

MANATRON INC
Form 10-K
July 23, 2004

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

- ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended April 30, 2004
- OR
- 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 East Milham Avenue

Portage, Michigan

(Address of Principal Executive Offices)

49002

(Zip Code)

Registrant's Telephone Number, Including Area Code: (269) 567-2900

Securities registered pursuant to Section 12(g) of the Securities Exchange Act:

Common Stock, No Par Value

(Title of Class)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. Yes No

Indicate by check mark whether the registrant is an accelerated filer (as defined in Exchange Act Rule 12b-2).

Yes No

The aggregate market value of the registrant's common equity held by nonaffiliates of the registrant based on the last sale price of such stock on October 31, 2003 (which was the last business day of the registrant's most recently completed second fiscal quarter) was approximately \$23,293,152.

As of July 23, 2004, 4,289,620 shares of the registrant's Common Stock, no par value, were outstanding.

Documents Incorporated by Reference

Portions of the definitive proxy statement for the registrant's annual meeting of shareholders to be held Thursday, October 14, 2004, are incorporated by reference into Part III of this report.

PART I

Item 1. Business.

General

Manatron, Inc., a Michigan corporation ("Manatron" or the "Company") was started in 1969 as a partnership and was incorporated in Michigan in 1972. Manatron initially provided in-house data processing services for local governmental units located in Michigan, Illinois and Indiana. The Company's business was later extended into other states and it began to provide advanced microcomputer-based "turn-key" data processing systems for counties, cities and townships. These "turn-key" data processing systems included both general purpose computer hardware produced by leading manufacturers, proprietary software developed or purchased by the Company and related implementation and support services.

Today, the Company designs, develops, markets and supports a family of web-based and client/server application software products for county, city and township governments. Manatron's products support back-office processes for these government agencies and facilitate the broader business processes via eGovernment and Internet features, such as Internet payments and mortgage lender integration, targeted at the needs of taxpayers and industry professionals. The Company also provides mass appraisal services, assessing residential, commercial and other types of properties to ensure updated and equitable property valuations. The Company is headquartered in Portage, Michigan and has offices in California, Florida, Georgia, Illinois, Indiana, Michigan, North Carolina and Ohio. As of April 30, 2004, the Company served approximately 1,700 customers in 24 states and three Canadian provinces.

The Company's vision is to be the leading provider of innovative, integrated property systems and services in North America. The Company also seeks to delight its clients with its products and services, to build a healthy culture with its employees who embrace its core values and to maximize shareholder value.

The Company's principal executive offices are located at 510 East Milham Avenue, Portage, Michigan 49002, its telephone number is (269) 567-2900 and its fax number is (269) 567-2930. The Company's website address is www.manatron.com, where the Company makes available free of charge the Company's reports on Forms 10-K,

10-Q and 8-K, as well as any amendments to these reports, as soon as reasonably practicable after they are electronically filed with or furnished to the Securities and Exchange Commission.

 For financial information regarding the Company, see the consolidated financial statements of the Company and the notes thereto, which are attached as Appendix A to this Form 10-K. The Company has historically had two reportable segments for financial reporting purposes: Software Systems and Services and Appraisal Services. Due to internal reorganizations during fiscal 2004 and the fact that Appraisal Services are tightly integrated with Software Systems and Services, the Company has concluded under the provisions of SFAS No. 131 that its entire operations now meet the definition of a single segment. All financial data that were disclosed separately by segment in previously filed reports, have been combined in the Consolidated Financial Statements as one reportable segment for all periods covered by the Consolidated Financial Statements of the Company.

Products

Historical Perspective

 The Company's legacy software product portfolio consists of nearly 100 distinct products that are used by auditors, assessors, treasurers, recorders, clerks and other elected officials in local government markets. This number, which had grown to nearly 250 as a result of several acquisitions during the last 15 years, has been significantly reduced as a result of the Company's recent strategic decision to focus its efforts and direction on those software products and services that are primarily related to property taxation and assessments.

 The Company has built its product portfolio using several different programming tools, including COBOL, Basic, Clipper, FoxPro, Uniface and Admins. This variety of tools is a result of technology improvements over time, as well as different decisions made by the various businesses that were acquired by the Company. These products utilize several different operating system platforms, including VMS, OS/400, MS-DOS and Microsoft Windows. Supporting this quantity of software products and variety of platforms is complex. As a result, the Company has focused its new product development activities on building a comprehensive suite of full life-cycle property applications known as the Manatron Government Revenue Management (GRM) suite. With this new suite of products, the Company seeks to provide local governments with advanced technology and usability features allowing them to more efficiently serve their taxpayers and other constituents.

Technology

 The Company has made a number of strategic platform decisions to ensure that its next generation products are built using common technologies and to leverage the technical expertise from the internal and external resources it utilizes. While the product life-cycles vary from jurisdiction to jurisdiction, the Company has historically found that the life of products for local government ranges from 10 to 20 years.

 The Company is building its new software products with certain, specific design themes. An important

theme is database independence. Recognizing that the customer base has some level of built-in commitment to database technologies of choice, the Company has decided to support the popular relational database engines, such as Microsoft SQL Server, Oracle and Informix. The Company expects to support IBM DB2 within the next two years.

With respect to operating environments, the Company's new software products are built to run on Microsoft operating system platforms, specifically Windows 2000, Windows XP and the .NET Framework. Microsoft is the most common platform currently being used in the local government market. While the Company will support additional operating systems, such as IBM AIX and Sun Solaris for the Oracle relational database engine, the user interface and business rules components are being built for Microsoft Windows Server and Internet Information Server (web) platforms.

The Company's product development teams now use a limited set of programming tools when building new products. In particular, Microsoft Visual Studio (C#, Visual Basic and Visual C++) is the primary programming tool. The Company's analysts document certain designs using the Unified Modeling Language (UML). Reporting is developed using an industry-leading reporting toolset, Crystal Reports from Crystal Decisions. All web-based applications are being built on this same platform including ASP.NET. The Company's technology framework initiative, iFramework, provides a shared technical platform for all products in the GRM suite. iFramework is built on Microsoft's .NET framework and provides a robust, long-term operating platform for all of the Company's products. The Company

also anticipates that integrated Geographic Information Systems (GIS) technology, representing a spatial view of the GRM data, will be demanded more in the market as local governments continue to upgrade their legacy systems. As such, the Company is integrating GIS technologies from industry-leading providers such as ESRI and Intergraph with its products to provide those features.

This limited and standard tool set along with technical productivity gains provided by the common, iFramework tool set, allows the Company's development teams to focus on solving business problems rather than constantly learning new programming skills. It also enables them to build and leverage re-usable components. The result of this strategy is expected to be a suite of products that are interoperable with other systems (such as desktop productivity applications, partner applications, state-sponsored systems, separate and disconnected systems via XML-based web services, and custom-written applications), a set of products that integrate tightly with the customers' operating environment, and a development force that is more productive and quickly able to bring new product features and extensions to market.

