

MANATRON INC  
Form 10-Q  
December 13, 2001

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**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, 2001

**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)

**(616) 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  No

As of December 10, 2001, there were 3,818,721 shares of the registrant's common stock, no par value, outstanding.

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**MANATRON, INC.**

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

|  | <b>October 31,<br/>2001</b> | <b>April 30,<br/>2001</b>   |
|--|-----------------------------|-----------------------------|
|  | <u>                    </u> | <u>                    </u> |
|  | (Unaudited)                 |                             |
| <b><u>ASSETS</u></b>   |                             |                             |
| <b>CURRENT ASSETS:</b>   |                             |                             |
| Cash and equivalents   | \$ 1,240,929                | \$ 700,840                  |
| Accounts receivable, net   | 7,437,185                   | 8,740,648                   |
| Federal income tax receivable  | --                          | 935,000                     |
| Revenues earned in excess of billings and retainages<br>on long-term contracts | 3,466,749                   | 3,970,877                   |
| Notes receivable   | 1,394,616                   | 1,066,064                   |
| Inventories  | 243,656                     | 245,995                     |
| Deferred tax assets  | 1,453,000                   | 1,453,000                   |
| Other current assets   | 305,512                     | 216,456                     |
|  | <u>                    </u> | <u>                    </u> |
| Total current assets   | 15,541,647                  | 17,328,880                  |
|  | <u>                    </u> | <u>                    </u> |
| <b>NET PROPERTY AND EQUIPMENT</b>  | 2,569,150                   | 2,702,799                   |
|  | <u>                    </u> | <u>                    </u> |
| <b>OTHER ASSETS:</b>   |                             |                             |
| Long-term receivables, less current portion                                    | 478,975                     | 680,022                     |
| Computer software development costs, net of accumulated amortization           | 1,089,134                   | 950,283                     |
| Goodwill, net of accumulated amortization                                      | 3,819,284                   | 4,138,561                   |
| Other, net   | --                          | 50,598                      |
|  | <u>                    </u> | <u>                    </u> |
| Total other assets   | 5,387,393                   | 5,819,464                   |
|  | <u>                    </u> | <u>                    </u> |

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|              |               |               |
|--------------|---------------|---------------|
| Total assets | \$ 23,498,190 | \$ 25,851,143 |
|--------------|---------------|---------------|

**LIABILITIES AND SHAREHOLDERS' EQUITY**

**CURRENT LIABILITIES:**

|  |           |              |
|--|-----------|--------------|
| Installment note payable                                     | \$ --     | \$ 1,000,000 |
| Line of credit borrowings                                    | --        | 2,564,286    |
| Accounts payable   | 1,016,632 | 1,152,605    |
| Billings in excess of revenues earned on long-term contracts | 1,721,962 | 1,319,406    |
| Billings for future services                                 | 6,485,931 | 5,748,132    |
| Accrued liabilities  | 2,830,311 | 2,896,192    |

|                           |            |            |
|---------------------------|------------|------------|
| Total current liabilities | 12,054,836 | 14,680,621 |
|---------------------------|------------|------------|

**LONG-TERM DEFERRED INCOME TAXES**

|        |        |
|--------|--------|
| 30,000 | 30,000 |
|--------|--------|

**SHAREHOLDERS' EQUITY:**

|                             |             |             |
|-----------------------------|-------------|-------------|
| Common stock                | 10,585,118  | 10,495,883  |
| Retained earnings           | 2,169,677   | 2,131,582   |
| Deferred stock compensation | (1,341,441) | (1,486,943) |

|                            |            |            |
|----------------------------|------------|------------|
| Total shareholders' equity | 11,413,354 | 11,140,522 |
|----------------------------|------------|------------|

|  |               |               |
|--|---------------|---------------|
| Total liabilities and shareholders' equity | \$ 23,498,190 | \$ 25,851,143 |
|--|---------------|---------------|

See accompanying notes to consolidated condensed financial statements.

