

MANATRON INC
Form DEF 14A
August 20, 2003

SCHEDULE 14A
(Rule 14a-101)

INFORMATION REQUIRED IN PROXY STATEMENT
SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of the Securities Exchange Act of 1934
(Amendment No. ____)

Filed by the Registrant X

Filed by a Party other than the Registrant O

Check the appropriate box:

- O Preliminary Proxy Statement
- X Definitive Proxy Statement
- O Definitive Additional Materials
- O Soliciting Material Under Rule 14a-12
- O Confidential, For Use of the Commission Only (as permitted by Rule 14a-6(e)(2))

MANATRON, INC.

(Name of Registrant as specified in Its Charter)

(Name of Person(s) Filing Proxy Statement, if Other Than the Registrant)

Payment of Filing Fee (Check the appropriate box):

- O No fee required.
- O Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

1) Title of each class of securities to which transaction applies:

2) Aggregate number of securities to which transaction applies:

3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

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4) Proposed maximum aggregate value of transaction:

5) Total fee paid:

Fee paid previously with preliminary materials.

Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the form or schedule and the date of its filing.

1) Amount previously paid:

2) Form, Schedule or Registration Statement No.:

3) Filing Party:

4) Date Filed:

510 East Milham Avenue
Portage, Michigan 49002

August 29, 2003

To Our Shareholders:

You are cordially invited to attend the 2003 Annual Meeting of Shareholders of Manatron, Inc. The meeting will be held at the Radisson Plaza Hotel, in Kalamazoo, Michigan, on Thursday, October 9, 2003, at 10:00 a.m., local time.

On the following pages, you will find the Notice of Annual Meeting of Shareholders and the Proxy Statement. The Proxy Statement and enclosed proxy card are being furnished to shareholders on or about August 29, 2003. A

report on Manatron's activities and its outlook for the future also will be presented at the meeting.

It is important that your shares be represented and voted at the Annual Meeting, regardless of the size of your holdings. Whether or not you plan to attend the Annual Meeting, we urge you to **sign, date and return as soon as possible** the enclosed proxy card. Sending a proxy will not affect your right to vote in person if you attend the meeting. However, if you hold your stock in a broker or bank "street" account and wish to vote your shares in person at the meeting, you must obtain the appropriate documentation from your broker or bank custodian and bring it with you to the meeting.

Respectfully,

Portage, Michigan
August 29, 2003

Randall L. Peat
Chairman of the Board of Directors

**Your Vote is Important. Even if you plan to attend the meeting,
PLEASE SIGN, DATE AND RETURN THE ENCLOSED PROXY PROMPTLY.**

510 East Milham Avenue
Portage, Michigan 49002

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

To Our Shareholders:

The Annual Meeting of Shareholders of Manatron, Inc., will be held at the Radisson Plaza Hotel, in Kalamazoo,

Michigan, on Thursday, October 9, 2003, at 10:00 a.m., local time, for the following purposes:

- (i) To elect three directors to serve three-year terms expiring in 2006;
- (ii) To approve the Employee Stock Purchase Plan of 2003;
- (iii) To approve the Stock Option and Restricted Stock Plan of 2003; and
- (iv) To transact any other business that may properly come before the meeting.

Only shareholders of record as of the close of business on August 15, 2003, are entitled to notice of and to vote at the Annual Meeting.

A copy of the Annual Report to Shareholders for the fiscal year ended April 30, 2003, is enclosed with this Notice. The following Proxy Statement and enclosed proxy card are being furnished to shareholders on or about August 29, 2003.

BY ORDER OF THE BOARD OF DIRECTORS

Portage, Michigan
August 29, 2003

Jane M. Rix
Secretary

**Your Vote is Important. Even if you plan to attend the meeting,
PLEASE SIGN, DATE AND RETURN THE ENCLOSED PROXY PROMPTLY.**

MANATRON, INC.

510 East Milham Avenue
Portage, Michigan 49002

ANNUAL MEETING OF SHAREHOLDERS

August 29, 2003

PROXY STATEMENT

This Proxy Statement and the enclosed proxy card are being furnished to shareholders of common stock of Manatron, Inc. (the "Company") on or about August 29, 2003, in connection with the solicitation of proxies by the Board of Directors to be voted at the 2003 Annual Meeting of Shareholders which will be held on Thursday, October 9, 2003, at 10:00 a.m., local time, and at any adjournment of that meeting. The Annual Meeting will be held at the Radisson Plaza Hotel, in Kalamazoo, Michigan.

The purpose of this Annual Meeting is to consider and vote upon: (i) the election of three directors to serve three-year terms expiring in 2006; (ii) the approval of the Employee Stock Purchase Plan of 2003; (iii) the approval of the Stock Option and Restricted Stock Plan of 2003; and (iv) the transaction of any other business that may properly come before the meeting. Proxies in the accompanying form, if properly executed, duly returned to the Company and not revoked, will be voted at the Annual Meeting. If a shareholder specifies a choice, the shares represented by proxy will be voted as specified. If no choice is specified, the shares represented by proxy will be voted for the election of all nominees named in this Proxy Statement, for approval of the Employee Stock Purchase Plan of 2003, for approval of the Stock Option and Restricted Stock Plan of 2003 and in accordance with the discretion of the persons named as proxies on any other matters that may come before the meeting or any adjournment of the meeting. For purposes of determining the presence or absence of a quorum for the transaction of business at the meeting, all shares for which a proxy or vote is received, including abstentions and shares represented by a broker vote on any matter, will be counted as present and represented at the meeting.

Any shareholder executing and returning the enclosed proxy card may revoke it at any time before it is exercised by delivering a written notice of revocation to the Secretary of the Company at the address set forth above or by attending and voting at the Annual Meeting.

The Company does not know of any matter to be presented for consideration at the Annual Meeting other than that stated in the Notice of Annual Meeting of Shareholders. If any other matter should properly come before the meeting, the persons named in the proxy will have discretionary authority to vote in accordance with their judgment.

VOTING SECURITIES

Holders of record of the Company's common stock, no par value ("Common Stock"), at the close of business on August 15, 2003, are entitled to notice of and to vote at the Annual Meeting of Shareholders and at any adjournment of the meeting. As of August 15, 2003, 4,210,283 shares of the Company's Common Stock were issued and outstanding. Shareholders are entitled to one vote on each matter presented for shareholder action for each share of Common Stock registered in their names at the

close of business on the record date. Shares cannot be voted unless the shareholder is present at the Annual Meeting or represented by proxy.

ELECTION OF DIRECTORS

The Board of Directors proposes that Richard J. Holloman, Harry C. Vorys and W. Scott Baker, all incumbent directors, be elected to serve three-year terms expiring in 2006.