The following is a general description of the features and functionality of the Company's major software product groups that it continues to develop or has made arrangements to resell. The Company specializes in keeping its application software in compliance with the varying requirements of state statutes. New development is primarily focused on the ongoing development of the GRM software products and continuing to enhance and extend the suite as a whole. In connection with this effort, the Company plans to continue to rationalize its product portfolio as existing customers migrate to the new products, further leveraging costs across the organization.

Manatron GRM Products

As pressure mounts on local government to improve services and reduce costs, previously isolated departments are faced with doing more with less. By integrating Recording, Tax Billing and Collection, Assessment and GIS, Manatron's GRM suite of software allows the various departments to work together to achieve efficiencies and improve service. As a result, the Company has been re-engineering its entire property suite of software into an Enterprise Resource Planning (ERP) type application suite for local government. Manatron's GRM software encompasses the Administration, Taxation, Assessment or Valuation, Recording and Mapping (GIS) of real and personal property. Clients can use the entire suite or opt to purchase only specific modules to integrate with their existing systems. Consistent with the technology process described previously, Manatron's GRM software uses iFramework, component-based development and object-oriented analysis, design and programming. Manatron's GRM software is designed from the ground up to be an integrated property management application. Its architecture is based on the Microsoft operating system and platform, and is designed with inherent interoperability with other Microsoft Windows-based applications, such as Microsoft Office. Manatron's GRM software products are designed with database independence and have an n-tier architecture giving them broad scalability options and inherent Internet interoperability.

Taxation

Manatron Tax is a Microsoft Windows-based, comprehensive property tax software system, which maintains, bills, collects, distributes and tracks real and personal properties and their associated taxes. It is a flexible system that can be supported by a variety of operating systems, hardware platforms, network configurations and relational databases. Local government officials along with industry experts have been involved in the design and review of Manatron Tax to ensure that it is in compliance with state standards, processes and laws, and that it brings important new capabilities to tax billing and collection users.

Manatron Tax maintains multiple tax years, provides extensive security and automates settlements, balances and roll-overs. Manatron Tax also manages real, personal, mobile homes, mineral, motor vehicle and special assessments. It includes "On-line" and "What's This?" help, and provides easy-to-use "Wizards" and workflow to guide the user through multi-step or infrequently used processes. Manatron Tax provides user-defined tax units and rate tables, tracks property splits, combinations and transfers, and allows comprehensive searches and inquiries. It also automates delinquencies, tax sales, interest and penalty calculations, and incorporates a built-in report writer. Manatron Tax was initially deployed in Indiana in January 2000 and is currently being used in over 40 counties in Indiana, three counties in Ohio, one county in Pennsylvania and 10 counties in Florida. In addition, the Company is implementing the product in Alabama, Alaska, Georgia, Maryland and North Carolina. Product design plans are under way to support future installations in additional states. As Manatron Tax is extended into new geographies, the product team is leveraging new features in iFramework, as well as innovative designs from its subject matter experts to fully nationalize the product, thereby reducing time to market for new states and on-going support costs.

Appraisal or Valuation

Manatron CAMA is a Microsoft Windows-based property appraisal software product. It features a highly productive, integrated sketch package and an accurate valuation engine for calculating property values. Manatron

CAMA is one of the most widely deployed, nationally recognized CAMA software products available today. It is presently being used in approximately 300 appraisal jurisdictions in 19 states and three Canadian provinces. The underlying architecture and database independence allows Manatron CAMA to run efficiently in a variety of configurations. Using the advanced ProVal® valuation engine, Manatron CAMA offers the traditional approaches to value, including the cost, market and income approaches, and conforms to national and international standards. It encapsulates advanced CAMA technology, provides integrated GIS features and integrates hearing scheduling and certified roll maintenance, while adhering to the CAMA business rules. As Manatron CAMA is extended into new geographies, the product team is leveraging new features in iFramework, as well as innovative designs from its subject matter experts to further nationalize the product, thereby reducing time to market for new states and on-going support costs.

 Recording

 Manatron Recorder is a national application that meets the indexing, recording and retrieval standards for numerous types of documents, including deeds, mortgages, UCC financing statements, liens, vital records and military discharges in one simple-to-use application. Manatron Recorder includes receipting, cashiering, indexing, integrated imaging, workflow analysis, accounts receivable, escrow, public-inquiry and Internet access. It supports a variety of operating systems, hardware platforms, network configurations and relational databases. In addition, Manatron Recorder supports the storage of many types of data elements, including grantors and grantees, legal descriptions, associated document references, property addresses, parcel identification numbers and user defined data fields, as needed. County officials no longer have to look up records one at a time by party name or approximate time frame with Manatron Recorders robust inquiry system. Rather, documents can be located by many different methods, including name, book, page or instrument number, platted or unplatted description, lot number, parcel number, property address, consideration amount, and index and date range. Manatron Recorder is currently being used in 65 Register of Deeds offices in seven states with efforts in additional new states currently underway.

 Mapping/GIS

 The Company has extensive GIS experience and product features, which are primarily built around spatially-enabling its property data for data analysis, property assessment calculations (for items such as agricultural soil use valuation) and general data validation. The Company views GIS as an inherently critical feature for its product line as a critical mass of the market has already invested heavily in creating an electronic GIS database and now seeks to make use of that investment.

 The Company has created partnerships with successful GIS vendors in order to offer the necessary GIS features, capabilities or products as part of the Manatron GRM software suite. The Company also expects to continue working closely with these GIS vendors so that it can offer products to its customers and publish open standards that will enable other qualified GIS vendors to integrate their own GIS technology with Manatron's GRM suite of software.

 Manatron eGovernment

 The Company's eGovernment products and services facilitate access to public information or provide e-commerce on the Internet. Taxpayers, industry professionals and others with Internet access can now review current, formatted information relevant to their needs without leaving their home or office, 24 hours a day, seven days a week. Manatron eGovernment products are web-based applications written using Microsoft's Internet technologies and a SQL Server database, which makes their products fast and fully-featured. From custom themes and table-driven field labels to multi-language support, Manatron eGovernment clients can also customize their sites to their needs.

 Manatron eGovernment products are currently being used by over 100 clients in 13 states. In addition, the Company hosts the data for the majority of this customer base. The key products are:

PropertyMax - Provides access to property information

RecordsMax - Provides access to deeds, vital records and other information that is recorded

CollectMax - Provides a collection system for online payment of property taxes and other fees

VoiceMax - Allows access to public information and services from a phone

 The Company hosts its eGovernment applications for its customers in a secure, scalable web farm with maximum redundancy. The web farm includes audited/monitored Internet security, physical access security, triple redundant power backup and access to the Internet via three different backbone providers for quick uptime and security.

 The Company distinguishes its eGovernment product line from many dot.com competitors by linking these products to its "back-office" software applications running in the various jurisdictions. This "end-to-end" solution minimizes errors and results in more accurate, up-to-date information via the Internet, bringing both the governmental units and the public/commercial consumer of the information closer together. This improved information access for the public and commercial users also frees the governmental units from their traditional roles of helping users gather information, which allows governmental officials to focus on improving the efficiency and effectiveness of other services.