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

|                         | Three Months Ended<br>October 31, |              | Six Months Ended<br>October 31, |               |
|-------------------------|-----------------------------------|--------------|---------------------------------|---------------|
|                         | 2001                              | 2000         | 2001                            | 2000          |
| <b>NET REVENUES</b>     | \$ 10,194,901                     | \$ 9,363,251 | \$ 19,574,431                   | \$ 19,428,757 |
| <b>COST OF REVENUES</b> | 6,512,912                         | 6,587,170    | 12,480,485                      | 13,679,055    |

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|  |                  |                     |                  |                       |
|--|------------------|---------------------|------------------|-----------------------|
| Gross profit   | 3,681,989        | 2,776,081           | 7,093,946        | 5,749,702             |
| <b>SELLING, GENERAL AND ADMINISTRATIVE EXPENSES</b>              | <u>3,599,328</u> | <u>3,978,715</u>    | <u>6,965,478</u> | <u>7,448,275</u>      |
| Income (loss) from operations                                    | 82,661           | (1,202,634)         | 128,468          | (1,698,573)           |
| <b>OTHER INCOME (EXPENSE), net</b>                               | <u>5,694</u>     | <u>(81,732)</u>     | <u>2,627</u>     | <u>(103,900)</u>      |
| Income (loss) before provision (credit) for federal income taxes | 88,355           | (1,284,366)         | 131,095          | (1,802,473)           |
| <b>PROVISION (CREDIT) FOR FEDERAL INCOME TAXES</b>               | <u>78,000</u>    | <u>(414,000)</u>    | <u>93,000</u>    | <u>(590,000 )</u>     |
| <b>NET INCOME (LOSS)</b>   | <u>\$ 10,355</u> | <u>\$ (870,366)</u> | <u>\$ 38,095</u> | <u>\$ (1,212,473)</u> |
| <b>BASIC EARNINGS (LOSS) PER SHARE</b>                           | <u>\$ .00</u>    | <u>\$ (.25)</u>     | <u>\$ .01</u>    | <u>\$ (.35 )</u>      |
| <b>DILUTED EARNINGS (LOSS) PER SHARE</b>                         | <u>\$ .00</u>    | <u>\$ (.25)</u>     | <u>\$ .01</u>    | <u>\$ (.35)</u>       |
| <b>BASIC WEIGHTED AVERAGE SHARES OUTSTANDING</b>                 | <u>3,603,318</u> | <u>3,488,008</u>    | <u>3,579,826</u> | <u>3,469,914</u>      |
| <b>DILUTED WEIGHTED AVERAGE SHARES OUTSTANDING</b>               | <u>3,691,864</u> | <u>3,488,008</u>    | <u>3,694,355</u> | <u>3,469,914</u>      |

See accompanying notes to consolidated condensed financial statements.

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

|  | Six Months Ended<br>October 31, |                |
|--|---------------------------------|----------------|
|  | 2001                            | 2000           |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>   |                                 |                |
| Net income (loss)  | \$ 38,095                       | \$ (1,212,473) |
| Adjustments to reconcile net income (loss) to net cash<br>and equivalents provided by (used for) operating activities: |                                 |                |
| Depreciation and amortization expense  | 1,093,084                       | 1,182,619      |
| Deferred stock compensation expense  | 169,126                         | 229,671        |
| Decrease (increase) in current assets:   |                                 |                |
| Accounts and notes receivables, net  | 974,911                         | 118,905        |
| Federal income tax receivable  | 935,000                         | (590,000)      |
| Revenues earned in excess of billings and<br>retainages on long-term contracts   | 504,128                         | 194,265        |
| Inventories  | 2,339                           | (115,154)      |
| Other current assets   | (89,056)                        | 30,597         |
| Increase (decrease) in current liabilities:  |                                 |                |
| Accounts payable and accrued liabilities   | (201,854)                       | (2,264,755)    |
| Billings in excess of revenues earned on<br>long-term contracts  | 402,556                         | (1,367,221)    |
| Billings for future services   | 737,799                         | (1,338,327)    |
|  | 4,566,128                       | (5,131,873)    |
| Net cash and equivalents provided by (used for)<br>operating activities  | 4,566,128                       | (5,131,873)    |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>   |                                 |                |
| Net additions to property and equipment  | (271,900)                       | (251,288)      |
| Decrease in long-term receivables  | 201,047                         | 321,583        |
| Investments in computer software   | (507,109)                       | (214,209)      |
| Other, net   | 50,598                          | (33,296)       |
|  | (527,364)                       | (177,210)      |
| Net cash and equivalents used for investing<br>activities  | (527,364)                       | (177,210)      |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>   |                                 |                |
| Issuance of common stock, net  | 65,611                          | 113,839        |
| Repayments of long term debt   | --                              | (50,000)       |
| Repayments on installment note payable   | (1,000,000)                     | --             |
| Net (repayments) borrowings under line of credit   | (2,564,286)                     | 4,775,664      |
|  | (2,500,000)                     | 4,839,503      |