This Proxy Statement contains more information about the director nominees. The nominees presently are directors of the Company whose terms will expire at the 2003 Annual Meeting of Shareholders. Unless otherwise directed by a shareholder's proxy, the persons named as proxies intend to vote for the nominees identified above. Each

of the nominees has consented to being named in this Proxy Statement and to serve if elected. If any nominee is unable to serve or is otherwise unavailable for election, which is not now anticipated, the Board of Directors may or may not select a substitute nominee. If a substitute nominee is selected, all proxies will be voted for the election of the substitute nominee designated by the Board of Directors. If a substitute nominee is not selected, all proxies will be voted for the election of the remaining nominees. Proxies will not be voted for a greater number of persons than the number of nominees named in this Proxy Statement.

A plurality of the shares present in person or represented by proxy and voting on the election of directors is required to elect directors. For the purpose of counting votes on this proposal, abstentions, broker non-votes and other shares not voted will not be counted as shares voted on the election, and the number of shares for which a plurality is required will be reduced by the number of shares not voted.

**Your Board of Directors Recommends That You
Vote FOR the Election of All Nominees as Directors**

APPROVAL OF EMPLOYEE STOCK PURCHASE PLAN OF 2003

General

On March 20, 2003, the Board of Directors adopted, subject to shareholder approval, the Employee Stock Purchase Plan of 2003 (the "Purchase Plan") to be effective as of April 1, 2003. The Board of Directors firmly believes that the Company's interests are best advanced by securing for the Company and its shareholders the benefits of the incentive inherent in the ownership of the Company's Common Stock by Company employees. The Purchase Plan is intended to supplement and continue forward the Company's Employee Stock Purchase Plan of 1998 (the "1998 Purchase Plan"), which expired by its terms on March 31, 2003. The Purchase Plan is substantially similar to the 1998 Purchase Plan. The Board of Directors believes that the adoption and implementation of the Purchase Plan is in the best interests of the Company and its shareholders and desires to make additional shares available for purchase by employees.

A maximum of 75,000 shares of Common Stock (subject to certain antidilution adjustments) would be available for purchase under the Purchase Plan. Shares to be issued under the Purchase Plan are expected to be authorized but unissued shares but also could be shares that were once issued and then later reacquired by the Company. Shares will be available for purchase under the Purchase Plan on the last working day of each calendar quarter (the "Stock Purchase Date").

The Purchase Plan is intended to comply with the provisions of Section 423 of the Internal Revenue Code of 1986, as amended (the "Code") and the Purchase Plan would be administered, interpreted and construed in accordance with such provisions. The Purchase Plan would not be qualified under Section 401(a) of the Code and would not be subject to the Employee Retirement Income Security Act of 1974 ("ERISA"). The Company has registered shares authorized by the Purchase Plan under the Securities Act of 1933, as amended.

The following is a summary of the principal features of the Purchase Plan. The summary is qualified in its entirety by reference to the terms of the Purchase Plan, a copy of which is attached as **Appendix A** to this Proxy Statement.

Participants in the Purchase Plan

Except as otherwise provided in the Purchase Plan, all present and future employees of the Company or its subsidiary would be eligible to participate in the Purchase Plan during their time of employment unless any of the following apply: (i) the individual is employed less than 20 hours per week or is employed less than five months in any calendar year; or (ii) immediately after purchasing under the Purchase Plan, the individual would own 5% or more of the total combined voting power or value of all classes of the Company's or its subsidiary's stock. In determining stock ownership, the rules of Section 423(b)(3) and 424(d) of the Code would apply. Currently, there are approximately 350 employees eligible to participate in the Purchase Plan.

No employee would acquire the right to purchase shares of Common Stock that would permit that employee to purchase shares under all of the Company's employee stock purchase plans at a rate exceeding \$25,000 of the fair market value of the Common Stock (determined at the time the right is granted) in any calendar year and in no event could purchase rights accrue at a rate that exceeds the limits of Section 423(b)(8) of the Code.

Officers and key employees of the Company may be deemed to have an interest in the Purchase Plan because they may be eligible to participate in the Purchase Plan. Directors who are not employees of the Company would not be eligible to participate.

The following table sets forth the benefits received with respect to the Purchase Plan through the date of this Proxy Statement by the listed individuals and groups. It does not set forth any grants made under the 1998 Purchase Plan. Furthermore, it does not set forth benefits that may be granted in the future under the Purchase Plan because they are not determinable at this time.

New Plan Benefits
Employee Stock Purchase Plan of 2003

Name and Position	Dollar Value(\$)(1)	Number of Shares
Paul R. Sylvester President and Chief Executive Officer	\$ 185	154
Randall L. Peat	--	--

Chairman of the Board

G. William McKinzie Chief Operating Officer	--	--
Earl L. Stephens Chief Technology Officer	--	--
J. Wayne Moore President of Manatron ProVal Corporation	--	--
Executive Group	\$ 185	154
Non-Executive Director Group	--	--
Non-Executive Officer Employee Group (2)	\$ 2,430	2,025

- (1) Consists of 15% of the market value of the Common Stock purchased under the Purchase Plan on the date of purchase (shares were purchased at 85% of the market value on the date of purchase).
- (2) The Non-Executive Officer Employee Group consists of all employees as a group, including current officers who are not executive officers.

Administration of the Purchase Plan

The Purchase Plan would be administered by the Stock Option Committee of the Board of Directors. Subject to the express provisions of the Purchase Plan and based on recommendations of the Chief Executive Officer, the Stock Option Committee would have authority to interpret the Purchase Plan, to prescribe, amend and rescind rules and regulations relating to it, to waive Purchase Plan requirements in whole or in part and on a general or case-by-case basis and to make all other determinations necessary or advisable in administering the Purchase Plan. All determinations under the Purchase Plan would be final and binding upon all persons unless otherwise determined by the Board of Directors.

Participation in the Purchase Plan

The Purchase Plan would enable eligible employees of the Company or its subsidiary to purchase from the Company shares of Common Stock through payroll deductions. Each eligible employee could participate in the Purchase Plan by filing (as specified in the Purchase Plan) an Election Form (as defined

in the Purchase Plan) authorizing specified regular payroll deductions from the eligible employee's periodic base compensation. Regular payroll deductions would be subject to a minimum deduction of \$5 per pay period and a maximum deduction of 10% of base compensation (not including incentive pay, bonuses, etc.). Payroll deductions would be credited to a participant's Payroll Deduction Account (as defined in the Purchase Plan). A participant could change the amount of his or her payroll deduction amount up to two times per 12-month period, as specified in the Purchase Plan. The Company could, in lieu of payroll deductions, approve equivalent direct payments by a participant

for deposit in his or her Payroll Deduction Account. All funds in Payroll Deduction Accounts could be used by the Company for any corporate purpose.

As of the last working day of each calendar quarter, amounts in a participant's Payroll Deduction Account would be used to purchase the number of whole shares of Common Stock that the funds in his or her Payroll Deduction Account could purchase. All shares purchased for a participant from the funds held in the participant's Payroll Deduction Account would be maintained in a separate Investment Sharebuilder Account (as defined in the Purchase Plan).

