TYLER TECHNOLOGIES INC
Form 10-K
February 20, 2013
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES AND EXCHANGE ACT OF 1934**

For the Fiscal Year Ended December 31, 2012

OR

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

Commission File Number 1-10485

TYLER TECHNOLOGIES, INC.

(Exact name of registrant as specified in its charter)

DELAWARE	**75-2303920**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. employer identification no.)**
5949 Sherry Lane, Suite 1400	
Dallas, Texas	**75225**
(Address of principal executive offices)	**(Zip code)**

Registrant s telephone number, including area code: (972) 713-3700

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

Title of each class	**Name of each exchange on which registered**
COMMON STOCK, $0.01 PAR VALUE	**NEW YORK STOCK EXCHANGE**

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

NONE

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. YES ¨ NO x

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. YES ¨ NO x

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data file required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES x NO ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer x	Accelerated filer ¨
Non-accelerated filer ¨ (Do not check if a smaller reporting company)	Smaller reporting company ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act.) YES ¨ NO x

The aggregate market value of the voting stock held by non-affiliates of the registrant was $1,155,951,000 based on the reported last sale price of common stock on June 30, 2012, which is the last business day of the registrant s most recently completed second fiscal quarter.

The number of shares of common stock of the registrant outstanding on February 18, 2013 was 31,423,000.

DOCUMENTS INCORPORATED BY REFERENCE

Certain information required by Part III of this annual report is incorporated by reference from the registrant s definitive proxy statement for its annual meeting of stockholders to be held on May 9, 2013.

Table of Contents

TYLER TECHNOLOGIES, INC.

FORM 10-K

TABLE OF CONTENTS

Table of Contents

PART I

ITEM 1. BUSINESS.

DESCRIPTION OF BUSINESS

Tyler Technologies, Inc. (Tyler) is a major provider of integrated information management solutions and services for the public sector, with a focus on local governments. We partner with clients to make local government more accessible to the public, more responsive to the needs of citizens and more efficient in its operations. We have a broad line of software solutions and services to address the information technology (IT) needs of virtually every major area of operation for cities, counties, schools and other local government entities. Most of our customers have our software installed in-house. For customers who prefer not to physically acquire the software and hardware, most of our software applications can be delivered as software as a service (SaaS), which utilize the Tyler private cloud. We provide professional IT services to our customers, including software and hardware installation, data conversion, training and, at times, product modifications. In addition, we are the nation s largest provider of outsourced property appraisal services for taxing jurisdictions. We also provide continuing customer support services to ensure product performance and reliability, which provides us with long-term customer relationships and a significant base of recurring maintenance revenue. In 2010 we began providing electronic document filing solutions (e-filings) which simplify the filing and management of court related documents.

Tyler was founded in 1966. Prior to 1998, we operated as a diversified industrial conglomerate, with operations in various industrial, retail and distribution businesses, all of which have been divested. In 1997, we embarked on a multi-phase growth plan focused on serving the specialized information management needs of local governments nationwide. In 1998 and 1999, we entered the local government IT market through a series of strategic acquisitions of companies in the local government IT market.

MARKET OVERVIEW

The state and local government market is one of the largest and most decentralized IT markets in the country, consisting of all 50 states, approximately 3,000 counties, 36,000 cities and towns and 13,900 school districts. This market is also comprised of approximately 37,000 special districts and other agencies, each with specialized delegated responsibilities and unique information management requirements.

Traditionally, local government bodies and agencies performed state-mandated duties, including property assessment, record keeping, road maintenance, law enforcement, administration of election and judicial functions, and the provision of welfare assistance. Today, a host of emerging and urgent issues are confronting local governments, each of which demands a service response. These areas include criminal justice and corrections, administration and finance, public safety, health and human services, and public works. Transfers of responsibility from the federal and state governments to county and municipal governments and agencies in these and other areas also place additional service and financial requirements on these local government units. In addition, constituents of local governments are increasingly demanding improved service and better access to information from public entities. As a result, local governments recognize the increasing value of information management systems and services to, among other things, improve revenue collection, provide increased access to information, and streamline delivery of services to their constituents. Local government bodies are now recognizing that e-government is an additional responsibility for community development. From integrated tax systems to integrated civil and criminal justice information systems, many counties and cities have benefited significantly from the implementation of jurisdiction-wide systems that allow different agencies or government offices to share data and provide a more comprehensive approach to information management. Many city and county governmental agencies also have unique individual information management requirements, which must be tailored to the specific functions of each particular office.

Many local governments also have difficulties attracting and retaining the staff necessary to support their IT functions. As a result, they seek to establish long-term relationships with reliable providers of high quality IT products and services such as Tyler.

Although local governments generally face budgetary constraints in their operations, their primary revenue sources are usually property taxes, and to a lesser extent, utility billings and other fees, which historically tend to be relatively stable. In addition, the acquisition of new technology typically enables local governments to operate more efficiently, and often provides a measurable return on investment that justifies the purchase of software and related services.

Table of Contents

Gartner estimates that state and local government application and vertical specific software spending will decline slightly from $9.3 billion in 2013 to $8.9 billion in 2016. The professional services and support segments of the market, where our business is primarily focused, is expected to expand from $36.6 billion in 2013 to $41.1 billion in 2016. Software sales in the primary and secondary education segments of the market is expected to expand from $2.8 billion in 2013 to $3.6 billion in 2016 while professional services and support are expected to grow from $2.1 billion in 2013 to $2.5 billion in 2016.

PRODUCTS AND SERVICES

We provide a comprehensive and flexible suite of products and services that addresses the information technology needs of cities, counties, schools and other local government entities. We derive our revenues from five primary sources:

- sales of software licenses;
- subscription-based arrangements;
- software services;
- maintenance and support; and
- appraisal services.

We design, develop and market a broad range of software solutions to serve mission-critical back-office functions of local governments. Many of our software applications include Internet-accessible solutions that allow for real-time public access to a variety of information or that allow the public to transact business with local governments via the Internet. Our software solutions and services are generally grouped in three major areas:

- Financial Management and Education;
- Courts and Justice; and
- Property Appraisal and Tax and Other.

Each of our core software systems consists of several fully integrated applications. For customers who acquire the software for use in-house, we generally license our systems under standard perpetual license agreements that provide the customer with a fully paid, nonexclusive, nontransferable right to use the software. In some of the product areas, such as financial management and education and property appraisal and tax, we offer multiple solutions designed to meet the needs of different sized governments.

We also offer SaaS arrangements, which utilize the Tyler private cloud, for customers who do not wish to maintain, update and operate these systems or to make up-front capital expenditures to implement these advanced technologies. For these customers, we deliver our software using the SaaS model the software and client data are hosted at our data centers or at third-party locations, and customers typically sign multi-year contracts for these subscription-based services.

Historically, we have had a greater proportion of our annual revenues in the second half of our fiscal year due to governmental budget and spending cycles and the timing of system implementations for customers desiring to go live at the beginning of the calendar year.

A description of our suites of products and services follows:

Software Licenses

Financial Management and Education

Our financial management and education solutions are enterprise resource planning systems for local governments, which integrate information across all facets of a client organization. Our financial management solutions include modular fund accounting systems that can be tailored to meet the needs of virtually any government agency or not-for-profit entity. Our financial management systems include modules for general ledger, budget preparation, fixed assets, requisitions, purchase orders, bid management, accounts payable, contract management, accounts receivable, investment management, inventory control, project and grant accounting, work orders, job costing, GASB 34 reporting, payroll and human resources. All of our financial management systems are intended to conform to government auditing and financial reporting requirements and generally accepted accounting principles.

We sell utility billing systems that support the billing and collection of metered and non-metered services, along with multiple billing cycles. Our Web-enabled utility billing solutions allow customers to access information online such as average consumption and transaction history. In addition, our systems can accept secured Internet payments via credit cards and checks.

Table of Contents

We also offer specialized products that automate numerous city functions, including municipal courts, parking tickets, equipment and project costing, animal licenses, business licenses, permits and inspections, code enforcement, citizen complaint tracking, ambulance billing, fleet maintenance, and cemetery records management.

In addition to providing financial management systems to K-12 schools, we sell student information systems for K-12 schools, which manage such activities as scheduling, grades and attendance. We also offer student transportation solutions to manage school bus routing optimization, fleet management, field trips and other related functions. We also sell software applications to manage public sector pension funds.

Tyler s financial management and education solutions include Web components that enhance local governments service capabilities by facilitating online access to information for both employees and citizens and enabling online transactions.

Courts and Justice

We offer a complete, fully integrated suite of judicial solutions designed to handle complex, multi-jurisdictional county or statewide implementations as well as single county systems. Our solutions help eliminate duplicate data entry, promote more effective business procedures and improve efficiency across the entire justice process.

Our unified court case management system is designed to automate the tracking and management of information involved in all case types, including criminal, traffic, civil, family, probate and juvenile courts. It also tracks the status of cases, processes fines and fees and generates the specialized judgment and sentencing documents, notices and forms required in the court process. Documents received by the court can be scanned into the electronic case file and easily retrieved for viewing. Documents generated by the court can be electronically signed and automatically attached to the electronic case file. Additional modules automate the management of court calendars, coordinate judge s schedules and generate court dockets. Our targeted courtroom technologies allow courts to rapidly review calendars, cases and view documents in the courtroom. Courts may also take advantage of our related jury management system.

