)	(108,865)
Net cash and equivalents provided by (used for) financing activities	151,289	(10,849)
CASH AND EQUIVALENTS:		
Increase (decrease) in cash and equivalents	(2,131,962)	2,387,923
Balance at beginning of period	9,349,165	5,648,184
Balance at end of period	$ 7,217,203	$ 8,036,107
Cash paid for interest on debt	$ --	$ --

Cash paid for income taxes	$ 2,572,000	$ 923,906

See accompanying notes to consolidated condensed financial statements.

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 January 31, 2004 and April 30, 2003, (b) the results of its operations for the three and nine months ended January 31, 2004 and 2003, respectively, and (c) the cash flows for the nine months ended January 31, 2004 and 2003.

Revenue Recognition

The Company enters into contracts with customers to license or sell application software; third party software, hardware, related professional services, such as installation, training, data conversions and post-contract support and maintenance ("PCS") services, and various appraisal 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.

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 January 31, 2004 and 2003, 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 January 31, 2004 and 2003, the reserve for returns was not material.

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.

Upstream Merger

The Company's wholly-owned subsidiary Manatron ProVal Corporation was merged into Manatron, Inc., effective December 31, 2003, to simplify its organizational structure. Therefore, Manatron Inc. no longer has any subsidiaries. References to the subsidiary in the consolidated financial statements are however still applicable, as the prior year financial statements and a portion of the current year financial statements contain Manatron ProVal Corporation.

(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. As noted during the second quarter of fiscal 2004, the Company has been evaluating its segment structure. Due to internal reorganizations and the fact that Appraisal Services are tightly integrated with its Software Systems and Services, the Company has concluded under the provisions of SFAS No. 131 that its entire operations meet the definition of a single segment.

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 based on fair value at the measurement date, which is typically the grant date. Had compensation costs for these plans been recognized 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 nine months ended January 31, 2004 and 2003:

	Three Months Ended January 31,		Nine Months Ended January 31,	
	2004	**2003**	**2004**	**2003**
Net Income as Reported	$ 800,873	$ 425,028	$ 3,596,733	$ 966,728
Compensation Expense	(185,119)	(58,710)	(276,776)	(175,942)
Pro Forma Net Income	$ 615,754	$ 366,318	$ 3,319,957	$ 790,786
Basic EPS:				
As Reported	$ .20	$ .11	$ .90	$ .25
Pro Forma	$ .15	$ .10	$ .83	$ .21
Diluted EPS:				
As Reported	$ .18	$ .11	$ .84	$ .25
Pro Forma	$ .14	$ .09	$ .77	$ .20

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 January 31,		Nine Months Ended January 31,	
	2004	**2003**	**2004**	**2003**
Numerators:				
Net income	$ 800,873	$ 425,028	$ 3,596,733	$ 966,728
Denominators:				
Denominator for basic earnings per share, weighted average outstanding common shares (1)	4,024,817	3,846,830	3,977,813	3,811,680
Potential dilutive shares	333,269(2)	137,426(3)	314,042(2)	124,471(3)
Denominator for diluted earnings per share	4,358,086	3,984,256	4,291,855	3,936,151
Earnings Per Share:				
Basic	$ .20	$ .11	$ .90	$ .25

Diluted	$ .18	$ .11	$ .84	$ .25

(1) These amounts exclude unvested restricted stock, which amounted to 203,250 shares as of January 31, 2004 and 175,725 shares as of January 31, 2003.

(2) Options to purchase 25,000 shares of common stock at $8.11 per share have been excluded from the computation of diluted EPS for the nine months ended January 31, 2004, because the exercise price was greater than the average market price of the common stock for this period. All options outstanding for the three months ended January 31, 2004 have been included within the computation as the exercise prices for all options outstanding are less than the average market price of the common stock for this period.

(3) Options to purchase 361,452 shares of common stock at prices ranging from $4.63 to $7.00 per share that were outstanding for the three and nine months ended January 31, 2003, 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.

(5) SALE OF FINANCIAL PRODUCT LINE

Effective May 29, 2003, the Company sold substantially all of the assets and transferred 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 that was recognized in the first quarter. On December 1, 2003, the Company received the remaining holdback of $520,000 in cash from Harris and recognized the corresponding gain 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 divesture 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 is periodically a party, 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 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 January 31, 2004, the Company had approximately $18.7 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.