 Visual Voter

 Manatron also offers a Microsoft Windows based voter registration system that runs in a client server environment. Using an industry standard, SQL compatible relational database, Visual Voter is easy to use and offers various features. It conforms to the requirements of the National Voter Registration Act as well as certain state specific requirements. Visual Voter's features include reporting all county

election record totals for a specific period; checking against felony conviction records; interacting with state systems for updates, activity, etc.; handling all aspects of jury selection, including reporting; and assigning voters to the proper district, precinct and polling location. Visual Voter is currently being used by 22 clients in Indiana.

 Sale of Product Lines

 Effective May 29, 2003, the Company sold its Financial Product line and related business to N. Harris

Computer Corporation As a result of the sale, Harris now owns all of the Fund Accounting, Payroll, Utility Billing and related financial software that Manatron had developed or acquired over the last 15 years, including the Open Window Series products, UB5, the ATEK legacy financial products, the Sabre legacy financial products and the SDS Administrator financial software. See Note 9 of the Notes to Consolidated Financial Statements for further details.

Effective May 31, 2004, the Company sold all of the assets of its Judicial Product line to MAXIMUS, Inc. As a result of the sale, MAXIMUS now owns all Gavel and WRITS products, including case management, court accounting, prosecution management, probation tracking, jury management, child support and related judicial software. See Note 11 of the Notes to Consolidated Financial Statements for further details.

Services

In connection with the installation of its "turn-key" systems, the Company provides ongoing hardware integration and maintenance, software support, project management, implementation services, conversions, training and other customer services through its corporate headquarters and regional offices. The Company typically maintains an office in each region or state where it has a significant nucleus of customers, so it can more effectively respond to their needs. Each regional office includes customer service personnel who are able to assist with the installation of the Company's "turn-key" systems and provide technical support on site before and after the installation. In addition, Company personnel respond on a daily basis to customer telephone inquiries regarding the use of Manatron systems. A number of these regional offices also are staffed with employees who are trained to identify and respond to customers' hardware and other technical inquiries.

Many of the software packages described above can be used in conjunction with software enhancement options, such as the use of a laser pen to decipher bar coding for efficient storage and retrieval of information. In addition, laser printing and CD-ROM storage services are provided by the Company and through alliances with other companies. Laser printing and CD-ROM services reduce the amount of paper needed to store documents and, accordingly, save storage space. Laser printing produces copies that look like originals because data is printed electronically from magnetic computer tape onto paper, which results in improved print quality, and offers the option of multiple fonts and graphics. Through the use of laser printing and CD-ROM storage, Manatron's customers are able to keep historical data in a user's department, which permits retrieval and printing, often within seconds of command.

Manatron also provides mass revaluation appraisal services to local governments. These real estate services are a natural product extension for the Company, as many Manatron "turn-key" systems customers also contract periodically for mass appraisal services. Manatron is one of the largest vendors of mass appraisal services in the United States. A typical mass appraisal engagement is performed under a fixed-price contract over an 18 to 24 month time frame. Using the technology of its appraisal software products, Manatron has developed a flexible, innovative methodology for appraisal delivery, which enables it to service jurisdictions of any size and accommodate the specific requirements of an individual client. Through physical inspection, computer analysis and sound judgment of professional appraisers,

Manatron calculates an assessed valuation of each parcel of property in a jurisdiction. Manatron supports these values on behalf of the jurisdiction through the hearings process and finalizes the tax rolls to enable the jurisdiction to create tax bills.

Manatron also has teamed with Mobile Video Services Inc. of North Kansas City, Missouri to jointly market "appraisal data verification +" (ADV+) services. ADV+ is a service that provides an inexpensive alternative to "walking around" or "remeasuring" every property while adding valuable photographic, x,y coordinate and address verification to the assessment file. This process can be done in conjunction with state mandated reappraisal projects. Alternatively, the process can be utilized to verify existing assessment data, combining it with property address verification for 911 or emergency management use, x,y coordinate linkage to GIS systems, and to provide a street level digital photograph of each improvement.

Manatron also has a marketing alliance with Pictometry International Corp., a Rochester, New York provider of a patented information system that captures digital aerial oblique and orthogonal images, as well as related software. Under this agreement, both companies will collaborate on joint projects for systems, services, and software integration of technology from both firms, providing a strong, value-added solution for property appraisal applications. Manatron has already secured a number of joint project wins with counties in the State of Ohio.

Manatron has an extensive client base utilizing its CAMA software and appraisal services. Pictometry's industry leading software enables users to quickly and easily access up to 12 different high-resolution views of any property, building, highway, landmark or other feature in a county. Pictometry software also enables end users to obtain measurements directly from the georeferenced imagery, as well as insert GIS content and other data, which makes it invaluable in the property appraisal process.

The initial focus of the marketing alliance on appraiser operations has expanded into the Manatron software product line where Pictometry technology is being integrated into Manatron's CAMA software to provide rapid retrieval of key property data and images.

Marketing

The Company has been aggressively focusing its marketing efforts on positioning a single, consolidated brand image of its name, Manatron. This includes media advertising in select industry specific publications, targeted direct mail, sales generation programs and participation in tradeshow and conferences. All aspects of the Company's name, products and marketing strategy will reflect this new focus. The Company also develops user groups and provides industry and product research. The Company's marketing personnel are also responsible for the development of product literature, presentations and seminars for prospects and customers. They also develop product-specific newsletters. In cooperation with the sales and business development function, the product marketing department also assists in responding to requests for proposals.

Sales and Business Development

The Company primarily markets its products through a direct sales force who work out of the corporate, regional or home offices in California, Florida, Georgia, Illinois, Indiana, Michigan, North Carolina, Ohio, and Virginia. Manatron continues to invest in organic business development activities across the country. This past year, the Company initiated a business development strategy that focused on organic growth in three distinct market segments. In the Company's core markets, emphasis is on customer retention and market share improvement via improved account management functions focusing on customer delight. In addition, emphasis is on providing outstanding software support, excellent

customer care, continuous updates to technology and product enhancements based upon evolving customer needs and software functionality.

 In the Company's growth markets, a strategy of rapid market expansion is being employed by leveraging initial successful key customer implementations across the market as a whole. In this market segment, emphasis is on selling the value proposition of an experienced and proven Company with a national presence, financial stability, superior technology, a solution to solve customer needs in that particular market and excellent customer care. Basic business development activity is planned and measured in terms of new customer contacts, demonstrations, implementation planning and rapid increase of market share.

 The Company's emerging market emphasis starts with an evaluation of the new market. Investment in business development activity begins with discovery meetings with key prospects to gain an understanding of product requirements and specific common value propositions to the market. An emphasis is made to identify early, those jurisdictions with strong leadership capabilities that are looking for a new integrated commercial off the shelf solution for Tax and CAMA. The goal of the emerging market is to quickly identify, contract and implement one or two successful installations and then migrate the market from an emerging market to a growth market to cost effectively exploit the market potential as quickly as possible.