Unless the participant directs otherwise, the Stock Option Committee would determine whether to distribute cash dividends paid on shares held in a participant's Investment Sharebuilder Account directly to the participant or into the participant's Payroll Deduction Account. Non-cash dividends paid with respect to shares held in a participant's Investment Sharebuilder Account would be added to the participant's Investment Sharebuilder Account. The Company would notify participants at least annually as to the amounts and status of their Payroll Deduction Accounts and Investment Sharebuilder Accounts. Participants could withdraw shares from their Investment Sharebuilder Accounts at regular intervals established by the Stock Option Committee, which would be at least once per year, by providing the written notice specified in the Purchase Plan. The Company would not sell shares held in an Investment Sharebuilder Account on behalf of a participant.

Purchase Price

The purchase price for each share of Common Stock would be 85% (or such higher percentage as the Stock Option Committee determines) of the closing price reported on the NASDAQ SmallCap Market (or such other quotation system or stock exchange on which the Company's Common Stock is traded) on the Stock Purchase Date or the most recent trading date if the Stock Purchase Date is not a trading date. On August 15, 2003, the closing price of Common Stock on the NASDAQ SmallCap Market was \$7.15.

Withdrawal or Ineligibility

A participant could withdraw the balance accumulated in his or her Payroll Deduction Account and cease to be a participant in the Purchase Plan by delivering written notice to the Company at least 15 working days before a pay date (or such other time as the Stock Option Committee sets). When a participant terminates his or her participation in the Purchase Plan: (i) amounts in the participant's Payroll Deduction Account would be promptly refunded; and (ii) upon the participant's written request, the Company would provide the participant with a certificate for the whole number of shares credited to his or her Investment Sharebuilder Account. A participant could not re-enroll in the Purchase Plan for six months after terminating participation.

If a participant is no longer eligible to participate in the Purchase Plan, no further payroll deductions would be made on the employee's behalf, the accumulated balance in his or her Payroll Deduction Account would be refunded and a certificate for the full shares of Common Stock credited to the participant's Investment Sharebuilder Account would be promptly forwarded to the participant.

Termination of Employment

If a participant dies, retires (see the definition of Retirement in the Purchase Plan) or incurs a Permanent Disability (as defined in the Purchase Plan) during a plan quarter, no further contributions on behalf of the participant could be made. Unless the participant or executor or administrator of the deceased participant's estate elects to withdraw the balance in the participant's Payroll Deduction Account in accordance with the terms of the Purchase Plan, the balance accumulated in the participant's Payroll Deduction Account would be used to purchase whole shares of Common Stock in accordance with the provisions of the Purchase Plan. A statement of the number of whole shares in a participant's Investment Sharebuilder Account would be delivered upon request to the participant or the deceased participant's executor or administrator. Any remaining amounts in the participant's Payroll Deduction Account after the last Stock Purchase Date would be returned to the participant or the deceased participant's executor or administrator or such other person designated on the Election Form.

Transfer and Assignment

Rights under the Purchase Plan would not be transferable by a participant other than by will or the laws of descent and distribution, and are exercisable during the participant's lifetime only by the participant. Any attempted assignment or transfer in violation of the Purchase Plan is null and void.

Tax Withholding

The Company could make such provisions as it deems appropriate for withholding any taxes or paying any taxes that it may be required to withhold or pay in connection with a participant's participation in the Purchase Plan.

Amendment and Termination of the Plan

The Board of Directors or the Stock Option Committee could amend or suspend the operation of the Purchase Plan in any respect, except that, without the approval of the shareholders, no such amendment could cause the Purchase Plan to fail to meet the requirements of Section 423 of the Code. Any amendment requiring shareholder approval under the Code would not be effective until such approval is obtained. The Plan would terminate at the earlier of: (i) the date when all shares available under the Plan have been purchased; (ii) March 31, 2008; or (iii) at any time, at the discretion of the Stock Option Committee or the Board of Directors.

Federal Income Tax Consequences

The Purchase Plan, and the right of eligible employees to make purchases under the Purchase Plan, is intended to qualify under the provisions of Sections 421 and 423 of the Code. Under current federal income tax rules, there would be no tax to employees at the time stock is purchased under the Purchase Plan. If a participant sells or otherwise disposes of shares more than two years after the Stock Purchase Date, he or she would recognize ordinary income in the year of sale or disposition equal to the lesser of: (i) the excess of the fair market value on the Stock Purchase Date over the participant's purchase price; or (ii) the excess of the fair market value on the date of the sale or disposition over the participant's purchase price. Any additional gain or loss would be capital gain or loss. If shares are held less than two years after purchase, the excess of the fair market value of the shares on the Stock Purchase Date over the participant's purchase price would be taxed as ordinary income and any additional gain or loss would be capital gain or loss.

If a participant owns stock purchased under the Purchase Plan at death, his or her estate would recognize ordinary income in the year of death equal to the lesser of: (i) the excess of the fair market value on the Stock Purchase Date over the participant's purchase price; or (ii) the excess of the fair market value on the date of death over the participant's purchase price.

The Company would be entitled to a deduction for amounts taxed as ordinary income to the participant upon a sale or disposition of shares before the expiration of the two-year holding period noted above.

Vote Required

The affirmative vote of the holders of a majority of the shares of Common Stock present in person or by proxy and voting on this proposal is required to approve the Purchase Plan. For purposes of counting votes on this proposal, abstentions, broker non-votes and other shares not voted will not be counted as shares voted on the proposal, and the number of shares for which a majority is required will be reduced by the number of shares not voted.

**Your Board of Directors Recommends That You
Vote FOR Approval of The Employee Stock Purchase Plan of 2003**

APPROVAL OF Stock Option and Restricted Stock Plan of 2003

General

The Board of Directors believes that the Company's long-term interests would be advanced by aligning the interests of its directors and certain officers and other key employees with the interests of its shareholders. Therefore, to attract, retain and motivate directors, officers and key employees of exceptional abilities, and to recognize the significant contributions these individuals have made to the long-term performance and growth of the Company and its subsidiary, on December 12, 2002, the Board of Directors adopted and approved, subject to shareholder approval, the Manatron, Inc. Stock Option and Restricted Stock Plan of 2003 (the "Incentive Plan"). The Incentive Plan is intended to supplement and continue the compensation policies and practices of the Company's other stock incentive plans, which the Company has used for several years. Because there are a limited number of shares available for issuance under previously authorized stock incentive plans, the Board of Directors believes that approval of the Incentive Plan is now advisable to make additional shares available for stock options and other awards.