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

The Company's business is focused on providing software and services to enable local governments to completely, fairly and efficiently apply the property tax burden to its citizens. The Company's software manages the entire property life cycle, which includes deed recording, mapping, appraisal, tax billing and collection, tax sales and e-government.

The Company's revenues are generated from software license fees, hardware sales, forms and supplies sales, and various related professional services, such as software support, data conversions, installation, training, project management, hardware maintenance, forms processing and printing. The Company's revenues are also generated from appraisal services, which include mass real estate appraisals, revaluations and other appraisal related consultative work.

Total net revenues of $9.1 million and $27.1 million for the three and nine months ended January 31, 2004, decreased by approximately 15% and 9% respectively, in comparison to the $10.7 million and $29.8 million of net revenues that were reported for the comparable periods in the prior fiscal year. These decreases are primarily due to three factors.

First, the sale of the Financial Product line (see Note 5) resulted in a $575,000 and $1.5 million reduction in net revenues for the three and nine months ended January 31, 2004, respectively. The three and nine months ended January 31, 2004, included approximately $25,000 and $440,000 of revenues related to this product line compared to approximately $600,000 and $1.9 million for the three and nine months ended January 31, 2003.

Second, hardware sales for the three and nine months ended January 31, 2004, were approximately $367,000 and $594,000 lower than the respective prior year periods. These decreases are associated with the general decline in implementation activity noted below. In addition, while the Company offers hardware to those clients seeking a total solution from one

provider, hardware will continue to be less of a focus as it is more of a commodity item with low gross margins.

Third, as noted in previous quarters, software license fees and revenues from professional services can vary significantly from quarter to quarter due to the timing of the related installations/implementations. For the three months ended January 31, 2004, these revenues were $1.3 million or 35% lower than the prior year comparable period. For the nine months ended January 31, 2004, these revenues were $2.9 million or 31% lower than they were for the comparable prior year period.

While the Company did recognize substantial revenues during the third quarter related to its recently announced new Government Revenue Management contract with Gwinnett County, Georgia, the reduction in software license and professional service revenues is primarily due to a slower than anticipated execution of the backlog in Florida. Secondly, the prior year included a significant amount of license fee and professional services revenue from Cuyahoga County (Cleveland), Ohio related to the Company's new tax implementation that went live in December of 2002. The Company expected to build off of this momentum during fiscal 2004; however, sales in Ohio were softer than anticipated.

The Company has been extending significant resources and attention in fiscal 2004 toward the development and implementation of its new Florida tax product, which is currently being used by six counties. This product became available for general release in March 2004. As a result, it is anticipated that a substantial portion of the current Florida backlog of $3.9 million will be recognized in the next two to three quarters. In addition, Hamilton County (Cincinnati), Ohio is now live on the Company's new tax and appraisal system, which has resulted in positive momentum for Ohio. Three additional counties have recently signed contracts for this software totaling $3.3 million and several others are in the pipeline.

Lengthy sales cycles in local government caused in part by increased competition and budget constraints being felt nation-wide have resulted in a lower volume of new contract signings than anticipated. This has negatively impacted the Company's revenues as noted above. In addition, national election years have historically been soft as far as sales are concerned since many governmental officials are preoccupied with the election process and delay spending until the results are known. In response to these issues, the Company has been aggressively investing and will continue to invest in its sales and marketing efforts to build off of its successful implementations and extend its tax and appraisal products and services into new markets.

Marty Ulanski was hired as the Company's Executive Vice President of Sales and Business Development in July 2003. This is a new position for the Company and his role is to build a more effective sales team that will drive a lot more revenue. A sales representative has been added in California and plans are underway to add three to five more in targeted markets. In addition, Early Stephens, the Company's Chief Technology Officer was recently appointed to the role of Chief Marketing Officer in support of this effort. This also is a new position for the Company. Until recently, the primary emphasis of the Company has been on product development.