Our law enforcement systems automate police and sheriff functions from dispatch and records management through booking and jail management. Searching, reporting and tracking features are integrated, allowing reliable, up-to-date access to current arrest and incarceration data, including digital mug shots. Our systems also provide warrant checks for visitors or book-ins, inmate classification and risk assessment, commissary, property and medical processing, and automation of statistics and state and federal reporting. Our computer-aided dispatch/emergency 911 system tracks calls and the availability of emergency response vehicles, interfaces with local and state searches, and assists dispatchers with processing emergency situations. The law enforcement and jail management systems are fully integrated with prosecution and other court products that manage the entire judicial process.

Our court and law enforcement systems allow the public to access, via the Internet, a variety of information, including non-confidential criminal and civil court records, jail booking and release information, bond and bondsmen information, and court calendars and dockets. In addition, our systems allow cities and counties to accept payments for traffic and parking tickets over the Internet, with a seamless and automatic interface to back-office justice and financial systems.

Our prosecutor system enables state attorney offices to track and manage criminal cases, including detailed victim information and private case notes. Investigative reports and charging instrument documents can be generated and stored for later viewing. Prosecutors can schedule and record the outcome of grand jury hearings. When integrated with the court system, prosecutors can view the electronic case file and related documents, as well as manage witness lists and subpoenas needed for court hearings.

Our supervision system allows pre-trial and probation offices to manage offender caseloads. Supervision officers can track contact schedules, risk/needs assessments and reassessments, detailed drug test results, employment histories, compliance with conditions and payments of fees and restitution. Documents and forms, like pre-sentence investigations or revocation orders, can be generated and stored for easy viewing. When integrated with the jail and court systems, supervision officers can have easy access and quick notification of offenders that have court hearings scheduled, are arrested locally and have new warrants issued.

We also offer a court case management solution that automates and tracks all aspects of municipal courts and offices. It is a fully integrated, graphical application that provides effective case management, document processing and cash/bond management. This system complies with all state reporting and conviction reports and includes electronic reporting and also integrates with certain of our financial management solutions and public safety solutions. Our public safety solution for municipalities includes more than thirty

5

Table of Contents

essential law enforcement, criminal investigation, and administration record management modules. The public safety solution manages information such as arrests and field interviews, traffic reports and citations, and incident and offense reports. It also supports multimedia files, photo lineups, multi-agency security and incident workflow and streamlines mandatory reporting to local, state and federal offices.

Property Appraisal and Tax and Other

We provide systems and software that automate the appraisal and assessment of real and personal property, including record keeping, mass appraisal, inquiry and protest tracking, appraisal and tax roll generation, tax statement processing, and electronic state-level reporting. These systems are image and video-enabled to facilitate the storage of and access to the many property-related documents and for the online storage of digital photographs of properties for use in defending values in protest situations. Other related tax applications are available for agencies that bill and collect taxes, including cities, counties, school tax offices, and special taxing and collection agencies. These systems support billing, collections, lock box operations, mortgage company electronic payments, and various reporting requirements.

We also offer a number of specialized software applications designed to help county governments enhance and automate courthouse operations. These systems record, scan and index information for the many documents maintained at the courthouse, such as deeds, mortgages, liens, UCC financing statements and vital records (birth, death and marriage certificates). These applications include fully integrated imaging systems with batch and scan processing capabilities and fully integrated receipting and cashiering systems as well as Web-enabled public access.

Subscription-Based Services

Subscription-based revenue is primarily derived from our SaaS arrangements, which utilize the Tyler private cloud, as well as our transaction based offerings such as e-filing solutions.

We are able to provide the majority of our software products on our SaaS model. The customers who choose this model typically do not wish to maintain, update and operate these systems or make up-front capital expenditures to implement these advanced technologies. The contract terms for these arrangements range from one to 10 years, but are typically contracted for a period of three to six years. The majority of our SaaS or hosting arrangements include additional professional services as well as maintenance and support services. In certain arrangements, the customer may also acquire a license to the software.

As part of our subscription-based services, we provide e-filing solutions that simplify the filing and management of court related documents for courts and law offices. Revenues for e-filings are included in subscription-based revenues, and are generally derived from transaction fees.

Software Services

We provide a variety of professional IT services to customers who utilize our software products. Virtually all of our customers contract with us for installation, training, and data conversion services in connection with their purchase of Tyler s software solutions. The complete implementation process for a typical system includes planning, design, data conversion, set-up and testing. At the culmination of the implementation process, an installation team travels to the customer s facility to ensure the smooth transfer of data to the new system. Installation fees are charged separately to customers on either a fixed-fee or hourly charge basis, depending on the contract.

Both in connection with the installation of new systems and on an ongoing basis, we provide extensive training services and programs related to our products and services. Training can be provided in our training centers, onsite at customers locations, or at meetings and conferences, and can be customized to meet customers requirements. The vast majority of our customers contract with us for training services, both to improve their employees proficiency and productivity and to fully utilize the functionality of our systems. Training services are generally billed on an hourly or daily basis, along with travel and other expenses.

Table of Contents

Maintenance and Support

Following the implementation of our software systems, we provide ongoing software support services to assist our customers in operating the systems and to periodically update the software. Support is provided over the phone to customers through help desks staffed by our customer support representatives. For more complicated issues, our staff, with the customers permission, can log on to customers systems remotely. We maintain our customers software largely through releases that contain improvements and incremental additions, along with updates necessary because of legislative or regulatory changes.

Virtually all of our software customers contract with us for maintenance and support, which provides us with a significant source of recurring revenue. We generally provide maintenance and support under annual contracts, with a typical fee based on a percentage of the software product s license fee. These fees can be increased annually and may also increase as new license fees increase. Maintenance and support fees are generally paid in advance for the entire maintenance contract period. Most maintenance contracts automatically renew unless the customer or Tyler gives notice of termination prior to expiration. Similar support is provided to our SaaS customers, and is included in their subscription fees which are classified as subscription-based revenues.

Appraisal Services

We are the nation s largest provider of property appraisal outsourcing services for local government taxing authorities. These services include:

- the physical inspection of commercial and residential properties;
- data collection and processing;
- sophisticated computer analyses for property valuation;
- preparation of tax rolls;
- community education regarding the assessment process; and
- arbitration between taxpayers and the assessing jurisdiction.

Local government taxing authorities normally reappraise properties from time to time to update values for tax assessment purposes and to maintain equity in the taxing process. In some jurisdictions, reassessment cycles are mandated by law; in others, they are discretionary. While some taxing jurisdictions perform reappraisals in-house, many local governments outsource this function because of its cyclical nature and because of the specialized knowledge and expertise requirements associated with it. Our appraisal services business unit has been in this business since 1938.

In some instances, we also sell property tax and/or appraisal software products in connection with appraisal outsourcing projects, while other customers may only engage us to provide appraisal services. Appraisal outsourcing services are somewhat seasonal in nature to the extent that winter weather conditions reduce the productivity of data collection activities in connection with those projects.

STRATEGY

Our objective is to grow our revenue and earnings internally, supplemented by focused strategic acquisitions. The key components of our business strategy are to:

Provide high quality, value added products and services to our clients. We compete on the basis of, among other things, delivering to customers our deep domain expertise in local government operations through the highest value products and services in the market. We believe we have achieved a reputation as a premium product and service provider to the local government market.

Continue to expand our product and service offerings. While we already have what we believe to be the broadest line of software products for local governments, we continually upgrade our core software applications and expand our complementary product and service offerings to respond to technological advancements and the changing needs of our clients. For example, we offer solutions that allow the public to access data and conduct transactions with local governments, such as paying traffic tickets, property taxes and utility bills, and filing court documents via the Internet. We believe that the addition of such features enhances the market appeal of our core products. Since 2001, we have also offered software products as SaaS solutions which we believe will, over time, have increasing appeal to local governments and will comprise a larger percentage of our new business mix. We have also broadened our offerings of consulting and business process reengineering services.

Table of Contents

Expand our customer base. We seek to establish long-term relationships with new customers primarily through our sales and marketing efforts. While we currently have customers in all 50 states, Canada, the Caribbean, and the United Kingdom, not all of our solutions have achieved nationwide geographic penetration. We intend to continue to expand into new geographic markets by adding sales staff and targeting marketing efforts by solutions in those areas. We also intend to continue to expand our customer base to include more large governments. While our traditional market focus has primarily been on small and mid-sized governments, our increased size and market presence, together with the technological advances and improved scalability of certain of our solutions, are allowing us to achieve success in selling to larger customers.

Expand our existing customer relationships. Our existing customer base offers significant opportunities for additional sales of solutions and services that we currently offer, but that existing customers do not fully utilize. Add-on sales to existing customers typically involve lower sales and marketing expenses than sales to new customers.

Grow recurring revenues. We have a large recurring revenue base from maintenance and support and subscription-based services, which generated revenues of $216.5 million, or 60% of total revenues, in 2012. We have historically experienced very low customer turnover (approximately 2% annually) and recurring revenues continue to grow as the installed customer base increases. In addition, subscription-based revenues have been our fastest growing revenue category over the past five years, increasing from $10.4 million in 2007 to $44.6 million in 2012.