The Company intends to use the Incentive Plan to grant equity-based incentives to eligible participants. Most of the options granted under the previously authorized stock incentive plans have been incentive stock options within the meaning of the Code, with an exercise price equal to the market price of the stock on the date of the grant. The Incentive Plan would continue to authorize the grant of these incentive stock options. However, the proposed Incentive Plan also would permit the grant of other forms of long-term incentive compensation, if determined to be desirable to advance the purposes of the Incentive Plan. These other forms of long-term incentive compensation include non-qualified stock options, restricted stock and stock awards (together with incentive stock options, collectively referred to as "Incentive Awards"). By combining in a single plan many types of incentives commonly used in long-term incentive compensation programs, the Incentive Plan is intended to provide the Company with flexibility in designing specific long-term incentives to best promote the objectives of the Incentive Plan and in turn promote the interests of our shareholders.

The following is a summary of the principal features of the Incentive Plan. The summary is qualified in its entirety by reference to the terms of the Incentive Plan, a copy of which is attached as **Appendix B** to this Proxy Statement.

Eligible Participants

The Company anticipates that the primary persons who will receive Incentive Awards under the Incentive Plan will be directors of the Company (eight persons immediately after the Annual Meeting) and officers (currently seven persons, two of whom are directors) and other key employees (who could include any and all employees of the Company) of the Company and its subsidiary. Additional individuals may become directors, officers or key employees in the future and could participate in the Incentive Plan. Directors, nominees for director, officers and key employees of the Company and its subsidiary may be considered to have an interest in the Incentive Plan either because they have already received or may in the future receive Incentive Awards under it.

The following table sets forth the benefits received with respect to option and restricted stock grants under the Incentive Plan through the date of this Proxy Statement by the listed individuals and groups. It does not set forth any grants made under the Company's previously authorized stock incentive plans. Furthermore, it does not set forth options or other Incentive Awards that may be granted in the future under the Incentive Plan, because they are not determinable at this time.

New Plan Benefits

Stock Option and Restricted Stock Plan of 2003

Name and Position	Dollar Value \$(1)	Number of Shares
Paul R. Sylvester President and Chief Executive Officer	\$ --	--
Randall L. Peat Chairman of the Board	--	--
G. William McKinzie Chief Operating Officer	--	--
Earl L. Stephens Chief Technology Officer	--	--
J. Wayne Moore President of Manatron ProVal Corporation	--	--
Executive Group	\$ 326,250	45,000
Non-Executive Director Group	\$ 24,420	6,000
Non-Executive Officer Employee Group(2)	\$ 36,250	5,000

- (1) The Dollar Value is derived by multiplying the closing stock price on the respective grant dates by the total number of shares granted. Specifically, the Dollar Value reported for the Non-Executive Director Group is based on the closing stock price on October 10, 2002, or \$4.07, and the Dollar Value reported for the Non-Executive Officer Employee Group is based on the closing stock price on August 1, 2003, or \$7.25.
- (2) The Non-Executive Officer Employee Group consists of all employees as a group, including current officers who are not executive officers.

The Incentive Plan would not be qualified under Section 401(a) of the Code and would not be subject to the ERISA.

Authorized Shares

Subject to certain anti-dilution and other adjustments, 200,000 shares of Common Stock would be available for issuance under the Incentive Plan. Not more than 50% of the total number of shares available for awards under the Incentive Plan could be granted as restricted stock and stock awards, combined. On August 15, 2003, the closing price of Common Stock on the NASDAQ SmallCap Market was \$7.15 per share. No participant would be entitled to receive, during any calendar year, Incentive Awards issued under the Incentive Plan with respect to more than 75,000 shares of Common Stock. The Company has registered shares of Common Stock authorized by the Incentive Plan under the Securities Act of 1933.

Administration of the Incentive Plan

The Incentive Plan would be administered by the Stock Option Committee. The Stock Option Committee would determine, subject to the terms of the Incentive Plan, the persons to receive Incentive Awards, the nature and amount of Incentive Awards to be granted to each person (subject to the limits specified in the Incentive Plan), the time of each grant, the terms relating to and the duration of each grant and all other determinations necessary or advisable for administration of the Incentive Plan. The Stock Option Committee could amend the terms of Incentive Awards granted under the Incentive Plan from time to time in any manner, subject to the limitations specified in the Incentive Plan.

Stock Options

The Incentive Plan would permit the Company to grant to participants options to purchase shares of Common Stock at stated prices for specific periods of time. Some stock options may qualify as incentive stock options as defined in Section 422 of the Code. Other stock options would not be incentive stock options within the meaning of the Code. Incentive stock options would be available only for officers and employees and would not be available for non-employee directors. Stock options could be granted at any time before December 11, 2012, unless the Board terminates the Incentive Plan before that time. The Stock Option Committee could award options for any amount of consideration, or no consideration, as the Stock Option Committee determines.

The Stock Option Committee would establish the terms of individual stock option grants in stock option agreements or certificates of award, or both. These documents would contain terms, conditions and restrictions that the Stock Option Committee determines to be appropriate. These restrictions could include vesting requirements to encourage long-term ownership of shares. The terms could also provide for automatic regrants of options for the number of previously owned shares held by that individual for at least six months that are surrendered to the Company

in connection with the exercise of an outstanding

stock option, or the payment of taxes in connection with the vesting of restricted stock or the exercise of a stock option.

The exercise price of a stock option would be determined by the Stock Option Committee, but must be at least 100% of the market value of Common Stock on the date of grant. No Incentive Award could be repriced, replaced, regranted through cancellation or modified without shareholder approval if the effect of such repricing, replacement, regrant or modification would be to reduce the exercise price of then-outstanding Incentive Awards to the same participants.

When exercising all or a portion of a stock option, a participant could pay the exercise price with cash or, if permitted by the Stock Option Committee, shares of Common Stock that the participant has held for at least six months or other consideration substantially equal to cash. The Stock Option Committee could also authorize payment of all or a portion of the exercise price in the form of a promissory note or installment payments, except as limited by the Sarbanes-Oxley Act or other laws, rules or regulations. Any promissory notes or installment payments must be with full recourse and at the market rate of interest. The Board of Directors could restrict or suspend the power of the Stock Option Committee to permit such loans, however, and could require that adequate security be provided.

Although the term of each stock option would be determined by the Stock Option Committee, no stock option would be exercisable under the Incentive Plan after 10 years from the date it was granted. Stock options generally would be exercisable for limited periods of time if an option holder dies, becomes disabled, is terminated without cause or voluntarily leaves his or her employment or directorship before retirement (as defined in the Incentive Plan). If an option holder is terminated for cause (as determined by the Stock Option Committee or officers designated by the Stock Option Committee), the option holder would forfeit all rights to exercise any outstanding stock options. Subject to the other terms of the Incentive Plan, if an option holder retires (as specified in the Incentive Plan), he or she could exercise options for the remainder of their terms, unless the terms of the option agreement or award provide otherwise.

Without Stock Option Committee approval, stock options granted under the Incentive Plan generally could not be transferred, except by will or by the laws of descent and distribution, unless transfer is permitted by the terms of the grant or the applicable stock option agreement. The Stock Option Committee could impose other restrictions on shares of Common Stock acquired through a stock option exercise.