While building a more effective sales and marketing team is a long term effort, these investments are starting to pay off. For example, the Company did announce on November 13, 2003, the award of an additional $8 million of new tax and appraisal business to three existing and two new clients. In addition, total sales or signed contracts for the ten months ended February 29, 2004, were $23.9 million versus $18 million for the comparable prior year period, which is a 32% improvement. Approximately $2 million of this increase is from appraisal service contracts while the remainder relates to software and implementation services. This has resulted in an increase in the Company's backlog to $32.2 million as of February 29, 2004. The backlog as of April 30, 2003 and 2002 was $22.9 million and $19.2 million, respectively. These numbers are exclusive of the Company's recurring revenues which are approximately $17.4 million annually.

On a positive note, recurring revenues increased by approximately $325,000 for the quarter ended January 31, 2004, and by approximately $1.1 million for the nine months ended January 31, 2004, compared to the prior year periods. These increases were calculated after excluding the impact of the Financial Product line sale noted previously. The improvements in recurring revenue are due to price increases and the addition of new clients. Of the $23.9 million of total sales through February 29, 2004, noted above nearly half have been to new clients, which has helped the Company increase its market share.

In addition, appraisal service revenues have increased 25% from $1.6 million to $2 million for the three months ended January 31, 2004 and by 25% from $4.9 million to $6.1 million for the nine months ended January 31, 2004, compared to the prior year comparable periods. Appraisal service revenues for both the three and nine months ended January 31, 2004, included $418,000 of revenue associated with the settlement of the Allegheny lawsuit noted below. The remaining increase in appraisal service revenues is primarily due to the execution associated with the increase in signed contracts noted previously, which is primarily due to the cyclicality of this business in Ohio.

On January 5, 2004, the Company settled its lawsuit with Allegheny County for approximately $752,000 in cash and a mutual release of all claims related to this project. As noted in prior years, the Company had not recognized the uncollected retainage revenue related to the Allegheny County project, which was $418,000. In addition, the Company had fully reserved within its allowance for uncollectible accounts the remaining amounts that were owed by Allegheny County. Accordingly, this settlement resulted in the recognition of $418,000 of revenue and a reduction of operating expenses of $334,000 for the quarter ended January 31, 2004.

Cost of revenues decreased by 21% from $6.1 million to $4.8 million for the quarter ended January 31, 2004. In addition, cost of revenues decreased by 10% from $17.2 million to $15.4 million for the nine months ended January 31, 2004. These decreases are directly related to the decline in revenues as previously noted. However, gross margins increased by 5% from 42% to 47% and by 1% from 42% to 43% for the three and nine months ended January 31, 2004, respectively. These improvements were primarily due to the additional $418,000 of revenue associated with the Allegheny settlement during the third quarter, which had no related costs.

Selling, general and administrative expenses have decreased by approximately 12% to $3.5 million and 7% to $10.5 million for the three and nine months ended January 31, 2004,

respectively, over the prior year comparable periods. These decreases are primarily due to the Allegheny settlement noted above as well as a decline in sales commission expense of $54,000 and $325,000 for the three and nine months ended January 31, 2004, respectively, over the prior year comparable periods. In addition, the sale of the Financial Product line on May 29, 2003, has resulted in slightly lower payroll and related expenses.

As a result of the factors noted above, operating income for the nine months ended January 31, 2004, decreased by 9% from $1.3 million to $1.2 million. However, the Company reported a 27% increase in its operating income from $598,000 to $759,000 for the three months ended January 31, 2004, primarily due to the Allegheny settlement noted previously.

As more fully described in Note 5, the Company recorded a gain of $3.4 million on the sale of its Financial Product line during the quarter ended July 31, 2003. An additional gain of $520,000 was recognized during the quarter ended January 31, 2004, due to the collection of the final holdback on this transaction in December 2003.

Net other income for the quarter increased by 9% to $57,000 for the three months and by 36% to $191,000 for the nine months ended January 31, 2004, 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 eight months of the prior fiscal year did not include any rental income associated with this transaction.

The Company's provision for income taxes generally fluctuates with the level of pretax income. The effective tax rate was 40% for the quarter ended January 31, 2004, compared to 35% for the prior year comparable quarter. This increase is due to the inclusion of state tax expense for the quarter within the income tax provision. The effective tax rate for the nine months ended January 31, 2004, is 33% compared to 34% for the nine months ended January 31, 2003. The Company anticipates the effective tax rate for the year to be in the range of 33% to 35%.