|   |              |            |
|---|--------------|------------|
| Net cash and equivalents (used for) provided by<br>financing activities | (3,498,675)  | 4,839,503  |
|   | <hr/>        | <hr/>      |
| <b>CASH AND EQUIVALENTS:</b>  |              |            |
| Increase (decrease) in cash and equivalents                             | 540,089      | (469,580)  |
| Balance at beginning of period  | 700,840      | 608,062    |
|   | <hr/>        | <hr/>      |
| Balance at end of period  | \$ 1,240,929 | \$ 138,482 |
|   | <hr/>        | <hr/>      |
| Cash paid for interest on debt  | \$ 66,192    | \$ 111,409 |
| Cash paid for income taxes  | \$ 53,467    | \$ 676,549 |

See accompanying notes to consolidated condensed financial statements.

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

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**(1) GENERAL INFORMATION**

The consolidated condensed financial statements included in this Form 10-Q have been prepared by Manatron, Inc. (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, 2001 as filed with the Securities and Exchange Commission on July 27, 2001.

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 registrant as of October 31, 2001 and April 30, 2001, (b) the results of its operations for the three and six months ended October 31, 2001 and 2000, and (c) cash flows for the six months ended October 31, 2001 and 2000.

**(2) BUSINESS REPORTABLE SEGMENTS**

Under the provisions of SFAS No. 131, the Company has two reportable segments: Software Systems and Services and Appraisal Services. The Company's reportable segments are separately managed, as each segment has unique characteristics.

The following table summarizes information regarding the reportable segments' profit for the three and six months ended and the reportable segments' assets as of October 31, 2001 and 2000:

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

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|  | Software<br>Systems<br>and<br>Services (1) | Appraisal<br>Services | Total<br>Combined<br>Company |
|--|--|-----------------------|------------------------------|
| <b>For the Six Months<br/>Ended October 31, 2001</b> |  |                       |                              |
| Net revenues   | \$ 14,039,146                              | \$ 5,535,285          | \$ 19,574,431                |
| Depreciation and<br>amortization expense             | 1,028,762                                  | 64,322                | 1,093,084                    |
| EBITDA   | 1,525,084                                  | (303,532)             | 1,221,552                    |
| Capital expenditures                                 | 209,787                                    | 62,113                | 271,900                      |
| Segment assets                                       | 16,697,955                                 | 6,800,235             | 23,498,190                   |



**For the Six Months  
Ended October 31, 2000**

|  |               |              |               |
|--|---------------|--------------|---------------|
| Net revenues                             | \$ 12,342,029 | \$ 7,086,728 | \$ 19,428,757 |
| Depreciation and<br>amortization expense | 1,076,920     | 105,699      | 1,182,619     |
| EBITDA                                   | (412,770)     | (103,184)    | (515,954)     |
| Capital expenditures                     | 171,355       | 79,933       | 251,288       |
| Segment assets                           | 18,550,528    | 7,060,714    | 25,611,242    |

- (1) Software Systems and Services includes items that were previously classified as unallocated overhead in prior periods.

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

|  | <b>Software<br/>Systems and<br/>Services (1)</b> | <b>Appraisal<br/>Services</b> | <b>Total<br/>Combined<br/>Company</b> |
|--|--|-------------------------------|---------------------------------------|
| <b>For the Three Months<br/>Ended October 31, 2001</b> |  |                               |                                       |
| Net revenues   | \$ 7,704,863                                     | \$ 2,490,038                  | \$ 10,194,901                         |
| Depreciation and<br>amortization expense               | 518,357  | 31,324                        | 549,681                               |
| EBITDA   | 1,029,092  | (396,750)                     | 632,342                               |
| Capital expenditures                                   | 125,396  | 37,019                        | 162,415                               |

|                |            |           |            |
|----------------|------------|-----------|------------|
| Segment assets | 16,697,955 | 6,800,235 | 23,498,190 |
|----------------|------------|-----------|------------|

**For the Three Months  
Ended October 31, 2000**

|  |              |              |              |
|--|--------------|--------------|--------------|
| Net revenues                             | \$ 6,390,400 | \$ 2,972,851 | \$ 9,363,251 |
| Depreciation and<br>amortization expense | 533,782      | 52,273       | 586,055      |
| EBITDA                                   | (122,457)    | (494,122)    | (616,579)    |
| Capital expenditures                     | 108,501      | 42,518       | 151,019      |
| Segment assets                           | 18,550,528   | 7,060,714    | 25,611,242   |

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- (1) Software Systems and Services includes items that were previously classified as unallocated overhead in prior periods.