 Currently, Manatron has focused its sales and business development activities into three core markets, nine growth markets and six emerging markets for its GRM suite of software and related services. In fiscal 2004, the Company added four sales executives and currently plans to add up to five more in fiscal 2005.

Customer Base

 The Company's customers are primarily county, city and township governments in the United States. Revenue derived from Canada, which is the only other country in which the Company has customers, has accounted for less than 1% of the Company's total revenues for each of the last three fiscal years. As of April 30, 2004, the Company's 1,700 customers in 24 states and three Canadian provinces were located in approximately 350 counties, 175 cities and 300 townships. There are approximately 3,000 counties, 19,000 cities and 16,000 townships in the United States. Within each of these governmental units, the Company generally works with elected officials such as tax collectors, auditors, treasurers, assessors, recorders and clerks. The Company's sales are highly dependent on the quality of the relationships it has with these elected officials within each county, city and township government, as well as their demand for its products and services. The Company does not believe that the loss of any single customer would have a materially adverse effect on the Company; however, a material decline in the Company's sales to various governments could have such an effect.

Competition

 Competition for the Company's software, related services and mass appraisal services is intense. The Company competes primarily on the basis of its name recognition, financial stability, industry expertise, technology, range and quality of products, reputation for providing excellent customer service and its commitment to its core values.

 The Company's major competitors are generally small local software and service firms, which often are able to offer less expensive solutions or have developed long-term relationships with key governmental officials. Generally, these smaller firms can sell hardware, software and services at reduced prices because of their small amount of overhead. In addition, their focus is often only on one

state and a smaller base of clients. The Company also competes with a number of larger, national, public companies such as Tyler Technologies, Inc., Associated Computer Systems, Inc., Sunguard Data Systems, Inc., and Maximus, Inc. The Company would be adversely affected if a large computer manufacturer, technology or professional service firm such as International Business Machines Corporation, Accenture Ltd., Bearing Point, Inc., Electronic Data Systems Corporation or Peoplesoft, Inc. decides to develop software for property taxes and assessment. Furthermore, application software also is developed periodically by or for public agencies for use by governments. If the funding and distribution of governmentally developed or funded software becomes more widespread, such products could compete with the Company's products. In addition, because there are now new tools and technologies available to speed up the development of software at reduced costs, increased price competition may be expected in the future.

Although state and local governments traditionally have lagged behind both the federal government and the private sector in computer automation, the application of microcomputer and personal computer technology to local governmental units recently has been subject to rapid development and change. The ability of the Company to develop new application software programs utilizing modern technology is critical to its ability to compete successfully. Manatron regularly reviews and updates its software to meet the needs of its customers and to ensure that the software can be utilized in connection with the new technologies that are available. In addition, the ability of Manatron to win new business and to successfully implement it on a timely basis, are additional critical success factors.

The most significant barriers to entry into the Company's market are industry expertise, competitive bid processes, bonding requirements, relationships with customers or prospects and personnel needed to design and develop software for the unique needs of local government.

Research and Development

Manatron's success depends on its ability to respond quickly to changing technology, market demands and the needs of its customers. Manatron emphasizes research and development and has been investing significant amounts of its revenue for the last three years to support and further its role as a leader in the markets it serves. The Company's research and development expenditures relate primarily to the design, development, testing and deployment of computer software. Systems programming and support costs charged to expense were approximately \$6.4 million, \$5.7 million and \$4.7 million for the fiscal years ended April 30, 2004, 2003 and 2002, respectively. These amounts include the annual amortization expense associated with software capitalized. In addition, the Company capitalized approximately \$1,615,000, \$1,333,000 and \$1,142,000 of computer software development costs during fiscal 2004, 2003 and 2002, respectively.

Manatron continued its investment in its GRM software suite, adding eGovernment features and developing the iFramework toolset. A major goal is to have innovative software with a robust technology direction that supports emerging open standards, including XML-based web-services, true thin-client design, as well as support for the "Smart Client" initiative of Microsoft and other industry groups. Another goal is to produce a robust, highly-scalable, feature-rich suite of products built on a common, reliable, scalable architecture centered around Microsoft's .NET platform with inherent Internet capabilities. Through these efforts, the Company seeks to provide a product that it can deploy across its entire client-base and into new geography. The Company may also pursue new market segments based on an ASP model and, accordingly, has been investing in that capability as well.

Suppliers

 The Company generally maintains more than one alternative supplier. All computers, peripherals, disks, printers, plotters, digitizers, operating system software, office automation software and other equipment required by the Company presently are available from at least two sources. Hardware is purchased on original equipment manufacturer or distributor terms at discounts from retail. The Company has not experienced any significant supply problems.

Backlog

 At April 30, 2004, the Company's backlog of orders for hardware, software and services (including mass real estate appraisal) was approximately \$29.3 million, compared with approximately \$22.9 million at April 30, 2003. This backlog value does not include recurring revenue associated with monthly, quarterly and annual support and maintenance contracts, which accounted for approximately 45% of net revenues in both fiscal 2004 and 2003. Backlog for the Company's software and services business can fluctuate significantly from quarter to quarter primarily because of the seasonality of government ordering patterns and lengthy sales cycles in this market. Accordingly, a comparison of backlog from quarter to quarter is not necessarily informative and may not be indicative of eventual actual shipments. See Management's Discussion and Analysis of Financial Condition and Results of Operations for further information concerning the Company's backlog of orders.

Intellectual Property

 The Company regards certain features of its operations, products and services to be confidential and proprietary and relies on measures such as contractual restrictions and trade secret laws to protect its intellectual property. Due to the rapid rate of technological development in the computer software industry, the Company believes that protection of intellectual property is less important than the knowledge, ability and experience of the Company's employees, frequency of improvements and timeliness and quality of support services. The Company does not have any patents; however, it does have several patents pending associated with its iFramework tool set.

 The Company incorporates programming on software disks to make unauthorized duplication of the software more difficult. The Company typically licenses its software products under exclusive license agreements, which are generally non-transferable and have a perpetual term. The Company also does not generally provide source code to its customers. The Company has registered certain trademarks and may apply for registration of additional trademarks at appropriate times in the future.

Environmental

 Due to the nature of the Company's business, compliance with federal, state and local environmental laws and regulations governing discharges into the environment is not a significant issue nor is it expected to have a material effect upon future capital expenditures, earnings or the competitive position of the Company.

Employees

 As of July 1, 2004, the Company had 321 full-time employees, 33 duration employees and 11 temporary

employees. For assistance on specific mass appraisal projects, the Company hires duration and temporary employees, whose employment generally lasts for the duration of a project. Duration and temporary employees generally do not receive the same benefits as regular full-time employees. An approximate breakdown of the Company's full time employees is as follows:

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Administrative	10%
Development	26%
Sales and Marketing	5%
Service and Support	35%
Appraisal	24%
	<hr/>
Total	100%
	<hr/>

Item 2. Properties.