Maximize economies of scale and take advantage of financial leverage in our business. We seek to build and maintain a large client base to create economies of scale, enabling us to provide value-added products and services to our customers while expanding our operating margins. Because we sell primarily off-the-shelf software, increased sales of the same solutions result in incrementally higher gross margins. In addition, we believe that we have a marketing and administrative infrastructure in place that we can leverage to accommodate significant long-term growth without proportionately increasing selling, general and administrative expenses.

Attract and retain highly qualified employees. We believe that the depth and quality of our operating management and staff is one of our significant strengths, and that the ability to retain such employees is crucial to our continued growth and success. We believe that our stable management team, financial strength and growth opportunities, as well as our leadership position in the local government market, enhance our attractiveness as an employer for highly skilled employees.

Pursue selected strategic acquisitions. While we expect to primarily grow internally, from time to time we selectively pursue strategic acquisitions that provide us with one or more of the following:

- new products and services to complement our existing offerings;
- entry into new markets related to local governments; and
- new customers and/or geographic expansion.

Establish strategic alliances. In January 2007 we announced a strategic alliance with Microsoft Corporation to jointly develop core public sector functionality for Microsoft Dynamics AX to address the unique accounting needs of public sector organizations worldwide. As part of this alliance we are enhancing Microsoft Dynamics AX with public sector-specific functionality. The arrangement has broadened the functionality of Microsoft Dynamics AX, providing both Tyler and Microsoft with a public sector accounting platform to support their existing and prospective clients well into the future. Microsoft Dynamics AX with public sector functionality was released to the market in August 2011 and is being sold in the United States and internationally through Microsoft s distribution channels. Tyler is also now an authorized Microsoft reseller for the Microsoft Dynamics solutions developed under this arrangement, and we are selling the solutions directly into the government market. Tyler receives license and maintenance royalties on direct and indirect public-sector sales worldwide of the solutions co-developed under this multi-year term relationship.

Table of Contents

SALES, MARKETING, AND CUSTOMERS

We market our products and services through direct sales and marketing personnel located throughout the United States. Other in-house sales staff focuses on add-on sales, professional services and support.

Sales of new systems are typically generated from referrals from other government offices or departments within a county or municipality, referrals from other local governments, relationships established between sales representatives and county or local officials, contacts at trade shows, direct mailings, and direct contact from prospects already familiar with us. We are active in numerous national, state, county, and local government associations, and participate in annual meetings, trade shows, and educational events.

Customers consist primarily of county and municipal agencies, school districts and other local government offices. In counties, customers include the auditor, treasurer, tax assessor/collector, county clerk, district clerk, county and district court judges, probation officers, sheriff, and county appraiser. At municipal government sites, customers include directors from various departments, including administration, finance, utilities, public works, code enforcement, personnel, purchasing, taxation, municipal court, and police. Contracts for software products and services are generally implemented over periods of three months to one year, with annually renewing maintenance and support update agreements thereafter. Although either the customer or we can terminate these agreements, historically almost all support and maintenance agreements are automatically renewed annually. Contracts for appraisal outsourcing services are generally one to three years in duration. During 2012, approximately 47% of our revenue was attributable to ongoing support and maintenance agreements.

COMPETITION

We compete with numerous local, regional, and national firms that provide or offer some or many of the same solutions and services that we provide. Many of these competitors are smaller companies that may be able to offer less expensive solutions than ours. Many of these firms operate within a specific geographic area and/or in a narrow product or service niche. We also compete with national firms, some of which have greater financial and technical resources than we do, including Oracle Corporation, Lawson Software, Inc., SAP AG, Affiliated Computer Services, Inc. (a unit of Xerox Corporation), SunGard Data Systems, Inc., New World Systems, American Cadastre, LLC (AmCad), Constellation Software, Inc. and Manatron, Inc. (a unit of Thomson Reuters). In addition, we sometimes compete with consulting and systems integration firms, such as Deloitte LLP, which develop custom systems, primarily for larger governments. We also occasionally compete with central internal information service departments of local governments, which require us to persuade the end-user department to discontinue service by its own personnel and outsource the service to us. We compete on a variety of factors, including price, service, name recognition, reputation, technological capabilities, and the ability to modify existing products and services to accommodate the individual requirements of the customer. Our ability to offer an integrated system of applications for several offices or departments is often a competitive strength. Local governmental units often are required to seek competitive proposals through a request for proposal process.

SUPPLIERS

Substantially all of the computers, peripherals, printers, scanners, operating system software, office automation software, and other equipment necessary for the implementation and provision of our software systems and services are presently available from several third-party sources. Hardware is purchased on original equipment manufacturer or distributor terms at discounts from retail. We have not experienced any significant supply problems.

BACKLOG

At December 31, 2012, our estimated revenue backlog was approximately $380.6 million, compared to $339.8 million at December 31, 2011. The backlog represents signed contracts under which the revenue has not been recognized as of year-end. Approximately $267.4 million, or 70%, of the backlog is expected to be recognized during 2013.

INTELLECTUAL PROPERTY, PROPRIETARY RIGHTS, AND LICENSES

We regard certain features of our internal operations, software, and documentation as confidential and proprietary and rely on a combination of contractual restrictions, trade secret laws and other measures to protect our proprietary intellectual property. We generally do not rely on patents. We believe that, due to the rapid rate of technological change in the computer software industry, trade secrets and copyright protection are less significant than factors such as knowledge, ability and experience of our employees, frequent product enhancements, and timeliness and quality of support services. We typically license our software products under non-exclusive license agreements which are generally non-transferable and have a perpetual term.

EMPLOYEES

At December 31, 2012, we had 2,388 employees. Appraisal outsourcing projects are cyclical in nature and can be widely dispersed geographically. We often hire temporary employees to assist in these projects whose term of employment generally ends with the project s completion. None of our employees are represented by a labor union or are subject to collective bargaining agreements. We consider our relations with our employees to be positive.

INTERNET WEBSITE AND AVAILABILITY OF PUBLIC FILINGS

We file annual, quarterly, current and other reports, proxy statements and other information with the Securities and Exchange Commission, or SEC, pursuant to the Securities Exchange Act. You may read and copy any materials we file with the SEC at the SEC s Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC maintains an Internet site that contains reports, proxy and other information statements, and other information regarding issuers, including us, that file electronically with the SEC. The address of this site is http://www.sec.gov.

We also maintain an Internet site at www.tylertech.com. We make available free of charge through this site our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Forms 4 and 5, Current Reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act as soon as reasonably practicable after we electronically file such material with, or furnish it to, the SEC. In addition, copies of our annual report will be made available, free of charge upon written request.

Our Code of Business Conduct and Ethics is also available on our Web site. We intend to satisfy the disclosure requirements regarding amendments to, or waivers from, a provision of our Code of Business Conduct and Ethics by posting such information on our Web site.

ITEM 1A. RISK FACTORS

An investment in our common stock involves a high degree of risk. Investors evaluating our company should carefully consider the factors described below and all other information contained in this Annual Report. Any of the following factors could materially harm our business, operating results, and financial condition. Additional factors and uncertainties not currently known to us or that we currently consider immaterial could also harm our business, operating results, and financial condition. This section should be read in conjunction with the Financial Statements and related Notes and Management s Discussion and Analysis of Financial Condition and Results of Operations included in this Annual Report. We may make forward-looking statements from time to time, both written and oral. We undertake no obligation to revise or publicly release the results of any revisions to these forward-looking statements. Our actual results may differ materially from those projected in any such forward-looking statements due to a number of factors, including those set forth below and elsewhere in this Annual Report.

Risks Associated with Selling Products and Services into the Public Sector Marketplace

A prolonged economic slowdown could harm our operations.

A prolonged economic slowdown or recession could reduce demand for our software products and services. Local and state governments may face financial pressures that could in turn affect our growth rate in 2013. There is no assurance that local and state spending levels will be unaffected by declining or stagnant general economic conditions, and if budget shortfalls occur, they may negatively impact local and state information technology spending and could have a material adverse effect upon our business, operating results, and financial condition.

10

Table of Contents

Selling products and services into the public sector poses unique challenges.

We derive substantially all of our revenues from sales of software and services to state, county and city governments, other municipal agencies, and other public entities. We expect that sales to public sector customers will continue to account for substantially all of our revenues in the future. We face many risks and challenges associated with contracting with governmental entities, including:

- limitations on governmental resources placed by budgetary constraints, which in some circumstances, may provide for a termination of executed contracts because of a lack of future funding;
- the sales cycle of governmental agencies may be complex and lengthy;
- payments under some public sector contracts are subject to achieving implementation milestones, and we have had, and may in the future have, differences with customers as to whether milestones have been achieved;
- political resistance to the concept of government agencies contracting with third parties to provide information technology solutions;
- changes in legislation authorizing government s contracting with third parties;
- the internal review process by governmental agencies for bid acceptance;
- changes to the bidding procedures by governmental agencies;
- changes in governmental administrations and personnel; and
- the general effect of economic downturns and other changes on local governments ability to spend public funds on outsourcing arrangements.

Each of these risks is outside our control. If we fail to adequately adapt to these risks and uncertainties, our financial performance could be adversely affected.