Net income was $801,000 or $0.18 per diluted share for the quarter ended January 31, 2004, versus net income of $425,000 or $0.11 per diluted share for the quarter ended January 31, 2003. Approximately $312,000 or $.07 per diluted share of this increase was related to the gain on the sale of the Financial Product line described in Note 5. For the nine months ended January 31, 2004, net income was $3.6 million or $0.84 per diluted share, compared to $967,000 or $0.25 per diluted share for the prior year comparable period. Approximately $2.4 million or $0.55 per diluted share of this increase related to the gain on the sale of the Financial Product line described in Note 5. The net gains on the sale were calculated using an effective tax rate of 40%.

Diluted weighted average outstanding common shares increased by approximately 374,000 and 356,000 shares for the three and nine months ended January 31, 2004 versus the respective prior year periods, due to an increase in the average stock price, which caused substantially all 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 acquisition during the first quarter. This was the final payment under the contingent stock post-merger agreement.

Financial Condition and Liquidity

At January 31, 2004, the Company had working capital of $8.6 million compared to the April 30, 2003, amount of $5.2 million. These levels reflect current ratios of 1.58 and 1.32, respectively. In addition, total assets have increased from $31.3 million at April 30, 2003, to $34 million at January 31, 2004. These improvements are primarily due to the proceeds resulting from the sale of the Financial Product line (see Note 5).

Shareholders' equity at January 31, 2004, increased by $3.9 million to $19 million from the balance reported at April 30, 2003, as a result of $269,000 of employee stock purchases, $187,000 of deferred stock compensation expense and $3.6 million of net income for the nine months ended January 31, 2004. These increases were offset by $118,000 of Company stock repurchases. As a result, book value per share has increased to $4.48 as of January 31, 2004, from $3.64 at April 30, 2003. Book value per share was calculated by dividing total shareholders' equity of $19 million by total shares outstanding of 4,239,830, at January 31, 2004.

Net capital expenditures were $229,000 for the three months and $555,000 for the nine months ended January 31, 2004, compared to $688,000 and $1,138,000, 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 as well as $610,000 associated with acquisition of a 25,000 square foot building that adjoins the Company's current corporate facility in Portage, Michigan. 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.

The Company continues to invest significantly in its products. The Company's research and development expenditures were $1.6 million and $5.2 million for the three and nine months ended January 31, 2004, compared to $1.5 million and $4.7 million for the prior year comparable periods. Of these amounts, the Company capitalized approximately $363,000 and $1.2 million of development cost for the three and nine months ended January 31, 2004, respectively, compared to $365,000 and $1 million for the prior year comparable period.

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 January 31, 2004, the Company was eligible for the full $6 million of borrowings. As of January 31, 2004, 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 $9.5 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 expired one-year repurchase program, which had been approved on October 10,

2002. The Company did not repurchase any shares during the quarter ended January 31, 2004. 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.

The Company's ability to assess future revenue: the Company's expense levels are based, in part, on its expectations as to future revenue and a 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 January 31, 2004, 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 January 31, 2004, 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 January 31, 2004.

There was no change in the Company's internal control over financial reporting that occurred during the quarter ended January 31, 2004 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 financial position or results of operations.

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:

Exhibit Number	Document
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.
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.
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.

(b) Reports on Form 8-K.

The Company filed the following Current Reports on Form 8-K during the quarter ended January 31, 2004:

Date of Report	Filing Date	Item(s) Reported
December 11, 2003	December 11, 2003	

		*This Form 8-K reported under Item 12 the Company's issuance of a press release announcing its fiscal 2004 second quarter results. Consolidated Condensed Statements of Income and Balance Sheet Highlights were included in this Form 8-K.
January 8, 2004	January 8, 2004	*This Form 8-K reported under Item 9 the Company's settlement of litigation with Allegheny County (Pennsylvania).

*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.

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: March 12, 2004 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: March 12, 2004 By /s/ Krista L. Inosencio

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

EXHIBIT INDEX

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