Federal Tax Consequences of Stock Options

Incentive Stock Options. Under current federal income tax laws, an option holder would not recognize income and the Company would not receive a deduction at the time an incentive stock option is granted. An option holder exercising an incentive stock option would not recognize income at the time of the exercise. The difference between the market value and the exercise price would, however, be a tax preference item for purposes of calculating alternative minimum tax. Upon the sale or other disposition of the underlying stock, as long as (i) the option holder held the stock for at least one year after the exercise of the stock option and at least two years after the grant of the stock option, and (ii) the stock option is exercised not later than three months after termination of employment (one year in the event of disability), the option holder's basis would equal the exercise price, and the option holder would

pay tax on the difference between the sale proceeds and the exercise price as capital gain. The Company would receive no deduction for federal income tax purposes. Special rules apply when a participant owns a stock option when the participant dies.

If an option holder fails to meet any of the conditions described above relating to holding periods and exercises following termination of employment, he or she generally would recognize compensation taxed as ordinary income equal to the difference between (i) the lesser of (a) the fair market value of the stock at the time of exercise or (b) the amount realized on the sale or disposition and (ii) the exercise price paid for the stock. The Company would then receive a corresponding deduction for federal income tax purposes. Additional gains, if any, recognized by the option holder would result in the recognition of capital gain.

Nonqualified Stock Options. Federal income tax laws provide different rules for nonqualified stock options that do not meet the Code's definition of an incentive stock option. An option holder would not recognize any income and the Company would not receive a deduction when a nonqualified stock option is granted. If a nonqualified stock option is exercised, the option holder would recognize compensation income equal to the difference between the fair market value of the stock on the date of exercise and the exercise price paid. The Company would receive a corresponding deduction for federal income tax purposes, except to the extent that the deduction limits of Section 162(m) of the Code apply. The option holder's tax basis in the shares acquired would be the exercise price paid plus the amount of compensation income recognized. Sale of the stock after exercise would result in recognition of short-term or long-term capital gain (or loss).

Restricted Stock

The Incentive Plan also permits the Stock Option Committee to award restricted stock, subject to the terms and conditions set by the Stock Option Committee that are consistent with the Incentive Plan. The Stock Option Committee could award restricted stock for any amount of consideration, or no consideration, as the Stock Option Committee determines.

As with stock option grants, the Stock Option Committee would establish the terms of individual awards of restricted stock in restricted stock agreements or certificates of award. Restricted stock granted to a participant would "vest" (i.e., the restrictions on it would lapse) in the manner and at the times that the Stock Option Committee determines.

Unless the Stock Option Committee otherwise consents or permits or unless the terms of a restricted stock agreement or award provide otherwise, if a participant's employment, officer status or directorship is terminated during the restricted period (i.e., the period of time during which restricted stock is subject to restrictions) for any reason other than death, disability or retirement, the shares of the participant's restricted stock that are still subject to restrictions at that time would be forfeited and returned to the Company. If the participant's employment or directorship is terminated during the restricted period because of death, disability or retirement, the restrictions on the participant's shares of restricted stock would terminate automatically with respect to that number of shares (rounded to the nearest whole number) equal to the total number of shares of restricted stock awarded to the participant, multiplied by the number of full months that have elapsed since the date of grant, divided by the total number of full months in the restricted period. All of the remaining shares would be forfeited and returned to the Company, unless the Stock Option Committee provides otherwise.

Without Stock Option Committee authorization, until the restricted stock vests a recipient of restricted stock would not be allowed to sell, exchange, transfer, pledge, assign or otherwise dispose of restricted stock other than to the Company or by will or the laws of descent and distribution. All rights with respect to restricted stock would only be exercisable during a participant's lifetime by the participant or his or her guardian or legal representative. The Stock Option Committee could impose additional restrictions on shares of restricted stock. Holders of restricted stock would enjoy other rights of a shareholder with respect to restricted stock, including the right to vote restricted shares at shareholders'

meetings and the right to receive dividends. Unless the Stock Option Committee otherwise determines, any noncash dividends or distributions paid with respect to unvested restricted stock would be subject to the same terms, conditions and restrictions that are applicable to the restricted stock for which the shares are received.

Federal Tax Consequences of Restricted Stock

Generally, under current federal income tax laws a participant would not recognize income upon the award of restricted stock. However, a participant would be required to recognize compensation income at the time the restricted stock vests equal to the difference between the fair market value of the stock at vesting and the amount paid for the stock (if any). At the time the participant recognizes compensation income, the Company would be entitled to a corresponding deduction for federal income tax purposes, except to the extent that the deduction limits of Section 162(m) of the Code apply. If restricted stock is forfeited by a participant, the participant would not recognize income and the Company would not receive a deduction. Before the time the restricted stock vests, dividends paid on restricted stock would be reported as compensation income to the participant and the Company would receive a corresponding deduction.

A participant could, within 30 days after the date of an award of restricted stock, elect to report compensation income for the tax year in which the restricted stock is awarded. If the participant makes this election, the amount of compensation income would be equal to the difference between the fair market value of the restricted stock at the time of the award and the amount paid for the stock (if any). Any later appreciation in the value of the restricted stock would be treated as capital gain and recognized only when the participant sells the restricted stock. Dividends received after such an election would be taxable as dividends and not treated as additional compensation income. If, however, restricted stock is forfeited after the participant makes such an election, the participant would not be allowed any deduction for the amount that he or she earlier reported as income. Upon the sale of restricted stock, a participant would recognize capital gain (or loss) in the amount of the difference between the sale price and the participant's basis in the stock.

Stock Awards

The Incentive Plan also permits the Stock Option Committee to make stock awards. The Stock Option Committee could make stock awards for any amount of consideration, or no consideration, as the Stock Option Committee determines. A stock award of Common Stock would be subject to terms and conditions set by the Stock Option Committee at the time of the award. Stock award recipients would generally have all voting, dividend, liquidation and other rights with respect to awarded shares of Common Stock. However, the Stock Option Committee could impose restrictions on the assignment or transfer of Common Stock awarded under the Incentive Plan.

Federal Tax Consequences of Stock Awards

The recipient of a stock award generally would recognize compensation income equal to the difference between the fair market value of the stock when it is awarded and the amount paid for the stock (if any). The recipient's tax basis in the stock would equal the amount of compensation income recognized on the award plus the amount paid by the recipient for the stock (if any). The Company would be entitled to a corresponding deduction equal to the amount of compensation income recognized by the recipient, except to the extent that the deduction limits of Section 162(m) of the Code apply. Upon a subsequent sale of the stock, the recipient would recognize capital gain or loss equal to the difference between the amount realized on the sale and his or her basis in the stock. Different rules may apply where the stock is transferred subject to a "substantial risk of forfeiture."