A decline in the demand for information technology spending may result in a decrease in our revenues or lower our growth rate.

A decline in the demand for information technology among our current and prospective customers may result in decreased revenues or a lower growth rate for us because our sales depend, in part, on our customers level of funding for new or additional information technology systems and services. Moreover, demand for our solutions may be reduced by a decline in overall demand for computer software and services. Accordingly, we cannot assure you that we will be able to increase or maintain our revenues.

The open bidding process for governmental contracts creates uncertainty in predicting future contract awards.

Many governmental agencies purchase products and services through an open bidding process. Generally, a governmental entity will publish an established list of requirements requesting potential vendors to propose solutions for the established requirements. To respond successfully to these requests for proposals, we must accurately estimate our cost structure for servicing a proposed contract, the time required to establish operations for the proposed client, and the likely terms of any other third party proposals submitted. We cannot guarantee that we will win any bids in the future through the request for proposal process, or that any winning bids will ultimately result in contracts on favorable terms. Our failure to secure contracts through the open bidding process, or to secure such contracts on favorable terms, may adversely affect our business, financial condition, and results of operations.

Table of Contents

We face significant competition from other vendors and potential new entrants into our markets.

We believe we are a leading provider of integrated solutions for the public sector. However, we face competition from a variety of software vendors that offer products and services similar to those offered by us, as well as from companies offering to develop custom software. We compete on the basis of a number of factors, including:

- the attractiveness of the business strategy and services we offer;
- the breadth of products and services we offer;
- features and functionality of our software;
- price;
- quality of products and service;
- technological innovation;
- our ability to modify existing products and services to accommodate the particular needs of our customers;
- name recognition; and
- our financial strength and stability.

We believe the market is highly fragmented with a large number of competitors that vary in size, primary computer platforms, and overall product scope. Our competitors include consulting firms, publicly held companies that focus on selected segments of the public sector market, and a significant number of smaller, privately held companies. Certain competitors have greater technical, marketing, and financial resources than we do. We cannot assure you that such competitors will not develop products or offer services that are superior to our products or services or that achieve greater market acceptance.

We also compete with internal, centralized information service departments of governmental entities, which require us to persuade the end-user to stop the internal service and outsource to us. In addition, our customers may elect in the future to provide information management services internally through new or existing departments, which could reduce the market for our services.

We could face additional competition as other established and emerging companies enter the public sector software application market and new products and technologies are introduced. Increased competition could result in pricing pressure, fewer customer orders, reduced gross margins, and loss of market share. In addition, current and potential competitors may make strategic acquisitions or establish cooperative relationships among themselves or with third-parties, thereby increasing the ability of their products to address the needs of our prospective customers. It is possible that new competitors or alliances among current and new competitors may emerge and rapidly gain significant market share. Further, competitive pressures could require us to reduce the price of our software licenses and related services. We cannot assure you that we will be able to compete successfully against current and future competitors, and the failure to do so would have a material adverse effect upon our business, operating results, and financial condition.

Fixed- price contracts may affect our profits.

Some of our present contracts are on a fixed-priced basis, which can lead to various risks, including:

- the failure to accurately estimate the resources and time required for an engagement;
- the failure to effectively manage governmental agencies and other customers expectations regarding the scope of services to be delivered for an estimated price; and
- the failure to timely complete fixed-price engagements within budget to the customers satisfaction.

If we do not adequately assess these and other risks, we may be subject to cost overruns and penalties, which may harm our business, financial condition, or results of operations.

Table of Contents

Changes in the insurance markets may affect our ability to win some contract awards and may lead to increased expenses.

Some of our customers, primarily those for our property appraisal services, require that we secure performance bonds before they will select us as their vendor. In addition, we are generally required to provide letters of credit as security for the issuance of a performance bond. Our current credit facility contains a $25.0 million sublimit for letters of credit. We cannot guarantee that we will be able to secure such performance bonds in the future on terms that are favorable to us, if at all. Our inability to obtain performance bonds on favorable terms or at all could impact our future ability to win some contract awards, particularly large property appraisal services contracts, which could have a material adverse effect on our business, financial condition, and results of operations.

Volatility in the stock markets, increasing shareholder litigation, the adoption of expansive legislation that redefines corporate controls (in particular, legislation adopted to prevent future corporate and accounting scandals), as well as other factors have at times led to volatility in premiums for directors and officers liability insurance. Volatility of the insurance market may result in future increases in our general and administrative expenses, which may adversely affect future operating results.

Risks Associated with Our Periodic Results and Stock Price

As with other software vendors, we may be required to delay revenue recognition into future periods, which could adversely impact our operating results.

We have in the past had to, and in the future may have to, defer revenue recognition for license fees due to several factors, including whether:

- license agreements include applications that are under development or other undelivered elements;
- we must deliver services that are considered essential to the functionality of the software, including significant modifications, customization, or complex interfaces, which could delay product delivery or acceptance;
- the transaction involves acceptance criteria;
- the transaction involves contingent payment terms or fees;
- we are required to accept a fixed-fee services contract; or
- we are required to provide extended payment terms.

Because of the factors listed above and other specific requirements under generally accepted accounting principles in the United States for software revenue recognition, we must have very precise terms in our license agreements in order to recognize revenue when we initially deliver and install software or perform services. Negotiation of mutually acceptable terms and conditions can extend the sales cycle, and sometimes we do not obtain terms and conditions that permit revenue recognition at the time of delivery or even as work on the project is completed.

We may experience fluctuations in quarterly revenue that could adversely impact our stock price and our operating results.

Our actual revenues in a quarter could fall below expectations, which could lead to a decline in our stock price. Our revenues and operating results are difficult to predict and may fluctuate substantially from quarter to quarter. Revenues from license fees in any quarter depend substantially upon our contracting activity and our ability to recognize revenues in that quarter in accordance with our revenue recognition policies. Our quarterly revenue may fluctuate and may be difficult to forecast for a variety of reasons, including the following:

a significant number of our prospective customers decisions regarding whether to enter into license agreements with us may be made within the last few weeks of each quarter;

the size of license transactions can vary significantly;

customers may unexpectedly postpone or cancel procurement processes due to changes in their strategic priorities, project objectives, budget or personnel;

customer purchasing processes vary significantly and a customer s internal approval, expenditure authorization and contract negotiation processes can be difficult and time consuming to complete, even after selection of a vendor;

the number, timing, and significance of software product enhancements and new software product announcements by us and our competitors may affect purchase decisions;

we may have to defer revenues under our revenue recognition policies; and

Table of Contents

customers may choose our subscription-based arrangements which result in lower software license revenues in the initial year as compared to traditional perpetual software license arrangements but generate higher overall subscription-based revenues over the term of the contract.

Fluctuation in our quarterly revenues may adversely affect our operating results. In each fiscal quarter our expense levels, operating costs, and hiring plans are based to some extent on projections of future revenues and are relatively fixed. If our actual revenues fall below expectations, we could experience a reduction in operating results.

Increases in service revenue as a percentage of total revenues could decrease overall margins and adversely affect our operating results.

We realize lower margins on software and appraisal service revenues than on license revenue. The majority of our contracts include both software licenses and professional services. Therefore, an increase in the percentage of software service and appraisal service revenue compared to license revenue could have a detrimental impact on our overall gross margins and could adversely affect operating results.

Our stock price may be volatile.

The market price of our common stock may be volatile and may be significantly affected by many different factors. Some examples of factors that can have a significant impact on our stock price include:

- actual or anticipated fluctuations in our operating results;
- announcements of technological innovations, new products, or new contracts by us or our competitors;
- developments with respect to patents, copyrights, or other proprietary rights;
- conditions and trends in the software and other technology industries;
- adoption of new accounting standards affecting the software industry;
- changes in financial estimates by securities analysts; and
- general market conditions and other factors.

In addition, the stock market has from time to time experienced significant price and volume fluctuations that have particularly affected the market prices for the common stock of technology companies. These broad market fluctuations may adversely affect the market price of our common stock. In the past, following periods of volatility in the market price of a particular company s securities, securities class action litigation has often been brought against that company. We cannot assure you that similar litigation will not occur in the future with respect to us. Such litigation could result in substantial costs and a diversion of management s attention and resources, which could have a material adverse effect upon our business, operating results, and financial condition.

Financial Outlook.

From time to time in press releases and otherwise, we may publish forecasts or other forward-looking statements regarding our results, including estimated revenues or net earnings. Any forecast of our future performance reflects various assumptions. These assumptions are subject to significant uncertainties, and as a matter of course, any number of them may prove to be incorrect. Further, the achievement of any forecast depends on numerous risks and other factors (including those described in this discussion), many of which are beyond our control. As a result, we cannot be certain that our performance will be consistent with any management forecasts or that the variation from such forecasts will not be material and adverse. Current and potential stockholders are cautioned not to base their entire analysis of our business and prospects upon isolated predictions, but instead are encouraged to utilize our entire publicly available mix of historical and forward-looking information, as well as other available information regarding us, our products and services, and the software industry when evaluating our prospective results of operations.

Table of Contents

Risks Associated with Our Software Products

Our products are complex and we run the risk of errors or defects with new product introductions or enhancements.