The principal executive and administration offices are located in a building owned by Manatron in Portage, Michigan, which consists of approximately 25,000 square feet. During fiscal 2003, the Company purchased a 25,000 square foot building adjacent to its corporate headquarters. Approximately half of this additional space has been leased back to the prior owner. Of the remaining 12,500 square feet, 7,500 square feet will be utilized for Company growth and 5,000 square feet is being offered for lease. The Company leases office and/or warehouse space in Florida, Illinois, Indiana, Michigan, North Carolina and Ohio. Rental payments for the Company's leased office and warehouse space for the fiscal year ended April 30, 2004, totaled approximately \$882,000.

Management considers all of its offices to be well maintained, in good operating condition and suitable and adequate for their intended purposes.

Item 3. Legal Proceedings.

The Company is not a party to any material pending legal proceedings other than routine litigation incidental to its business. While the ultimate effect of such litigation cannot be predicted with certainty, management believes that the liabilities resulting from these proceedings, if any, will not be material to the Company's consolidated financial position or results of operations. See Note 10 to the Consolidated Financial Statements for additional information concerning legal proceedings, contingent liabilities and guarantees involving the Company, which is incorporated herein by reference.

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

No matter was submitted during the fourth quarter of the fiscal year covered by this Annual Report to a vote of security holders, through the solicitation of proxies or otherwise.

Supplemental Item. Executive Officers of the Registrant.

Executive officers of the Company are generally elected by the Board of Directors at its organizational meeting following the annual meeting of shareholders and serve until their successors are elected and qualified. All executive officers serve at the discretion of the Board of Directors of the Company, or if not appointed by the Board of Directors, they serve at the discretion of management.

The following information includes the names and ages of the executive officers of the Company who are not directors as of the date of this Annual Report on Form 10-K, the officers' present position with the Company and the business experience of the officers for at least the past five years. None of the executive officers' past employers were affiliates of the Company.

Mary Gephart (age 45) has been Vice President of Human Resources and Administration since July of 2002. Ms. Gephart joined the Company in 1994 as the Manager of Human Resources and served

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in that position until 1998 when she was promoted to Director of Human Resources. In July of 2000, Ms. Gephart was promoted to Vice President of Human Resources and in July of 2002, Administration was added to her title. She is primarily responsible for directing and coordinating human resources activities, such as employment, compensation, employee relations, benefits, training and employee services.

Krista L. Inosencio (age 30) has been Chief Financial Officer since July of 2002. Ms. Inosencio joined the Company in March of 2000 as the Director of Accounting and Finance. Prior to joining the Company, Ms. Inosencio was employed by Arthur Andersen LLP, an accounting firm, and worked in the audit division from 1995 through 2000. She is primarily responsible for accounting, banking, insurance, financial reporting, securities compliance and taxes.

G. William McKinzie (age 38) has been Chief Operating Officer since July of 2002. Mr. McKinzie joined the Company in April 2002 as an Executive Vice President. From 2001 to 2002, Mr. McKinzie served Kellogg Company, a producer of processed foods based in Battle Creek, Michigan, as Vice President of Information Services for Kellogg Company's international operations. From 1996 through 2000, Mr. McKinzie also served as Vice President and Chief Information Officer of both Kellogg's European operations based in the United Kingdom and its Latin American operations based in Mexico. Mr. McKinzie is primarily responsible for product development, implementation, delivery and support.

Early L. Stephens (age 41) has served as Chief Technology and Marketing Officer since October of 2003. Mr. Stephens rejoined the Company in June 1996 as its Chief Technology Officer. Mr. Stephens originally joined the Company in 1986 and worked as a programmer/analyst until 1988. From 1988 until June of 1996, Mr. Stephens was a Project Manager in the Management Information Systems department at Western Michigan University where he successfully led the migration from legacy software applications to client/server and web-based applications. Mr. Stephens is primarily responsible for all software marketing, product management, including application design and marketing strategy, and the establishment of technology standards for the Company's products and services.

Marty A. Ulanski (age 45) has been Vice President of Sales and Business Development since July 2003. Prior to joining the Company, Mr. Ulanski worked for Spartan Stores, Inc., a grocery retailer and distributor, where he served as the Senior Director of Application Development from 2000 to 2003 and the Director of Retail Information

Technology Services from 1999 to 2000. Mr. Ulanski is primarily responsible for building a national sales team to effectively execute the Company's growth and account management strategies.

PART II

Item 5. Market for Registrant's Common Equity, Related Shareholder Matters and Issuer Purchases of Equity Securities.

Manatron's common stock is traded over-the-counter and is regularly quoted on The NASDAQ Small Cap Market under the symbol "MANA."

The following table shows the range of high and low bid information reported by The NASDAQ Small Cap Market for the fiscal years ended April 30, 2004 and 2003:

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<u>Quarter</u>	<u>2004</u>		<u>2003</u>	
	<u>Low</u>	<u>High</u>	<u>Low</u>	<u>High</u>
May - July	\$ 6.94	\$ 9.10	\$ 3.75	\$ 4.65
August - October	6.00	8.19	3.50	4.61
November - January	7.60	8.93	3.85	5.49
February - April	7.58	9.75	5.01	7.99

These over-the-counter market quotations reflect inter-dealer prices, without retail markup, markdown or commissions, and may not necessarily represent actual transactions.

The Company historically has not paid cash dividends. The Company did, however, distribute 5% stock dividends in 1992, 1993 and 1994. The Company currently does not anticipate paying cash or stock dividends on its common stock in the foreseeable future, but instead intends to retain its earnings, if any, for the operation and expansion of the Company's business.

As of July 1, 2004, the Company's common stock was held by approximately 1,500 shareholders, 215 of which were record holders.

See Item 12 for information with respect to the Company's equity compensation plans.

The Company did not repurchase any shares of its common stock during the fourth quarter of fiscal year 2004.

Item 6. Selected Financial Data.

The following table sets forth selected financial data of the Company and its subsidiary for the last five fiscal years. It has been derived from and should be read in connection with the Company's Consolidated Financial Statements, the related notes and "Management's Discussion and Analysis of Financial Condition and Results of Operations" appearing elsewhere in this Form 10-K or in Form 10-K's previously filed by the Company. Certain reclassifications have been made to the fiscal 2000 through fiscal 2003 selected financial data to conform to the fiscal 2004 presentation.