12

Effects of a Change in Control of the Company

Upon the occurrence of a Change in Control of the Company (as defined in the Incentive Plan), all outstanding stock options would become immediately exercisable in full and would remain exercisable in accordance with their terms. All other outstanding Incentive Awards under the Incentive Plan would immediately become fully vested, exercisable and nonforfeitable. In addition, the Stock Option Committee, without the consent of any affected participant, could determine that some or all participants holding outstanding stock options would receive, in lieu of some or all of their stock options, cash in an amount equal to the greater of the excess of (i) the highest sale price of the shares on the NASDAQ SmallCap Market (or whatever quotation system or stock exchange on which Common Stock is listed at the time) on the day before the effective date of the Change in Control or (ii) the highest price per share actually paid in connection with the Change in Control, over the exercise price of the stock options.

Tax Withholding

If Incentive Awards are made under the Incentive Plan, the Company could withhold from any cash otherwise payable to a participant or require a participant to remit to the Company enough cash to satisfy federal, state, local and foreign withholding and employment-related taxes attributable to an Incentive Award. Unless the Stock Option Committee determines otherwise, minimum required tax withholding obligations could also be satisfied by withholding Common Stock to be received upon exercise of or vesting of an Incentive Award or by delivering to the Company previously-owned shares of Common Stock.

Termination and Amendment of the Incentive Plan

The Board of Directors could terminate the Incentive Plan at any time and could from time to time amend the Incentive Plan as it considers proper and in the Company's best interests, provided that no amendment could impair any outstanding Incentive Award without the consent of the participant, except according to the terms of the Incentive Plan or the Incentive Award. No termination, amendment or modification could become effective with respect to any Incentive Award outstanding under the Incentive Plan without the prior written consent of the participant holding the award, unless the amendment or modification operated solely to the participant's benefit. The Company could also suspend a participant's rights under the Incentive Plan for a period of up to 30 days while that participant's termination for cause is considered.

Effective Date of the Incentive Plan

Subject to shareholder approval, the Incentive Plan would take effect on December 12, 2002, and, unless terminated earlier by the Board of Directors, no awards could be made under the Incentive Plan after December 11, 2012.

If the Incentive Plan is not approved by the shareholders, no Incentive Awards will be made under the Incentive Plan to any Company director, officer or employee, including the Chief Executive Officer or any of the four most highly compensated executive officers.

Section 162(m) of the Code

Section 162(m) of the Code limits to \$1,000,000 the annual income tax deduction that a publicly held corporation may claim for compensation paid to its chief executive officer and to its four most highly compensated officers other than the chief executive officer. Qualified "performance-based" compensation is exempt from the \$1,000,000 limit and may be deducted even if other compensation

exceeds \$1,000,000. The proposed Incentive Plan is intended to provide performance-based compensation under Section 162(m) to permit compensation associated with stock options awarded under the Incentive Plan to be tax deductible to the Company while allowing, as nearly as practicable, the continuation of the Company's preexisting practices with respect to the award of stock options. No participant in the Incentive Plan may be granted, with respect to any calendar year, awards representing more than 75,000 shares of Common Stock available for awards under the Incentive Plan.

Vote Required

The affirmative vote of the holders of a majority of the shares of Common Stock present in person or by proxy and voting on this proposal is required to approve the Incentive Plan. For purposes of counting votes on this proposal, abstentions, broker non-votes and other shares not voted will not be counted as shares voted on the proposal, and the number of shares for which a majority is required will be reduced by the number of shares not voted.

**Your Board of Directors Recommends That You
Vote FOR Approval of the Stock Option and Restricted Stock Plan of 2003**

OWNERSHIP OF COMMON STOCK

Five Percent Holders

The following table sets forth information as to each person known to the Company to have been the beneficial owner of more than 5% of the Company's outstanding shares of Common Stock as of August 15, 2003. The number of shares stated is based on information provided by each person listed and includes shares personally owned of record by the person and shares which, under applicable regulations, are considered to be otherwise beneficially owned by the person.

**Amount and Nature of
Beneficial Ownership of Common Stock**

Name and Address of Beneficial Owner	Sole Voting and Dispositive Power(1)	Shared Voting or Dispositive Power(2)	Total Beneficial Ownership(1)	Percent of Class(3)
Randall L. Peat 510 East Milham Avenue Portage, Michigan 49002	441,635	1,277	442,912	10.4%
J. Wayne Moore 37 East High Springfield Ohio, 45501	377,000	9,000	386,000	9.2%
Allen F. Peat 3627 San Sebastian Court Punta Gorda, Florida 33950	243,678	--	243,678	5.8%

- (1) These numbers include shares that may be acquired through options that are exercisable within 60 days after August 15, 2003.

14

- (2) These numbers include shares over which the listed person is legally entitled to share voting or dispositive power by reason of joint ownership, trust or other contract or property right, and shares held by spouses or children or other relatives over whom the listed person may have substantial influence by reason of relationship.
- (3) These percentages represent the number of shares owned by each beneficial owner as of August 15, 2003, plus the shares that may be acquired by each beneficial owner through the exercise of outstanding stock options within 60 days by each after August 15, 2003, as a percentage of the total of all outstanding shares as of August 15, 2003, plus the total of all shares that may be acquired through the exercise of outstanding stock options by each beneficial owner within 60 days after August 15, 2003.

Securities Ownership of Management

The following table sets forth the number of shares of Common Stock beneficially owned as of August 15, 2003, by each of the Company's directors and nominees for director, the Chief Executive Officer, the four most highly compensated executive officers (the "named executive officers") and all of the Company's directors and officers as a group. The number of shares stated is based on information provided by each person listed and includes shares personally owned of record by the person and shares which, under applicable regulations, are considered to be otherwise beneficially owned by the person.

**Amount and Nature of
Beneficial Ownership of Common Stock**

Name of Beneficial Owner	Sole Voting and Dispositive Power(1)	Shared Voting or Dispositive Power(2)	Total Beneficial Ownership(1)	Percent of Class(3)
W. Scott Baker, Director	2,000	--	2,000	*
Gene Bledsoe, Director	24,899	1,102	26,001	*
Richard J. Holloman, Director	163,202	--	163,202	3.8%
G. William McKinzie, Executive Officer	35,000	--	35,000	*

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J. Wayne Moore, Executive Officer	377,000	9,000	386,000	9.2%
Allen F. Peat, Director	243,678	--	243,678	5.8%
Randall L. Peat, Executive Officer and Director	441,635	1,277	442,912	10.4%
Early L. Stephens, Executive Officer	71,550	--	71,550	1.7%
Paul R. Sylvester, Executive Officer and Director	197,229	--	197,229	4.6%
Harry C. Vorys, Director	24,544	2,231	26,775	*
Stephen C. Waterbury, Director	13,737	--	13,737	*
All directors and executive officers as a group	1,677,403	13,610	1,691,013	38.1%

* Less than 1%.