Software products as complex as those developed by us may contain errors or defects, especially when first introduced or when new versions or enhancements are released. Although we have not experienced material adverse effects resulting from any such defects or errors to date, we cannot assure you that material defects and errors will not be found after commencement of product shipments. Any such defects could result in loss of revenues or delay market acceptance.

Our license agreements with our customers typically contain provisions designed to limit our exposure to potential liability claims. It is possible, however, that we may not always be able to negotiate such provisions in our contracts with customers or that the limitation of liability provisions contained in our license agreements may not be effective as a result of existing or future federal, state or local laws, ordinances, or judicial decisions. Although we maintain errors and omissions and general liability insurance, and we try to structure our contracts to include limitations on liability, we cannot assure you that a successful claim could not be made or would not have a material adverse effect on our business, financial condition, and results of operations.

We must respond to rapid technological changes to be competitive.

The market for our products is characterized by rapid technological change, evolving industry standards in computer hardware and software technology, changes in customer requirements, and frequent new product introductions and enhancements. The introduction of products embodying new technologies and the emergence of new industry standards can render existing products obsolete and unmarketable. As a result, our future success will depend, in part, upon our ability to continue to enhance existing products and develop and introduce in a timely manner or acquire new products that keep pace with technological developments, satisfy increasingly sophisticated customer requirements, and achieve market acceptance. We cannot assure you that we will successfully identify new product opportunities and develop and bring new products to market in a timely and cost-effective manner. Further, we cannot assure you that the products, capabilities, or technologies developed by others will not render our products or technologies obsolete or noncompetitive. If we are unable to develop or acquire on a timely and cost-effective basis new software products or enhancements to existing products, or if such new products or enhancements do not achieve market acceptance, our business, operating results, and financial condition may be materially adversely affected.

We may be unable to protect our proprietary rights.

Many of our product and service offerings incorporate proprietary information, trade secrets, know-how, and other intellectual property rights. We rely on a combination of contracts, copyrights, and trade secret laws to establish and protect our proprietary rights in our technology. We cannot be certain that we have taken all appropriate steps to deter misappropriation of our intellectual property. In addition, there has been significant litigation in the United States in recent years involving intellectual property rights. We are not currently involved in any material intellectual property litigation. We may, however, be a party to intellectual property litigation in the future to protect our proprietary information, trade secrets, know-how, and other intellectual property rights. Further, we cannot assure you that third parties will not assert infringement or misappropriation claims against us in the future with respect to current or future products. Any claims or litigation, with or without merit, could be time-consuming and result in costly litigation and diversion of management s attention. Further, any claims and litigation could cause product shipment delays or require us to enter into royalty or licensing arrangements. Such royalty or licensing arrangements, if required, may not be available on terms acceptable to us, if at all. Thus, litigation to defend and enforce our intellectual property rights could have a material adverse effect on our business, financial condition, and results of operations, regardless of the final outcome of such litigation.

We generally grant our customers fully paid perpetual licenses to use our software applications and customers may elect to terminate our maintenance contracts and manage operations internally.

It is possible that governments and their successors and affiliates may elect to not renew maintenance contracts for our software, trying instead to maintain and operate the software themselves using their right of use license rights to the software programs and other applications we have developed for them in their operations (excluding software applications that we provide on a software-as-a-service basis). This could adversely affect our revenues and profits. Additionally, they may inadvertently allow our intellectual property or other information to fall into the hands of third parties, including our competitors.

We cannot fully protect client information from security breaches.

As a provider of hosted services, we receive, maintain, process, and transmit confidential information on behalf of our clients and other authorized users. There is no guarantee that the systems and procedures that we maintain to protect against unauthorized access to such information are adequate to protect against loss, destruction, computer break-ins, theft, or other improper activity that could jeopardize the security of such information for which we are responsible. Any such lapse in security could expose us to litigation, loss of customers, harm our business reputation, and otherwise cause a material adverse effect on our business and financial results.

Hosting services for some of our products are dependent upon the uninterrupted operation of data centers.

A material portion of our business is provided through hosting services of some of our software products. These hosting services depend on the uninterrupted operation of data centers and the ability to protect computer equipment and information stored in these data centers against damage that may be caused by natural disaster, fire, power loss, telecommunications or Internet failure, unauthorized intrusion, computer viruses, and other similar damaging events. If any of our data centers were to become inoperable for an extended period, we might be unable to provide our customers with contracted services. Although we take what we believe to be reasonable precautions against such occurrences, we can give no assurance that damaging events such as these will not result in a prolonged interruption of our services, which could result in customer dissatisfaction, loss of revenue, and damage to our business.

Material portions of our business require the Internet infrastructure to be further developed or adequately maintained.

The Internet has experienced, and is expected to continue to experience, significant growth in the number of users and amount of traffic. If the Web continues to experience increased numbers of users, frequency of use, or increased bandwidth requirements, the Internet infrastructure may not be able to support these increased demands or perform reliably. The Internet has experienced a variety of outages and other delays as a result of damage to portions of its infrastructure, and could face such outages and delays in the future. These outages and delays could reduce the level of Internet usage and traffic on our government portals. Such outages and delays would also hinder our customers ability to complete online transactions. In addition, the Internet could lose its viability due to delays in the development or adoption of new standards and protocols to handle increased levels of activity or due to increased governmental regulation. If the Internet infrastructure is not adequately further developed or maintained, use of our government portals and our citizen-to-government and business-to-government services may be reduced.

Part of our future success depends on the use of the Internet as a means to access public information and perform transactions electronically, including for example, electronic filing of court documents. This in part requires the further development and maintenance of the Internet infrastructure. If this infrastructure fails to be further developed or be adequately maintained, our business would be harmed because users may not be able to access our government portals. Among other things, this further development and maintenance will require a reliable network backbone with the necessary speed, data capacity, security, and timely development of complementary products for providing reliable Internet access and services.

Risks Associated with Our Growth Strategy and Other General Corporate Risks

We may experience difficulties in executing our acquisition strategy.

A significant portion of our growth has resulted from strategic acquisitions in new product and geographic markets. Although our focus is on internal growth, we will continue to identify and pursue strategic acquisitions and alliances with suitable candidates. Our future success will depend, in part, on our ability to successfully integrate future acquisitions and other strategic alliances into our operations. Acquisitions may involve a number of special risks, including diversion of management s attention, failure to retain key acquired personnel, unanticipated events or circumstances, legal liabilities, and amortization of certain acquired intangible assets. Some or all of these risks could have a material adverse effect on our business, financial condition, and results of operations. Although we conduct due diligence reviews of potential acquisition candidates, we may not identify all material liabilities or risks related to acquisition candidates. There can be no assurance that any such strategic acquisitions or alliances will be accomplished on favorable terms or will result in profitable operations.

Our failure to properly manage growth could adversely affect our business.

We have expanded our operations since 1998, when we entered the business of providing software solutions and services to the public sector. We intend to continue expansion in the foreseeable future to pursue existing and potential market opportunities. This growth places a significant demand on management and operational resources. In order to manage growth effectively, we must implement and improve our operational systems, procedures, and controls on a timely basis. We must also identify, hire, train, and manage key managerial and technical personnel. If we fail to implement these systems or employ and retain such qualified personnel, our business, financial condition, and results of operations may be materially adversely affected.

We may be unable to hire, integrate, and retain qualified personnel.

Our continued success will depend upon the availability and performance of our key management, sales, marketing, customer support, and product development personnel. The loss of key management or technical personnel could adversely affect us. We believe that our continued success will depend in large part upon our ability to attract, integrate, and retain such personnel. We have at times experienced and continue to experience difficulty in recruiting qualified personnel. Competition for qualified software development, sales, and other personnel is intense, and we cannot assure you that we will be successful in attracting and retaining such personnel.

Compliance with changing regulation of corporate governance and public disclosure may result in additional expenses.

Changing laws, regulations, and standards relating to corporate governance and public disclosure, including the Sarbanes-Oxley Act of 2002, new Securities and Exchange Commission regulations and New York Stock Exchange rules, are creating uncertainty for companies such as ours. The costs required to comply with such evolving laws are difficult to predict. To maintain high standards of corporate governance and public disclosure, we intend to invest all reasonably necessary resources to comply with evolving standards. This investment may result in an unforeseen increase in general and administrative expenses and a diversion of management s time and attention from revenue-generating activities, which may harm our business, financial condition, or results of operations.

Historically, we have not paid dividends on our common stock.

We have not declared or paid a cash dividend since we entered the business of providing software solutions and services to the public sector in 1998. Additionally, our bank credit agreement contains restrictions on the payment of cash dividends. We intend to retain earnings for use in the operation and expansion of our business. We do not anticipate paying any cash dividends on our common stock in the foreseeable future.

Provisions in our certificate of incorporation, bylaws, and Delaware law could deter takeover attempts.

Our board of directors may issue up to 1,000,000 shares of preferred stock and may determine the price, rights, preferences, privileges, and restrictions, including voting and conversion rights, of these shares of preferred stock. These determinations may be made without any further vote or action by our stockholders. The rights of the holders of our common stock will be subject to, and may be adversely affected by, the rights of the holders of any preferred stock that may be issued in the future. The issuance of preferred stock may make it more difficult for a third party to acquire a majority of our outstanding voting stock. In addition, some provisions of our Certificate of Incorporation, Bylaws, and of the Delaware General Corporation Law could also delay, prevent, or make more difficult a merger, tender offer, or proxy contest involving us.