	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>	<u>2000</u>
Fiscal Years Ended April 30:					
Net revenues	\$ 38,455,296	\$ 40,387,265	\$ 41,131,718	\$ 41,126,586	\$ 43,645,377
Gross profit	17,749,540	17,369,526	15,332,683	13,477,302	14,586,455
Income (loss) from operations	2,794,799	2,063,113	603,059	(860,947)	2,079,630
Net income (loss)	4,585,705	1,510,322	227,714	(940,630)	1,603,845
Basic earnings (loss) per share	1.15	.40	.06	(.27)	.49
Diluted earnings (loss) per share	1.06	.38	.06	(.27)	.45

At April 30:

Cash and short-term investments	10,125,370	10,349,165	5,648,184	700,840	608,062
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total assets	32,882,639	31,330,567	27,851,272	25,851,143	26,724,725
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Shareholders' equity	20,295,953	15,050,582	12,423,266	11,140,522	11,455,767
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Book value per share*	\$ 4.75	\$ 3.64	\$ 3.11	\$ 2.95	\$ 3.26
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>

* Book value per share was calculated by dividing total shareholders' equity by the sum of total shares outstanding and total shares pending issuance at the respective year ends.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

The following section provides a narrative discussion about Manatron's financial condition, changes in financial condition and results of operations. The comments that follow should be read in conjunction with the Company's Consolidated Financial Statements and related notes thereto appearing elsewhere in this Annual Report on Form 10-K.

Critical Accounting Policies and Estimates

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, service 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.

 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 April 30, 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 April 30, 2004 and 2003, the reserve for returns was not material.

 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.

 The Company has approximately \$4.9 million of goodwill recorded as of April 30, 2004 related to prior acquisitions. A new accounting standard adopted in fiscal 2003, requires that goodwill be reviewed for impairment at least annually and as indicators of impairment occur. The annual evaluation of goodwill impairment requires the use of estimates about the future cash flows of each reporting unit to determine estimated fair values. Changes in forecasted operations and changes in discount rates can materially affect these estimates.

 The Company capitalizes software development costs incurred subsequent to the establishment of technological feasibility on a specific software project. This intangible asset is amortized over an estimated useful life of not greater than three years. The unamortized balance of capitalized software is reviewed for impairment annually or whenever events or circumstances indicate that the carrying amount of an asset may not be recoverable by calculating the net realizable value for each respective product. The net realizable value is the estimated future gross revenues from a product reduced by the estimated future costs of completing and disposing of that product. Changes in forecasted operations, driven primarily by market trends and customer demand, can materially affect the estimates of net realizable value.

Results of Operations: Fiscal Year 2004 Compared to Fiscal Year 2003

 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.

 For simplicity purposes, many of the numbers described below are rounded; however, the percentage variations are based upon the actual amounts, which can be found elsewhere in this annual report on Form 10-K.

 Total net revenues for the three months ended April 30, 2004, of \$11.3 million increased by 7% compared to the \$10.5 million that was reported for the three months ended April 30, 2003. More importantly, fourth quarter revenues are more than 20% higher than the quarterly revenues that were reported for each of the first three quarters of fiscal 2004. This anticipated improvement resulted from additional software license fees and related service revenues driven by the increased implementation activity in Florida. For the three months ended April 30, 2004, software license fees and professional services revenues increased 57% to \$4.7 million from \$3.0 million for the prior year fourth quarter. As noted in previous reports, the Company had been extending significant resources and attention in fiscal 2004 toward the development and implementation of its Florida Tax product, which was being used in six beta counties. This product became available for general release in March 2004. As a result, approximately \$1.4 million of the \$3.9 million of backlog reported as of January 31, 2004, was recognized in the fourth quarter.

 Total net revenues of \$38.5 million for the year ended April 30, 2004, decreased by 5%, compared to \$40.4 million for the year ended April 30, 2003. A number of factors which have affected revenue during fiscal 2004 are as follows:

 First, the sale of the Financial Product line on May 29, 2003 (see Note 9) resulted in a \$590,000 and \$2.1 million reduction in net revenues for the three months and year ended April 30, 2004, respectively. The Company only reported approximately \$55,000 of revenues related to this product line for the fourth quarter and \$496,000 for the entire fiscal year compared to approximately \$645,000 and \$2.6 million from this product line for the prior year comparable periods.

 Second, hardware sales for the three months and year ended April 30, 2004, were approximately \$200,000 and \$793,000 lower than the respective prior year periods. These decreases are primary due to a change in the Company's strategic direction in the last five years. The Company historically sold more hardware as a Value Added Reseller for large computer manufacturers, but is now focusing on providing innovative software and services. While the Company still offers hardware to those clients seeking a total solution from one provider, hardware sales should continue to decrease as customers view it as a commodity item, with low gross margins.

 Third, as noted in previous reports, software license fees and related service revenues can vary significantly from quarter to quarter due to the timing of sales and the related implementations. These revenues for the year ended April 30, 2004, decreased by 7% to \$13.2 million from \$14.2 million for the prior year. This decrease was primarily because of the slower than anticipated execution of the backlog in Florida during the Company's first three quarters of fiscal 2004. In addition, the prior year included a significant amount of license fees and professional services revenue from Cuyahoga County (Cleveland), Ohio related to its 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, as well as other regions throughout the Country have been softer than anticipated. Hamilton County (Cincinnati), Ohio did go live on the Company's new tax and appraisal system in December of 2003, which has resulted in positive momentum for Ohio. For example, five additional counties signed contracts since September 2003 for this software for approximately \$4.6 million and several others are in the sales pipeline. The Company did recognize approximately \$1.1 million of revenues during the second half of fiscal 2004 related to its recently announced new Government Revenue Management contract with Gwinnett County, Georgia, which offset a portion of the decreases noted above.

Lengthy sales cycles in local government caused in part by increased competition and budget constraints being felt nationwide have resulted in a lower volume of new contract signings than anticipated. This has negatively impacted the Company's revenues. 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. Until recently, the majority of the Company's investments have primarily been focused on new product development. The Company is now aggressively investing in sales and marketing efforts to build off of its successful implementations and extend its software 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 sales team that will drive significant revenue. 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.

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 \$8.0 million of new tax and appraisal business to three existing and two new clients. In addition, total sales or signed contracts for fiscal 2004 were \$28.1 million versus \$26.4 million for fiscal 2003, which is a 6% improvement. Included in these amounts is a \$5.7 million increase or 47% improvement in sales of software and related services. This increase was offset by a \$3.5 million decrease in appraisal services contracts and a \$600,000 decrease in hardware sales. The \$28.1 million in new contracts has resulted in an increase in the Company's backlog to \$29.3 million as of April 30, 2004. The backlog as of April 30, 2003 and 2002 was \$22.9 million and \$19.2 million, respectively.

These backlog amounts are exclusive of the Company's recurring revenues which are approximately \$17.5 million annually. While recurring revenue has declined in absolute terms year over year due to the sale of the Company's Financials Product line, excluding the impact of this sale, recurring revenue actually increased by approximately \$1.4 million for the year, compared to the prior year period. The improvements in recurring revenue are due to price increases and the addition of new clients. Of the \$28.1 million of total sales for fiscal 2004 noted above, 45% have been to new clients. New recurring support revenues are billed once the related implementations are complete. These new clients are also resulting in an increase in market share for the Company.