- (1) These numbers include shares held directly and shares that may be acquired through options that are exercisable within 60 days after August 15, 2003. The number of shares that may be acquired through options that are exercisable within 60 days after August 15, 2003, for each listed person is as follows:

16

W. Scott Baker	1,000
Gene Bledsoe	9,050
Richard J. Holloman	28,750
G. William McKinzie	5,000
J. Wayne Moore	--
Allen F. Peat	3,000
Randall L. Peat	30,000
Early L. Stephens	41,000
Paul R. Sylvester	74,000
Harry C. Vorys	10,152
Stephen C. Waterbury	3,000
All directors and executive officers as a group	230,952

- (2) These numbers include shares over which the listed person is legally entitled to share voting or dispositive power by reason of joint ownership, trust or other contract or property right, and shares held by spouses or children or other relatives over whom the listed person may have substantial influence by reason of relationship.
- (3) These percentages represent the number of shares owned by each beneficial owner as of August 15, 2003, plus the shares that may be acquired by each beneficial owner through the exercise of outstanding stock options within 60 days by each after August 15, 2003, as a percentage of the total of all outstanding shares as of August 15, 2003, plus the total of all shares that may be acquired through the exercise of outstanding stock options by each beneficial owner within 60 days after August 15, 2003.

BOARD OF DIRECTORS

By Board resolution, the Company's Board of Directors is currently set at eight members, three of whom are standing for reelection. The Board of Directors is divided into three classes, with each class to be as nearly equal in number as possible. Generally, each class of directors serves a term of office of three years, with the term of each class expiring at the Annual Meeting of Shareholders in each successive year. This year, the Board of Directors has nominated Richard J. Holloman, Harry C. Vorys and W. Scott Baker to serve three-year terms.

Biographical information is presented below for each person who either is nominated for election as a director at the 2003 Annual Meeting of Shareholders or is continuing as an incumbent director. Unless otherwise noted, each director and nominee for director has had the same principal employment for the last five years.

Nominees for Election to Terms Expiring in 2006

Richard J. Holloman (age 49) has been a director since 1992. Since 2002, Mr. Holloman has served as National Account Manager for Misys Healthcare Systems, which designs, develops and supports information products for hospitals, physicians, commercial laboratories, physician practices and home care providers. Prior to this, Mr. Holloman served as President and Chief Executive Officer of VisionAir, Inc., located in Wilmington, North Carolina, which designs, develops and distributes Emergency 911 and public safety software and related services to local governments nationwide.

Harry C. Vorys (age 78) has been a director since 1986. Before his retirement in July of 1990, Mr. Vorys was an Executive Vice President and Director of Citizens Trust and Savings Bank of South Haven, Michigan, which later merged into Shoreline Bank. Mr. Vorys served as a director of Shoreline Financial Corporation, the former holding company of Shoreline Bank, from inception to 1997. Mr. Vorys currently serves as President of St. Johns Northwestern Military Academy Foundation, Inc.

W. Scott Baker (age 41) has been a director since 2000. Mr. Baker currently is the President of National Nail Corporation, a building materials manufacturer and distributor, and has held this position since May of 1997. From

1983 to May of 1997, Mr. Baker was employed with Arthur Andersen, LLP, an auditing, management and technology consulting firm, where he served as Partner from 1996 to 1997.

Incumbent Directors Whose Terms Expire in 2004

Allen F. Peat (age 67) has been a director since 1972. Mr. Allen Peat was one of the founders of the Company and served as its Chairman of the Board, President, and Chief Executive Officer until he retired in October of 1995. Mr. Allen Peat is the brother of Mr. Randall Peat, Chairman of the Board of Directors of the Company.

Gene Bledsoe (age 58) has been a director since 1993. Mr. Bledsoe served as the Managing Partner of the Casal Group Corporation from 1992 to 2002, a computer industry marketing services and management consulting firm based in Dallas, Texas. Mr. Bledsoe is currently a marketing and technology consultant with Virginia Cook, Realtors located in Dallas, Texas. Mr. Bledsoe also served as the Company's interim President and Chief Executive Officer from October of 1995 through February of 1996.

Paul R. Sylvester (age 44) has been a director since 1987. Mr. Sylvester became President and Chief Executive Officer of the Company in March of 1996. Mr. Sylvester served as the Company's Vice President-Finance and Chief Financial Officer from 1987 until 1998. Mr. Sylvester is a Director and Chairman of the Audit Committee of X-Rite, Incorporated (Nasdaq), a leading global provider of systems and solutions for color and light measurement.

Incumbent Directors Whose Terms Expire in 2005

Randall L. Peat (age 55) has been a director since 1972. Mr. Randall Peat was one of the founders of the Company and became Chairman of the Board of Directors in October of 1995. In addition to his chairman responsibilities, Mr. Randall Peat is actively involved in sales and marketing for the Company. Mr. Randall Peat has held a number of positions with the Company, including President of the Company's Gavel Division, during the last thirty years. Mr. Randall Peat is the brother of Mr. Allen Peat, a director of the Company.

Stephen C. Waterbury (age 53) has been a director since 1991. Mr. Waterbury is a partner at the law firm of Warner Norcross & Judd LLP located in Grand Rapids, Michigan.

BOARD COMMITTEES AND MEETINGS

The Company's Board of Directors, which is responsible for the overall management of the business and affairs of the Company, held four meetings since the last Annual Meeting of Shareholders. Each director attended 75% or more of the aggregate of the total number of Board of Directors meetings and the total number of committee meetings of which they were members. The Board of Directors has five standing committees: the Audit Committee, the Compensation Committee, the Stock Option Committee, the Nominating Committee and the Executive Committee. The members of each committee are appointed by the Board of Directors.

Audit Committee. The Audit Committee is responsible for, among other things: (i) recommending to the Board of Directors the selection of independent auditors; (ii) reviewing and approving the scope of the yearly audit plan; (iii) reviewing the results of the annual audit with management and the independent auditors; (iv) reviewing the Company's internal controls with the independent auditors; (v) reviewing the recommendations of independent

auditors for accounting or operational improvements; (vi) reviewing nonaudit services and special engagements to be performed by the independent auditors; and (vii) reporting to the Board of Directors on the Audit Committee's activities and findings and making recommendations to the Board of Directors on these findings. The Audit Committee met four times during fiscal 2003.

The members of the Audit Committee are Messrs. Baker (Chairman), Vorys and Holloman, each of whom are independent directors. Effective December 12, 2002, the Board of Directors of the Company amended and restated the written charter for the Audit Committee, a copy of which is attached as **Appendix C** to this Proxy Statement.

Compensation Committee. The responsibilities of the Compensation Committee include (i) recommending the cash and other incentive compensation, if any, to be paid to the Company's Chief Executive Officer and certain other executive officers; and (ii) reviewing awards under stock-based compensation plans approved by the Stock Option Committee. The Compensation Committee consists of Messrs. Vorys (Chairman), Bledsoe and Waterbury. The Compensation Committee met twice since the last Annual Meeting of Shareholders.