ITEM 1B. UNRESOLVED STAFF COMMENTS.

Not applicable.

Table of Contents

ITEM 2. PROPERTIES.

We occupy approximately 609,000 square feet of office space, of which 277,000 square feet is in office facilities we own. We lease our principal executive office located in Dallas, Texas, and own or lease offices for our major operations in Arizona, Colorado, Georgia, Iowa, Maine, Montana, New York, Ohio, Texas and Washington.

ITEM 3. LEGAL PROCEEDINGS.

Other than routine litigation incidental to our business and except as described in this Annual Report, there are no material legal proceedings pending to which we are party or to which any of our properties are subject.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

Not applicable.

PART II

ITEM 5. MARKET FOR REGISTRANT S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES.

Our common stock is traded on the New York Stock Exchange under the symbol TYL. At December 31, 2012, we had approximately 1,861 stockholders of record. A number of our stockholders hold their shares in street name; therefore, there are substantially more than 1,861 beneficial owners of our common stock.

The following table shows, for the calendar periods indicated, the high and low sales price per share of our common stock as reported on the New York Stock Exchange.

2011:	First Quarter	$ 23.77	$ 19.99
	Second Quarter	27.14	23.09
	Third Quarter	27.56	22.15
	Fourth Quarter	32.94	24.00
2012:	First Quarter	$ 39.43	$ 29.67
	Second Quarter	41.61	36.00
	Third Quarter	44.41	36.99
	Fourth Quarter	49.60	41.95
2013:	First Quarter (through February 18, 2013)	$ 55.96	$ 48.86

We did not pay any cash dividends in 2012 or 2011. Our bank credit agreement contains restrictions on the payment of cash dividends. We intend to retain earnings for use in the operation and expansion of our business, and, therefore, we do not anticipate declaring a cash dividend in the foreseeable future.

Table of Contents

The following table summarizes certain information related to our stock option plan and our Employee Stock Purchase Plan (ESPP). There are no warrants or rights related to our equity compensation plans as of December 31, 2012.

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights as of December 31, 2012	Weighted average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in initial column as of December 31, 2012)
Equity compensation plans approved by security shareholders:			
Stock options	5,710,537	$ 20.86	2,591,855
ESPP	16,274	41.17	1,051,818
Equity compensation plans not approved by security shareholders			
	5,726,811	$ 20.92	3,643,673

As of December 31, 2012, we had authorization to repurchase up to 1.7 million additional shares of Tyler common stock. There was no repurchase activity during the twelve months ended December 31, 2012. The repurchase program, which was approved by our board of directors, was announced in October 2002, and was amended in April and July 2003, October 2004, October 2005, May 2007, May 2008, October 2008, May 2009, July 2010, October 2010 and September 2011. There is no expiration date specified for the authorization and we intend to repurchase stock under the plan from time to time.

Table of Contents

Performance Graph

The following Performance Graph and related information shall not be deemed soliciting material or to be filed with the Securities and Exchange Commission, nor shall such information be incorporated by reference into any future filing under the Securities Act of 1933 or Securities Exchange Act of 1934, each as amended, except to the extent that we specifically incorporate it by reference into such filing.

The following table compares total Shareholder returns for Tyler over the last five years to the Standard and Poor s 500 Stock Index and the Standard and Poor s 600 Information Technology Index assuming a $100 investment made on December 31, 2007. Each of the three measures of cumulative total return assumes reinvestment of dividends. The stock performance shown on the graph below is not necessarily indicative of future price performance.

Company / Index	12/31/07	12/31/08	12/31/09	12/31/10	12/31/11	12/31/12
Tyler Technologies, Inc.	100	92.94	154.46	161.06	233.59	375.80
S&P 500 Index	100	63.00	79.67	91.68	93.61	108.59
S&P 600 Information Technology Index	100	59.63	88.35	110.08	105.65	118.35

Table of Contents

ITEM 6. SELECTED FINANCIAL DATA.

(In thousands, except per share data)

	FOR THE YEARS ENDED DECEMBER 31,				
	2012	2011	2010	2009	2008
STATEMENT OF OPERATIONS DATA:					
Revenues	$ 363,304	$ 309,391	$ 288,628	$ 290,286	$ 265,101
Costs and expenses:					
Cost of revenues	195,602	167,479	160,311	161,523	155,314
Selling, general and administrative expenses	86,706	75,650	69,480	70,115	62,923
Research and development expense	20,140	16,414	13,971	11,159	7,286
Amortization of customer and trade name intangibles	4,279	3,331	3,225	2,705	2,438
Non-cash legal settlement related to warrants (1)					9,045
Operating income	56,577	46,517	41,641	44,784	28,095
Other (expense) income, net	(2,709)	(2,404)	(1,742)	(146)	1,181
Income from operations before income taxes	53,868	44,113	39,899	44,638	29,276
Income tax provision	20,874	16,556	14,845	17,628	14,414
Net income	$ 32,994	$ 27,557	$ 25,054	$ 27,010	$ 14,862
Net income per diluted share	$ 1.00	$ 0.83	$ 0.71	$ 0.74	$ 0.38
Weighted average diluted shares	32,916	33,154	35,528	36,624	39,184
STATEMENT OF CASH FLOWS DATA:					
Cash flows provided by operating activities	$ 58,668	$ 56,435	$ 35,350	$ 42,941	$ 47,802
Cash flows used by investing activities	(34,736)	(28,809)	(8,694)	(13,658)	(9,554)
Cash flows used by financing activities	(18,852)	(28,414)	(34,238)	(21,349)	(46,128)
BALANCE SHEET DATA:					
Total assets	$ 338,315	$ 295,391	$ 264,032	$ 270,670	$ 251,761
Revolving line of credit	18,000	60,700	26,500		
Shareholders equity	145,299	78,110	106,972	134,358	114,262

(1) On June 27, 2008, we settled outstanding litigation related to two Stock Purchase Warrants (the Warrants) owned by Bank of America, N. A. (BANA). The Warrants entitled BANA to acquire 1.6 million shares of Tyler common stock at an exercise price of $2.50 per share. Following court-ordered mediation, in July 2008, BANA paid us $2.0 million and we issued to BANA 801,883 restricted shares of Tyler common stock. Accordingly, we recorded a non-cash legal settlement related to warrants charge of $9.0 million, which was not tax deductible.

Table of Contents

ITEM 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

FORWARD-LOOKING STATEMENTS

This document contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934 that are not historical in nature and typically address future or anticipated events, trends, expectations or beliefs with respect to our financial condition, results of operations or business. Forward-looking statements often contain words such as believes, expects, anticipates, foresees, forecasts, estimates, plans, intends, continues, may, will, should, projects, might, cou phrases. Similarly, statements that describe our business strategy, outlook, objectives, plans, intentions or goals also are forward-looking statements. We believe there is a reasonable basis for our forward-looking statements, but they are inherently subject to risks and uncertainties and actual results could differ materially from the expectations and beliefs reflected in the forward-looking statements. We presently consider the following to be among the important factors that could cause actual results to differ materially from our expectations and beliefs: (1) changes in the budgets or regulatory environments of our customers, primarily local and state governments, that could negatively impact information technology spending; (2) our ability to protect client information from security breaches and provide uninterrupted operations of data centers; (3) material portions of our business require the Internet infrastructure to be further developed or adequately maintained; (4) our ability to achieve our financial forecasts due to various factors, including project delays by our customers, reductions in transaction size, fewer transactions, delays in delivery of new products or releases or a decline in our renewal rates for service agreements; (5) economic, political and market conditions, including the global economic and financial crisis, and the general tightening of access to debt or equity capital; (6) technological and market risks associated with the development of new products or services or of new versions of existing or acquired products or services; (7) our ability to successfully complete acquisitions and achieve growth or operational synergies through the integration of acquired businesses, while avoiding unanticipated costs and disruptions to existing operations; (8) competition in the industry in which we conduct business and the impact of competition on pricing, customer retention and pressure for new products or services; (9) the ability to attract and retain qualified personnel and dealing with the loss or retirement of key members of management or other key personnel; and (10) costs of compliance and any failure to comply with government and stock exchange regulations. A detailed discussion of these factors and other risks that affect our business are described in Item 1A, Risk Factors. We expressly disclaim any obligation to publicly update or revise our forward-looking statements.

OVERVIEW

General

We provide integrated information management solutions and services for the public sector, with a focus on local governments. We develop and market a broad line of software products and services to address the information technology (IT) needs of cities, counties, schools and other local government entities. In addition, we provide professional IT services to our customers, including software and hardware installation, data conversion, training and for certain customers, product modifications, along with continuing maintenance and support for customers using our systems. We also provide subscription-based services such as software as a service (SaaS), which utilizes the Tyler private cloud, and electronic document filing solutions (e-filings). In 2010 we began providing e-filings for courts and law offices which simplify the filing and management of court related documents. Revenues for e-filings are generally derived from transaction fees. We also provide property appraisal outsourcing services for taxing jurisdictions.