The final factor affecting revenues is appraisal service revenues, which decreased by 11% to \$1.7 million for the three months ended April 30, 2004, versus \$1.8 million for the prior year and increased by 16% to \$7.9 million for the year ended April 30, 2004, compared to \$6.8 million for the prior year. Appraisal service revenues for the year ended April 30, 2004, included \$418,000 of revenue associated with the settlement of the Allegheny lawsuit noted below. The remaining increase in appraisal service revenues is due to the execution of additional appraisal business, which is primarily due to the cyclicity 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 during the Company's third quarter.

Cost of revenues decreased by 9% to \$5.3 million for the quarter ended April 30, 2004, versus \$5.8 million for the prior year. For the year ended April 30, 2004, cost of revenues decreased by 10% to \$20.7 million from \$23.0 million for fiscal 2003. Both of these decreases are primarily related to a shift

in the Company's revenue mix. Gross margins increased by 8% from 45% to 53% for the fourth quarter and by 3% from 43% to 46% for the year versus the respective periods in the prior year. The significant improvement in the fourth quarter was driven by the recognition of more application license fees associated primarily with the Company's Florida Tax product. In addition, the continued execution on some of the Company's larger projects, including Baltimore, Maryland, Jefferson County, Alabama and Gwinnett County, Georgia contributed to this increase. The Company recognized \$2.5 million in application license fees for the quarter ended April 30, 2004, compared to \$1.3 million for the quarter ended April 30, 2003. Application license fees were \$5.1 million for the year ended April 30, 2004, compared to \$4.6 million for fiscal 2003. Since there is nominal variable cost associated with the Company's application license fees, changes in this revenue stream have a significant impact on the Company's gross margins. Total cost of revenues for fiscal 2004 also includes the impact of the Allegheny lawsuit, noted above, which resulted in \$418,000 of revenue with no related cost during the Company's third quarter.

Selling, general and administrative expenses have increased by approximately 12% to \$4.5 million for the three months ended April 30, 2004, versus \$4.0 million for the prior year fourth quarter. However, these expenses decreased by 2% to \$15.0 million for the year ended April 30, 2004, compared to \$15.3 million for the year ended April 30, 2003. The increase in the fourth quarter was primarily driven by three factors. First, the Company expensed approximately \$180,000 associated with severance agreements. Second, sales commission expense for the fourth quarter of fiscal 2004 was approximately \$73,000 higher than the prior year comparable quarter due to an increase in contract signings. Finally, non-project related travel increased by approximately \$140,000 primarily because of new sales opportunities and development activities.

As a result of the factors noted above, operating income for the three months ended April 30, 2004, increased by \$848,000 to \$1.6 million from \$737,000 in the prior year fourth quarter. Operating income for the entire year increased by \$732,000 to \$2.8 million versus \$2.1 million for the prior year.

As more fully described in Note 9 of the Notes to Consolidated Financial Statements, 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.

Other income for the year ended April 30, 2004, increased by 15% to \$260,000, versus the comparable prior year period. This increase is primarily due to additional interest income earned on the Company's cash balances. In addition, beginning in December of 2002, the Company began leasing a portion of the building it acquired in Portage, Michigan, adjacent to its corporate headquarters.

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 April 30, 2004, compared to 34% for the prior year fourth quarter. This increase is primarily due to the inclusion of state tax expense for the quarter within the income tax provision. The effective tax rate for the year ended April 30, 2004, is 35% compared to 34% for the year ended April 30, 2003. While the effective rates appear comparable year over year, the current year rate did increase as a result of the inclusion of state taxes, but was offset by a decrease in tax reserves and recognition of deferred tax assets. See Note 5 of the Notes to Consolidated Financial Statements for further details. The Company anticipates the effective tax rate for fiscal 2005 to be in the range of 38% to 40%.

Net income increased by 82% to \$989,000 or \$0.23 per diluted share for the quarter ended April 30, 2004, versus net income of \$544,000 or \$0.13 per diluted share for the quarter ended April 30, 2003. For the year ended April 30, 2004, net income was \$4.6 million or \$1.06 per diluted share,

compared to \$1.5 million or \$0.38 per diluted share for the prior year. 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 9 of the Notes to Consolidated Financial Statements.

Diluted weighted average outstanding common shares increased from 4.0 million shares to 4.3 million shares for the year and from 4.2 million shares to 4.4 million shares for the fourth quarter versus the comparable periods in fiscal 2003. These increases are due primarily to two factors. First, the Company's average stock price increased to \$7.78 for fiscal 2004 from \$4.72 for fiscal 2003. This caused substantially all of the Company's outstanding options to be included in the diluted EPS base. Second, the Company issued 133,000 shares of stock associated with the ProVal acquisition during the first quarter of fiscal 2004. This was the final payment under the contingent stock post-merger agreement.

Results of Operations: Fiscal Year 2003 Compared to Fiscal Year 2002

Under the provisions of SFAS No. 131, the Company has historically disclosed financial information for two reportable segments: Software Systems and Services and Appraisal Services. Due to internal reorganizations during fiscal 2004 and the fact that Appraisal Services are tightly integrated with Software Systems and Services, the Company has concluded under the provisions of SFAS No. 131 that its entire operations now meet the definition of a single segment. Since the Company did report financial information for two segments during fiscal 2003 and 2002, there are multiple references to these segments in the paragraphs that follow.

Total net revenues of \$10.5 million and \$40.4 million for the three months and year ended April 30, 2003, were approximately 8% and 2% lower than the net revenues of \$11.4 million and \$41.1 million that were reported for the three months and year ended April 30, 2002, respectively.

Software Systems and Services segment revenues were comparable at approximately \$8.7 million and \$8.8 million for the three months ended April 30, 2003 and 2002, respectively. Software Systems and Services segment revenues increased by approximately 10% to \$33.6 million for fiscal 2003, compared to \$30.6 million for fiscal 2002. These revenues included software license fees, hardware sales, forms and supply sales and various professional services, such as software support, data conversions, installation, training, project management, hardware maintenance, forms processing and printing.

The year-over-year increase was primarily due to growth in professional services revenues of \$1.6 million and recurring support revenues of \$1.7 million over the fiscal 2002 results. The increase in professional services revenue was due to the execution of a number of new MVP Tax and ProVal contracts in Indiana and the Southeast region during fiscal 2003, as well as continued progress on the larger MVP Tax projects in Cuyahoga County, Ohio, Dauphin County, Pennsylvania, Baltimore, Maryland and Jefferson County, Alabama. MVP Tax was being utilized by 42 counties in four states and was in the process of being implemented in three additional states during fiscal 2003. The increase in recurring support revenues was due to a number of new software installations and annual price increases. Recurring support, maintenance and printing services represented approximately 53%, or \$17.8 million, of

this segment's annual revenue. Software license fees of \$5.3 million for fiscal 2003, which represented approximately 16% of this segment's annual revenue were approximately 7% lower than the \$5.7 million recognized in fiscal 2002. This decline was due to the down economy and a few of the Company's larger development projects taking longer to complete than initially anticipated.