**(3) NEW ACCOUNTING PRONOUNCEMENTS**

In July 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets" ("SFAS 142"). This statement changes the accounting and reporting for goodwill and other intangible assets. Upon adoption of this statement, goodwill will no longer be amortized; however, tests for impairment will be performed annually or when a triggering event occurs. This statement will apply to assets acquired after June 30, 2001, and existing goodwill and other intangible assets upon the adoption of SFAS 142, in fiscal 2003. The Company is evaluating the effect of SFAS 142 on the consolidated financial statements related to the impairment testing of goodwill. Pretax amortization of goodwill for the six months ended October 31, 2001 and 2000 was approximately \$319,000 for both periods.

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

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**(4) EARNINGS (LOSS) PER SHARE**

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

|  | Three Months Ended<br>October 31, |              | Six Months Ended<br>October 31, |                |
|--|-----------------------------------|--------------|---------------------------------|----------------|
|  | 2001                              | 2000         | 2001                            | 2000           |
| Numerators:  |                                   |              |                                 |                |
| Net income (loss)  | \$ 10,355                         | \$ (870,366) | \$ 38,095(1)                    | \$ (1,212,473) |
| Denominators:  |                                   |              |                                 |                |
| Denominator for basic earnings<br>(loss) per share, weighted<br>average outstanding common<br>shares | 3,603,318                         | 3,488,008    | 3,579,826                       | 3,469,914      |
| Potential dilutive shares  | 88,546(1)                         | 0(2)         | 114,529                         | 0(2)           |
| Denominator for diluted earnings<br>(loss) per share   | 3,691,864                         | 3,488,008    | 3,694,355                       | 3,469,914      |
| Earnings (Loss) Per Share:   |                                   |              |                                 |                |
| Basic  | \$ .00                            | \$ (.25)     | \$ .01                          | \$ (.35)       |
| Diluted  | \$ .00                            | \$ (.25)     | \$ .01                          | \$ (.35)       |

- (1) Options to purchase 434,952 and 404,452 shares of common stock at prices ranging from \$3.60 to \$7.00 per share were outstanding during the three and six months ended October 31, 2001, but were not included in the computation of diluted earnings per share because the options' exercise price was greater than the average market price of the common stock.
- (2) All of the options to purchase shares have been excluded due to the loss for these periods.

## (5) CONTINGENT LIABILITIES

The Company and its subsidiary are parties, both as plaintiff and defendant, to a number of lawsuits and claims arising out of the normal course of their business. In the opinion of management, the liabilities resulting from these proceedings, if any, will not be material to the Company's consolidated financial position or results of operations.

### ***Results of Operations***

Net revenues of \$10,194,901 for the three months ended October 31, 2001, have increased by 9% in comparison to the \$9,363,251 of net revenues that were reported for the comparable period in the prior fiscal year. Net revenues were relatively comparable for the six months ended October 31, 2001 and 2000, at \$19,574,431 and \$19,428,757, respectively. These amounts include revenues from software installations; sales of computer hardware, forms and supplies; and various related services, such as mass real estate appraisals (revaluations), software support, data conversions, training, project management, hardware maintenance, forms processing and printing.

As anticipated, appraisal service revenues have decreased for the three months ended October 31, 2001, by approximately \$483,000 or 16% to \$2,490,038 and by approximately \$1,551,000 or 22% to \$5,535,285 for the six months ended October 31, 2001. The Company's backlog for appraisal services at October 31, 2001, has also decreased by approximately \$2.5 million to \$8.9 million compared to approximately \$11.4 million at April 30, 2001. These decreases are due primarily to the wind down of the \$24 million Allegheny County (Pittsburgh) Pennsylvania contract as well as the cyclical nature of our Ohio appraisal business. The Company has been actively pursuing new business to replenish the backlog.

As noted in prior years, the Company had reserved 100% of retainage revenue related to the Allegheny County appraisal project and 15% of the retainage revenue on all other appraisal service projects due to the high degree of judgment involved in estimating the percentage of completion on these projects and the uncertainty regarding their ultimate collection. As of October 31, 2001 and 2000, the total reserve against retainage revenue under all appraisal service projects (including Allegheny County) was approximately \$985,000 and \$2,246,000, respectively. As of October 31, 2001 and 2000, the total reserve against retainage revenue under the Allegheny County project was approximately \$418,000 and \$2,034,000, respectively. These decreases are primarily due to the collection and recognition of \$1,850,000 of retention revenue in fiscal 2001 from Allegheny County. See also the information contained in the Form 8-K Current Report filed by the Company on November 30, 2001 described in Part II, Item 6(b).