Our products generally automate three major functional areas: (1) financial management and education, (2) courts and justice and (3) property appraisal and tax and we report our results in two segments. The Enterprise Software Solutions (ESS) segment provides municipal and county governments and schools with software systems and services to meet their information technology and automation needs for mission-critical back-office functions such as financial management and courts and justice processes. The Appraisal and Tax Software Solutions and Services (ATSS) segment provides systems and software that automate the appraisal and assessment of real and personal property as well as property appraisal outsourcing services for local governments and taxing authorities. Property appraisal outsourcing services include: the physical inspection of commercial and residential properties; data collection and processing; computer analysis for property valuation; preparation of tax rolls; community education; and arbitration between taxpayers and the assessing jurisdiction.

Table of Contents

We monitor and analyze several key performance indicators in order to manage our business and evaluate our financial and operating performance. These indicators include the following:

Revenues We derive our revenues from five primary sources: sale of software licenses; subscription-based arrangements; software services; maintenance and appraisal services. Subscriptions and maintenance are considered recurring revenue sources and comprised approximately 60% of our revenue in 2012. The number of new SaaS customers and the number of existing customers who convert from our traditional software arrangements to our SaaS model are a significant driver to our business, together with new software license sales and maintenance rate increases. In addition, we also monitor our customer base and churn as we historically have experienced very low customer turnover. During 2012, our customer turnover was approximately 2%.

Cost of Revenues and Gross Margins Our primary cost component is personnel expenses in connection with providing software implementation, subscription-based services, maintenance and support, and appraisal services to our customers. We can improve gross margins by controlling headcount and related costs and by expanding our revenue base, especially from those products and services that produce incremental revenue with minimal incremental cost, such as software licenses, subscription-based services, and maintenance and support. Our appraisal projects are cyclical in nature, and we often employ appraisal personnel on a short-term basis to coincide with the life of a project. As of December 31, 2012, our total employee count increased to 2,388 from 2,091 at December 31, 2011. This increase includes 169 employees added as a result of acquisitions completed in 2012.

Selling, General and Administrative (SG&A) Expenses The primary components of SG&A expenses are administrative and sales personnel salaries and commissions, marketing expense, share-based compensation expense, rent and professional fees. Sales commissions typically fluctuate with revenues and share-based compensation expense generally increases when the market price of our stock increases. Other administrative expenses tend to grow at a slower rate than revenues.

Liquidity and Cash Flows The primary driver of our cash flows is net income. Uses of cash include acquisitions, capital investments in property and equipment and discretionary purchases of treasury stock. During 2012 we invested $9.1 million in property and equipment and paid $25.7 million in cash for four small acquisitions. Our investment in property and equipment included $4.3 million in cash in connection with the construction of an office building in Plano, Texas and purchase of land and a building in Moraine, Ohio. Our working capital needs are fairly stable throughout the year with the significant components of cash outflows being payment of personnel expenses offset by cash inflows representing collection of accounts receivable and cash receipts from customers in advance of revenue being earned.

Balance Sheet Cash, accounts receivable and days sales outstanding and deferred revenue balances are important indicators of our business.

Acquisitions

In November 2012, we acquired all of the capital stock of EnerGov Solutions, L.L.C. (EnerGov) which develops and sells enterprise permitting, land management, licensing and regulatory software solutions to governmental agencies. The purchase price, net of cash acquired of $15,000 was $10.5 million in cash and 60,000 shares of Tyler common stock valued at $2.8 million.

In April 2012, we acquired all of the capital stock of Computer Software Associates, Inc. (CSA) for a cash purchase price of $9.4 million, net of cash acquired of $437,000. CSA is a reseller of Tyler s Infinite Visions school enterprise solution, and sells proprietary CSA tax and recording solutions to county governments, primarily in the Northwest.

In March 2012, we acquired all the capital stock of UniFund, L.L.C. (UniFund) for a cash purchase price of $4.6 million, net of cash acquired of $780,000. UniFund provides enterprise resource planning solutions to schools and local governments, primarily in the Northeast. UniFund is also a reseller of Tyler s Infinite Visions school enterprise solution.

In January 2012, we acquired substantially all of the assets of Akanda Innovation, Inc., a provider of web-based solutions to the public sector which are integrated with our property tax software, for a total purchase price of $2.9 million. The purchase price included certain liabilities we assumed of approximately $800,000, resulting in net cash paid to the sellers of $2.1 million, of which $900,000 was paid prior to December 31, 2011.

The operating results of these acquisitions are included in our results of operations since their dates of acquisition. The operating results of EnerGov, CSA and UniFund are included in the operating profit results of the ESS segment and the operating results of Akanda are included in the operating results of the ATSS segment.

Table of Contents

Outlook

We expect the trend of gradual improvements in the marketplace to continue in 2013. We plan to make significant investments in our business that we believe will enhance our market leadership and improve long-term revenue and margin growth. These investments include expenses associated with new e-filing contracts as well as accelerated hiring to ensure that we are well-positioned to deliver our current backlog and anticipated new business.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Our discussion and analysis of financial condition and results of operations is based upon our financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States (GAAP). The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets and liabilities at the date of the financial statements, the reported amounts of revenues, cost of revenues and expenses during the reporting period, and related disclosure of contingencies. The Notes to the Financial Statements included as part of this Annual Report describe our significant accounting policies used in the preparation of the financial statements. Significant items subject to such estimates and assumptions include the application of the percentage-of-completion and proportional performance methods of revenue recognition, the carrying amount and estimated useful lives of intangible assets, determination of share-based compensation expense and valuation allowance for receivables. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

We believe the following critical accounting policies require significant judgments and estimates used in the preparation of our financial statements.

Revenue Recognition. We recognize revenues in accordance with the provisions of Accounting Standards Codification (ASC) 605, Revenue Recognition and ASC 985-605, Software Revenue Recognition. Our revenues are derived from sales of software licenses, subscription-based services, appraisal services, maintenance and support, and services that typically range from installation, training and basic consulting to software modification and customization to meet specific customer needs. For multiple element software arrangements, which do not entail the performance of services that are considered essential to the functionality of the software, we generally record revenue when the delivered products or performed services result in a legally enforceable and non-refundable claim. We maintain allowances for doubtful accounts and sales adjustments, which are provided at the time the revenue is recognized. Because most of our customers are governmental entities, we rarely incur a loss resulting from the inability of a customer to make required payments. In a limited number of cases, we encounter a customer who is dissatisfied with some aspect of the software product or our service, and we may offer a concession to such customer. In those limited situations where we grant a concession, we rarely reduce the contract arrangement fee, but alternatively may perform additional services, such as additional training or creating additional custom reports. These amounts have historically been nominal. In connection with our customer contracts and the adequacy of related allowances and measures of progress towards contract completion, our project managers are charged with the responsibility to continually review the status of each customer on a specific contract basis. Also, we review, on at least a quarterly basis, significant past due accounts receivable and the adequacy of related reserves. Events or changes in circumstances that indicate that the carrying amount for the allowances for doubtful accounts and sales adjustments may require revision, include, but are not limited to, deterioration of a customer s financial condition, failure to manage our customer s expectations regarding the scope of the services to be delivered, and defects or errors in new versions or enhancements of our software products.

We use contract accounting, primarily the percentage-of-completion method, as discussed in ASC 605-35, Construction Type and Certain Production Type Contracts, for those software arrangements that involve significant production, modification or customization of the software, or where our software services are otherwise considered essential to the functionality of the software. We measure progress-to-completion primarily using labor hours incurred, or value added. In addition, we recognize revenue using the proportional performance method of revenue recognition for our property appraisal projects, some of which can range up to five years. These methods rely on estimates of total expected contract revenue, billings and collections and expected contract costs, as well as measures of progress toward completion. We believe reasonably dependable estimates of revenue and costs and progress applicable to various stages of a contract can be made. At times, we perform additional and/or non-contractual services for little to no incremental fee to satisfy customer expectations. If changes occur in delivery, productivity or other factors used in developing our estimates of expected costs or revenues, we revise our cost and revenue estimates, and any revisions are charged to income in the period in which the facts that give rise to that revision first become known. In connection with these and certain other contracts, we may perform the work prior to when the services are billable and/or payable pursuant to the contract. The termination clauses in most of our contracts provide for the payment for the value of products delivered and services performed in the event of an early termination.

For SaaS arrangements, we evaluate whether the customer has the contractual right to take possession of our software at any time during the hosting period without significant penalty and whether the customer can feasibly maintain the software on the customer s hardware or enter into another arrangement with a third party to host the software. If we determine that the customer has the contractual right to take possession of our software at any time during the hosting period without significant penalty and can feasibly maintain the software on the customer s hardware or enter into another arrangement with a third party to host the software, we recognize the license, professional services and hosting services revenues pursuant to ASC 985-605, Software Revenue Recognition. For SaaS arrangements that do not meet the criteria for recognition under ASC 985-605, we account for the elements under ASC 605-25, Multiple Element Arrangements using all applicable facts and circumstances, including whether (i) the element has stand-alone value, (ii) there is a general right of return and (iii) the revenue is contingent on delivery of other elements. We allocate the contract value to each element of the arrangement that qualifies for treatment as a separate element based on vendor-specific objective evidence of fair value (VSOE), and if VSOE is not available, third party evidence, and if third party evidence is unavailable, estimated selling price. For professional services associated with SaaS arrangements that we determine do not have stand-alone value to the customer or are contingent on delivery of other elements, we recognize the services revenue ratably over the remaining contractual period once hosting has gone live and we may begin billing for the hosting services. We record amounts that have been invoiced in accounts receivable and in deferred revenue or revenues, depending on whether the revenue recognition criteria have been met.