 Appraisal Services segment revenues, which included fees for mass real estate appraisals or revaluations, decreased by 30% to \$1.8 million for the three months ended April 30, 2003 and by 35% to \$6.8 million for fiscal 2003. These anticipated decreases were the result of the cyclical nature of this

segment's business activities. The Company's largest market for these services, Ohio, uses a six-year cycle for revaluations. Revenues from this segment are expected to increase in fiscal 2004, because of the growth in backlog. The Company's backlog for appraisal services at April 30, 2003, of \$11.5 million was significantly higher than the \$5.8 million reported at April 30, 2002. While the Company continued to actively pursue new appraisal service contracts, efforts were being primarily focused on its traditional markets in Ohio, Indiana and Pennsylvania where the Company had historically been more successful in executing profitable contracts.

 As noted in prior years, the Company reserved 100% of the retainage revenue related to the Allegheny County appraisal project and a portion of the gross under-billed position associated with appraisal contracts recognized based on percentage of completion accounting, which historically approximated 13% of the gross under-billed amount. This reserve contained a general provision of 2% of the gross under-billed position as well as a specific provision for accounts the Company believed would be difficult to collect. This reserve methodology was consistent with the methodology utilized in calculating the Company's allowance for doubtful accounts related to its accounts receivable. As of April 30, 2003 and 2002, the total reserve against retainage revenue remaining under all appraisal service projects (including Allegheny) was approximately \$653,000 and \$777,000, respectively. The total reserve against retainage revenue under the Allegheny County project was approximately \$418,000 at both April 30, 2003 and 2002. The Company continued to believe it was appropriate to reserve 100% of the remaining unpaid Allegheny retention as well as certain other monies due for the performance of additional services in connection with that contract, because certain officials of Allegheny County continued to contest the payment of such amounts. The ultimate collection of these monies was pending an order from the judge who initially ordered the reassessment, which was expected to be issued by the end of calendar 2003.

 Cost of revenues of \$5.8 million for the three months ended April 30, 2003, decreased by 17% compared to \$7.0 million for the three months ended April 30, 2002. Annual cost of revenues decreased by 11% from \$25.8 million in fiscal 2002 to \$23.0 million for the year ended April 30, 2003. These decreases were primarily due to a shift in the mix of revenues and costs generated by the Company's two reportable segments, as well as the decrease in net revenues for fiscal 2003. Gross margins were 45% and 43% for the three and twelve months ended April 30, 2003, respectively, compared to 39% and 37% for the prior year comparable periods. The Software Systems and Services segment typically yielded a higher gross margin than the Appraisal Services segment, which is highly labor intensive. Gross margins for the Software Systems and Services segment were approximately 55% for the three months and year ended April 30, 2003 and 2002. Since this segment accounted for a larger portion of the overall revenues and related costs, the combined margins were better than those that were reported for the fiscal 2002 comparable periods.

 Selling, general and administrative expenses decreased by approximately \$100,000 or 3% to \$4.0 million for the three months ended April 30, 2003, and increased by approximately \$577,000 or 4% to \$15.3 million for the

fiscal year ended April 30, 2003 versus the comparable periods in fiscal 2002. The annual increase was primarily due to the Company's continued investment in its software products, which was an integral component of the Company's growth strategy. Research and development costs of approximately \$1.6 million and \$5.7 million were included in selling, general and administrative expense for the three months and year ended April 30, 2003, respectively as compared to \$900,000 and \$4.7 million for the three months and year ended April 30, 2002. These increases were primarily due to increased development activities associated with the MVP Tax and Internet products and the increased utilization of outsourced third-party developers in fiscal 2003 versus fiscal 2002. The Company also incurred approximately \$368,000 of bad debt expense during fiscal 2003 primarily to reserve for the remaining East Coast exposure associated with the Appraisal Services segment. These increases were offset by the discontinuance of goodwill amortization expenses due to the implementation of SFAS No.

142. This expense was included in selling, general and administrative expense for fiscal 2002. The effect of discontinuing the amortization of goodwill also benefited net income for the three months ended April 30, 2003, by approximately \$163,000 or \$.04 per diluted share and net income for fiscal 2003 by \$603,000 or \$.16 per diluted share.

 As a result of the factors noted above, the Company reported substantial improvements in its operating income for the three months and year ended April 30, 2003. Operating income increased by approximately \$390,000 to \$737,000 for the three months and \$1.5 million to \$2.1 million for the fiscal year ended April 30, 2003.

 Net other income for the three months and year ended April 30, 2003, increased by approximately \$52,000 and \$172,500 over the comparable fiscal 2002 amounts to approximately \$86,000 and \$227,000, respectively. The improvement in net other income for both the three months and year ended April 30, 2003, was due to increased interest income associated with the Company's growing cash balances as well as rental income generated from leasing back half of the building acquired during fiscal 2003 in Portage, Michigan to the prior owner.

 The Company's provision for federal income taxes generally fluctuates with the level of pretax income. The effective tax rates for the three months and year ended April 30, 2003 were approximately equal to the statutory rate, which was 34%. The fiscal 2003 effective rate was substantially lower than the fiscal 2002 rate because of the implementation of SFAS No. 142. SFAS No. 142 eliminated goodwill amortization expense, which was primarily non-deductible for tax purposes. See Note 5 of the Notes to Consolidated Financial Statements for further details.

 Net income was approximately \$544,000 or \$.13 per diluted share for the three months ended April 30, 2003, versus net income of approximately \$151,000 or \$.04 per diluted share for the three months ended April 30, 2002. Net income for fiscal 2003 was \$1.5 million or \$.38 per diluted share compared to net income of approximately \$0.2 million or \$.06 per diluted share for fiscal 2002.

 Diluted weighted average outstanding common shares increased by 295,000 shares for the three months and 171,000 shares for the year ended April 30, 2003, versus the comparable fiscal 2002 periods. These increases were due to the issuance of stock associated with the Company's Employee Stock Purchase Plan, the issuance of stock associated with the Proval merger and the inclusion of additional shares within the diluted weighted average base as fewer options were under water than in the comparable periods in fiscal 2002. These increases were partially offset by the repurchase of 51,200 shares of common stock by the Company during fiscal 2003 in accordance with its previously announced repurchase program.

Quarterly Results

The following table sets forth selected unaudited quarterly financial data for the last eight quarters:

For the quarter ended:	Fiscal 2004				Fiscal 2003			
	April 30, 2004	January 31, 2004	October 31, 2003	July 31, 2003	April 30, 2003	January 31, 2003	October 31, 2002	July 31, 2002
Net revenues	\$ 11,309,419	\$ 9,050,583	\$ 8,997,696	\$ 9,097,598	\$ 10,539,847	\$ 10,651,167	\$ 9,698,714	\$ 9,497,537
Gross profit	6,037,834	4,216,925	3,870,923	3,623,858	4,724,596	4,518,514	4,165,697	3,960,719
Income from operations	1,585,870	758,684	174,409	275,836	737,390	597,505	358,371	369,847
Net income	988,972	800,873	158,852	2,637,008	543,594	425,028	269,636	272,064
Basic earnings per share	..24	..20	..04	..68	..14	..11	..07	..07