Software, systems and services revenues have increased 21% from \$6,390,400 to \$7,704,863 for the three months ended October 31, 2001, and 14% from \$12,342,029 to \$14,039,146 for the six months ended October 31, 2001, compared to the same periods in the prior fiscal year. These increases are primarily due to the execution of a number of new MVP Tax software contracts in the Florida, Indiana and Ohio regions. In addition, the overall business has picked up given that the prior year was negatively impacted by the national election and the post-Y2K slowdown.

Cost of revenues of \$6,512,912 for the three months ended October 31, 2001, were slightly lower than the \$6,587,170 of costs for the three months ended October 31, 2000, and cost of revenues of \$12,480,485 for the six months ended October 31, 2001, were 9% lower than the \$13,679,055 of costs reported for the comparable period in the prior fiscal year, despite the increase in net revenues noted above. These decreases are due to a 6% improvement in gross margins for the

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three and six month periods ended October 31, 2001. Gross margins are approximately 36% for the current year versus 30% in the prior year. The increase in gross margin is primarily due to a shift in the mix of revenues. For

example, the Software Systems and Services segment of the business typically yields a higher gross margin than the Appraisal Services segment and is generating a higher percentage of the overall revenues for the Company in the current year relative to the prior year.

Selling, general and administrative expenses have decreased by approximately \$379,000 or 10% to \$3,599,328 for the three months ended October 31, 2001, and by approximately \$483,000 or 6% to \$6,965,478 for the six months ended October 31, 2001, versus the comparable periods in the prior fiscal year. These decreases are primarily due to reduced employment levels in the Appraisal Services segment and a concerted effort by the Company to monitor and reduce overhead expenses.

As a result of the factors noted above, the Company reported substantial improvements in its operating income. Operating income was \$82,661 for the three months ended October 31, 2001, versus an operating loss of \$1,202,634 for the three months ended October 31, 2000, and operating income was \$128,468 for the six months ended October 31, 2001, versus an operating loss of \$1,698,573 for the six months ended October 31, 2000. Net interest income for the six months ended October 31, 2001 was \$2,627 compared to net interest expense of \$103,900 for the six months ended October 31, 2000. This improvement is directly related to a reduction in the Company's bank borrowings.

The Company's provision for federal income taxes generally fluctuates with the level of pretax income. The effective tax rate for the three and six month periods ended October 31, 2001 is approximately 88% and 71%, respectively. These effective tax rates are substantially higher than the statutory rate of 34% primarily due to the large amount of non-deductible goodwill amortization related to the Company's acquisitions relative to the level of pretax income.

Net income was \$10,355 or \$0.00 per diluted share for the three months ended October 31, 2001, versus a net loss of \$870,366 or \$0.25 per diluted share for the three months ended October 31, 2000. Net income for the six months ended October 31, 2001, was \$38,095 or \$0.01 per diluted share compared to a net loss of \$1,212,473 or \$0.35 per diluted share for the six months ended October 31, 2000. Diluted weighted average outstanding common shares increased by approximately 203,000 and 224,000 shares for the three and six month periods ended October 31, 2001, respectively. These increases are primarily due to the fact that potentially dilutive shares were excluded from the earnings per share calculations in the prior year because of the net losses that were reported.

### ***Financial Condition and Liquidity***

At October 31, 2001 the Company had working capital of \$3,486,811 compared to the April 30, 2001, amount of \$2,648,259. These levels reflect current ratios of 1.29 and 1.18, respectively. The higher working capital is primarily due to an increase in cash flows from operations, which was utilized to repay all short-term bank borrowings.

Shareholders' equity at October 31, 2001 increased by \$272,832 to \$11,413,354 from the balance reported at April 30, 2001, because of \$65,611 of employee stock purchases, \$169,126 of amortization expense of deferred stock compensation and \$38,095 of net income for the six months ended October 31, 2001. As a result, book value per share has increased to \$3.00 as of October 31, 2001, from \$2.95 at April 30, 2001.