Stock Option Committee. The Stock Option Committee is responsible for (i) the administration and award of stock options and restricted stock under the Company's stock plans; and (ii) the review of all material proposed option plan changes. In addition, the Stock Option Committee determines the key employees to whom options and restricted stock will be granted, the number of shares covered by each option or award, the exercise price of each option, and other matters associated with option and restricted stock awards. Messrs. Vorys, Bledsoe and Waterbury, each of whom are independent directors, are members of the Stock Option Committee. The Stock Option Committee met three times since the last Annual Meeting of Shareholders.

Nominating Committee. The Nominating Committee considers and evaluates the qualifications of potential candidates for the Board of Directors and recommends appropriate candidates to the full Board of Directors. The Nominating Committee consists of Messrs. Randall Peat, Vorys and Waterbury. The Nominating Committee met once since the last Annual Meeting of Shareholders.

A shareholder of record of shares of a class entitled to vote at any meeting of shareholders called for the election of directors (an "Election Meeting") may make a nomination at the Election Meeting if, and only if, that shareholder first has delivered, not less than 120 days before the date of the Election Meeting in the case of an Annual Meeting, and not more than seven days following the date of notice of the Election Meeting in the case of a special meeting, a notice to the Secretary of the Company setting forth with respect to each proposed nominee: (i) the name, age, business address and residence address of the nominee; (ii) the principal occupation or employment of the nominee; (iii) the number of shares of capital stock of the Company that are beneficially owned by the nominee; (iv) a statement that the nominee is willing to be nominated and to serve; and (v) such other information concerning the nominee as would be required under the rules of the Securities and Exchange Commission to be included in a proxy statement soliciting proxies for the election of the nominee.

Executive Committee. The Executive Committee has the authority to exercise the powers of the Board of Directors in managing the Company's business affairs and property during intervals between meetings of the Board of Directors. The Executive Committee consists of Messrs. Waterbury, Randall Peat and Sylvester. The Executive Committee has not met since the last Annual Meeting of Shareholders.

AUDIT COMMITTEE REPORT

The Audit Committee of the Board of Directors oversees the Company's financial reporting process on behalf of the Board of Directors. It meets with management and the Company's independent auditors from time to time and reports the results of its activities to the Board of Directors. In this connection, the Audit Committee has done the following:

Reviewed and discussed the audited financial statements for the fiscal year ended April 30, 2003, with the Company's management;

Discussed with Ernst & Young LLP, the Company's independent auditors, the matters required to be discussed by Statement on Auditing Standards No. 61, *Communication with Audit Committees*, as amended, by the Auditing Standards Board of the American Institute of Certified Public Accountants; and

Received written disclosure regarding independence from Ernst & Young LLP as required by Independence Standards Board Standard No. 1, *Independence Discussions with Audit Committees*, and discussed with Ernst & Young its independence.

Based on the foregoing, the Audit Committee recommended to the Board of Directors that the audited financial statements be included in the Company's Annual Report on Form 10-K for the fiscal year ended April 30, 2003.

Respectfully submitted,

W. Scott Baker (Chairman)
Harry C. Vorys
Richard J. Holloman

COMPENSATION OF DIRECTORS

Non-employee directors receive a \$8,000 annual retainer fee plus compensation in accordance with the following: \$750 for attendance at each meeting of the Board of Directors, \$500 for attendance at each Audit Committee meeting (with the Chairman of the Audit Committee receiving \$750) and \$250 for attendance at each committee meeting other than the Audit Committee. Directors who are also employees of the Company or its subsidiary receive no annual retainer and are not compensated for attendance at board or committee meetings.

Each non-employee director who has served a full year of service as a member of the Board of Directors is also granted an option on the date of each Annual Meeting of Shareholders to purchase 2,000 shares of Common Stock. The per share exercise price of options granted to non-employee directors is 100% of the fair market value of the Common Stock on the date each option is granted. The term of each option may not exceed 10 years.

EXECUTIVE COMPENSATION

The following table sets forth certain information concerning the compensation earned during each of the last three fiscal years ended April 30, 2003, 2002 and 2001, by the Company's Chief Executive Officer and the named executive officers:

Summary Compensation Table

Name and Principal Position	Year	Annual Compensation		Long-Term Compensation Awards		
		Salary	Bonus (1)	Restricted Stock Awards	Numbers of Shares Underlying Options	All Other Compensation (2)
Paul R. Sylvester President and Chief Executive Officer	2003	\$ 166,000	\$ 28,500	--	--	\$ 27,862
	2002	160,000	--	--	--	28,052
	2001	154,000	--	(3)	60,000	2,880
Randall L. Peat Chairman of the Board	2003	\$ 118,000	\$ 21,900	--	--	\$ 26,795
	2002	102,500	2,000	--	--	26,785
	2001	101,000	--	--	--	14,936
G. William McKinzie Chief Operating Officer	2003	\$ 127,000 (4)	\$ 22,300	(5)	30,000	\$ --
	2002	7,200	--	--	--	--
	2001	--	--	--	--	--
Early L. Stephens Chief Technology Officer	2003	\$ 117,000	\$ 20,700	--	--	\$ 1,463
	2002	100,700	--	--	--	1,530
	2001	93,000	--	(3)	40,000	1,746
J. Wayne Moore President of Manatron ProVal Corporation	2003	\$ 113,000	\$ 10,200	--	--	\$ 26,335
	2002	110,500	--	--	--	26,355
	2001	108,000	--	--	--	8,293

- (1) On July 9, 2003, the Company paid bonuses in the indicated amounts to each named executive officer based on the Company's profitability during the fiscal year ended April 30, 2003.
- (2) All other compensation for the year ended April 30, 2003, includes: (i) Company matching contributions under the Company's 401(k) plan of \$2,390 for Mr. Sylvester, \$1,795 for Mr. Peat, \$1,463 for Mr. Stephens, and \$1,335 for Mr. Moore; (ii) amounts paid by the Company for life insurance of \$472 for Mr. Sylvester; and (iii) amounts paid by the Company to Messrs. Sylvester, Peat and Moore of \$25,000 each to compensate them for the risk associated with signing personal guarantees with Kemper Insurance Company, required to allow the Company to obtain bonding. In addition, 142 shares were contributed by the Company to Mr. Sylvester's ESOP account, 120 shares were contributed to Mr. Peat's ESOP account, 84 shares were contributed to Mr. Stephens ESOP account and 103 shares were contributed to Mr. Moore's ESOP account.

The market value of the Company's Common Stock on April 30, 2003, was \$6.95.

- (3) Under the Executive Stock Plan of 2000 approved by the shareholders at the October 5, 2000 Annual Meeting, Messrs. Sylvester and Stephens were granted 60,000 and 40,000 shares, respectively, of the Company's restricted common stock. Generally speaking, on June 1 of each

year until June 1, 2010, 6,000 and 4,000 shares, respectively, of stock will vest unless the Company's common stock trades for at least \$20 per share on or before June 1, 2005. The value of this restricted stock award was \$405,000 and \$270,000, respectively, and was calculated using the market value of the Company's Common Stock