The nature of the Company's business typically is not property or equipment intensive. Net capital expenditures were

approximately \$272,000 for the six months ended October 31, 2001, compared to approximately \$251,000 for the six months ended October 31, 2000. Current year as well as prior year expenditures relate primarily 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 \$4.5 million line of credit agreement with Comerica Bank at the prime rate of interest, which expires on November 1, 2002. In addition, the Company had a \$1.4 million installment note with required monthly payments of \$100,000 commencing January 1, 2001, at the prime rate of interest less .25%. As of October 31, 2001, the Company had no borrowings outstanding under its line of credit and had fully repaid the installment note payable prior to its maturity. The Company anticipates that the line of credit, together with existing cash balances, and cash generated from future operations will be sufficient for the Company to meet its working capital requirements for at least the next twelve months.

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.

On October 4, 2001, the Board of Directors authorized the Company to repurchase up to \$250,000 of the Company's common stock. The Company has not repurchased any common stock pursuant to this program as of the end of the period covered by this report.

***"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:

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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 pitfalls that it is not fully aware of considering its lack of experience.

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 the Company's 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.

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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 also 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.

Factors that the Company has discussed in previous public reports and other documents filed with the Securities and Exchange Commission.

Changes in the financial markets, the economy, governmental spending, and the demand for software and related services and products resulting from recent 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.

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**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, 2001, 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.

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 'Forward-Looking Statements' in Item 2 of this report for a discussion of the limitations on the registrant's responsibility for such statements. In this discussion, "near term" means a period of one year following the date of the most recent balance sheet contained in this report.

**PART II. -- OTHER INFORMATION.**



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

The annual meeting of shareholders of the Company was held on October 4, 2001. The purpose of the meeting was to elect directors. The name of each director elected (along with the number of votes cast for or authority withheld) is as follows:

| <u>Elected Directors</u> | <b>Votes Cast</b> |                                   |                         |
|--------------------------|-------------------|-----------------------------------|-------------------------|
|                          | <u>For</u>        | <u>Authority Withheld Against</u> | <u>Broker Non-Votes</u> |
| Allen F. Peat            | 3,196,196         | 31,652                            | 0                       |
| Gene Bledsoe             | 3,211,055         | 16,793                            | 0                       |

The following persons continue to serve as directors: Randall L. Peat, Paul R. Sylvester, Stephen C. Waterbury, Richard J. Holloman, Harry C. Vorys, and W. Scott Baker.

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## 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                   | Agreement and Plan of Merger by and among ProVal Corporation, Manatron, Inc., and ProVal Acquisition Corporation, dated May 28, 1999, as amended. Previously filed as an exhibit to the Company's Form 8-K filed on June 18, 1999 and incorporated herein by reference.                        |
| 2.2                   | 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. |
| 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.   |

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- 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. 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.
- 10.3 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.

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- 10.4 Manatron, Inc. Employee Stock Ownership and Salary Deferral 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.
- 10.5 Manatron, Inc. 1994 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.
- 10.6 Employment Agreement with 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, 1997, and incorporated herein by reference.
- 10.7 Employment Agreement with J. Wayne Moore dated May 28, 1999.\* 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.
- 10.8 Manatron, Inc. Executive Incentive Plan for 2001.\* Previously filed as an exhibit to the Company's Form 10-Q Quarterly Report for the period ended January 31, 2001, and here incorporated by reference.
- 10.9 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.
- 10.10 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 here incorporated by reference.

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- 10.11 Employee Stock Purchase 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 here incorporated by reference.
- 10.12 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.
- 10.13 Letter Loan Agreement between Comerica Bank and Manatron, Inc., dated April 20, 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.
- 10.14 Promissory Note between Comerica Bank and Manatron, Inc., dated April 20, 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.

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- 10.15 Guaranty between Comerica Bank and Manatron, Inc., dated April 20, 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.
- 10.16 Manatron, Inc. Stock Incentive 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 here incorporated by reference.
- 10.17 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 here incorporated by reference.
- 10.18 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 here incorporated by reference.

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\*Management contract or compensatory plan or arrangement.

- (b) Report on Form 8-K. The Company did not file a Form 8-K Current Report during the three-month period ended October 31, 2001. On November 30, 2001, the Company filed a Form 8-K Current Report to report the filing of a lawsuit by the Controller of Allegheny County, Pennsylvania.

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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, 2001

By /s/ Paul R. Sylvester

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

By /s/ Krista L. Inosencio

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Krista L. Inosencio  
Director of Accounting and Finance  
(Principal Finance and Accounting Officer)

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**EXHIBIT INDEX**

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