In connection with certain of our contracts, we have recorded retentions receivable or unbilled receivables consisting of costs and estimated profit in excess of billings as of the balance sheet date. Many of the contracts which give rise to unbilled receivables at a given balance sheet date are subject to billings in the subsequent accounting period. We review unbilled receivables and related contract provisions to ensure we are justified in recognizing revenue prior to billing the customer and that we have objective evidence which allows us to recognize such revenue. In addition, we have a sizable amount of deferred revenue which represents billings in excess of revenue earned. The majority of this liability consists of maintenance billings for which payments are made in advance and the revenue is ratably earned over the maintenance period, generally one year. We also have deferred revenue for those contracts in which we receive a deposit and the conditions in which to record revenue for the service or product has not been met. On a periodic basis, we review by customer the detail components of our deferred revenue to ensure our accounting remains appropriate.

Intangible Assets and Goodwill. Our business acquisitions typically result in the creation of goodwill and other intangible asset balances, and these balances affect the amount and timing of future period amortization expense, as well as expense we could possibly incur as a result of an impairment charge. The cost of acquired companies is allocated to identifiable tangible and intangible assets based on estimated fair value, with the excess allocated to goodwill. Accordingly, we have a significant balance of acquisition date intangible assets, including software, customer related intangibles, trade name and goodwill. These intangible assets (other than goodwill) are amortized over their estimated useful lives. We currently have no intangible assets with indefinite lives other than goodwill.

When testing goodwill for impairment quantitatively, we first compare the fair value of each reporting unit with its carrying amount. If the carrying amount of a reporting unit exceeds its fair value, a second step is performed to measure the amount of potential impairment. In the second step, we compare the implied fair value of reporting unit goodwill with the carrying amount of the reporting unit s goodwill. If the carrying amount of reporting unit goodwill exceeds the implied fair value of that goodwill, an impairment loss is recognized. The fair values calculated in our impairment tests are determined using discounted cash flow models involving several assumptions. The assumptions that are used are based upon what we believe a hypothetical marketplace participant would use in estimating fair value. We base our fair value estimates on assumptions we believe to be reasonable but that are unpredictable and inherently uncertain. We evaluate the reasonableness of the fair value calculations of our reporting units by comparing the total of the fair value of all of our reporting units to our total market capitalization.

In the first quarter of 2012, ASU 2011-08, Testing Goodwill for Impairment became effective. ASU 2011-08 allows entities testing goodwill for impairment the option of performing a qualitative assessment before calculating the fair value of a reporting unit (i.e., the first step of the goodwill impairment test). If entities determine, on the basis of qualitative factors, that the fair value of the reporting unit is more likely than not greater than the carrying amount, a quantitative calculation would not be needed.

Table of Contents

Our annual goodwill impairment analysis, which we performed quantitatively during the second quarter of 2012, did not result in an impairment charge. During 2012 we did not identify any triggering events which would require an update to our annual impairment review.

All intangible assets with definite and indefinite lives are reviewed for impairment annually or whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of other intangible assets is measured by comparison of the carrying amount to estimated undiscounted future cash flows. The assessment of recoverability or of the estimated useful life for amortization purposes will be affected if the timing or the amount of estimated future operating cash flows is not achieved. Such indicators may include, among others: a significant decline in expected future cash flows; a sustained, significant decline in stock price and market capitalization; a significant adverse change in legal factors or in the business climate; unanticipated competition; and reductions in growth rates. In addition, products, capabilities, or technologies developed by others may render our software products obsolete or non-competitive. Any adverse change in these factors could have a significant impact on the recoverability of goodwill or other intangible assets.

Share-Based Compensation. We have a stock option plan that provides for the grant of stock options to key employees, directors and non-employee consultants. We estimate the fair value of share-based awards on the date of grant using the Black-Scholes option valuation model. Share-based compensation expense includes the estimated effects of forfeitures, which will be adjusted over the requisite service period to the extent actual forfeitures differ, or are expected to differ from such estimates. Changes in estimated forfeitures are recognized in the period of change and will also impact the amount of expense to be recognized in future periods. Forfeiture rate assumptions are derived from historical data. We estimate stock price volatility at the date of grant based on the historical volatility of our common stock. Estimated option life is determined using the simplified method in accordance with ASC 718-10, Stock Compensation. Determining the appropriate fair-value model and calculating the fair value of share-based awards at the grant date requires considerable judgment, including estimating stock price volatility, expected option life and forfeiture rates.

Table of Contents

ANALYSIS OF RESULTS OF OPERATIONS AND OTHER

The following discussion compares the historical results of operations on a basis consistent with GAAP for the years ended December 31, 2012, 2011 and 2010.

	Percentage of Total Revenue Years ended December 31,		
	2012	2011	2010
Revenue:			
Software licenses	9.1 %	10.5 %	12.1 %
Subscriptions	12.3	10.1	8.1
Software services	23.0	22.5	23.7
Maintenance	47.3	47.4	47.0
Appraisal services	6.2	7.5	7.1
Hardware and other	2.1	2.0	2.0
Total revenue	100.0	100.0	100.0
Operating Expenses:			
Cost of software licenses and acquired software	1.1	1.3	1.8
Cost of software services, maintenance and subscriptions	47.2	46.5	47.8
Cost of appraisal services	4.1	4.7	4.5
Cost of hardware and other	1.4	1.6	1.5
Selling, general and administrative expenses	23.9	24.5	24.1
Research and development expense	5.5	5.3	4.8
Amortization of customer base and trade name intangibles	1.2	1.1	1.1
Operating income	15.6	15.0	14.4
Other expense	0.8	0.7	0.6
Income before income taxes	14.8	14.3	13.8
Income tax provision	5.7	5.4	5.1
Net income	9.1%	8.9 %	8.7 %

Table of Contents

2012 Compared to 2011

Revenues

Software licenses.

The following table sets forth a comparison of our software license revenues for the years ended December 31:

($ in thousands)	2012	2011	Change $	Change %
ESS	$ 31,304	$ 30,194	$ 1,110	4 %
ATSS	1,868	2,400	(532)	(22)
Total software license revenue	$ 33,172	$ 32,594	$ 578	2 %

Excluding the impact of acquisitions, total software license revenue declined by 6% compared to 2011. Most of the decline was due to fewer add-on sales to our existing customer base. In addition, software license growth was reduced somewhat because of a growing number of customers choosing our subscription-based options, rather than purchasing the software under a traditional perpetual software license arrangement. Subscription-based arrangements result in no software license revenues in the initial year as compared to traditional perpetual software license arrangements but generate higher overall subscription-based services revenue over the term of the contract. We had 76 new customers that entered into subscription-based arrangements in 2012 compared to 47 new customers in 2011. We expect software license revenues in 2013 to be higher than 2012 but the mix of software license arrangements and subscription-based arrangements may reduce the degree of the increase.

Subscriptions.

The following table sets forth a comparison of our subscription revenues for the years ended December 31:

($ in thousands)	2012	2011	Change $	Change %
ESS	$ 43,319	$ 30,400	$ 12,919	42 %
ATSS	1,299	760	539	71
Total subscriptions revenue	$ 44,618	$ 31,160	$ 13,458	43 %

Subscription-based services revenue primarily consists of revenues derived from our SaaS arrangements, which utilize the Tyler private cloud. As part of our subscription-based services, we also provide e-filings that simplify the filing and management of court related documents for courts and law offices. Revenues for e-filings are generally derived from transaction fees. The contract term for SaaS arrangements range from one to 10 years but are typically for a period of three to six years.

Excluding the impact of acquisitions, subscription-based services revenue increased 40% compared to 2011. New SaaS customers as well as existing customers who converted to our SaaS model provided the majority of the subscription-based revenue increase. In 2012, we added 76 new customers and 68 existing customers elected to convert to our SaaS model. E-filing services also contributed approximately $2.3 million of the subscription revenue increase as a result of new clients implementing e-filing and several existing clients adopting or expanding mandatory e-filing for court documents in the last half of 2011 and 2012.

Table of Contents

Software services.

The following table sets forth a comparison of our software services revenues for the years ended December 31:

			Change	
($ in thousands)	2012	2011	$	%
ESS	$ 76,103	$ 60,840	$ 15,263	25 %
ATSS	7,305	8,777	(1,472)	(17)
Total software services revenue	$ 83,408	$ 69,617	$ 13,791	20 %

Software services revenues primarily consists of professional services billed in connection with the installation of our software, conversion of customer data, training customer personnel and consulting. New customers who purchase our proprietary software licenses generally also contract with us to provide for the related software services. Existing customers also periodically purchase additional training, consulting and minor programming services. Excluding the impact of acquisitions, software services increased 14% compared to 2011. The increase is due partly to contract arrangements that included more programming services as well as several state-wide arrangements that in addition to services, include more third party vendor services to build certain software interfaces.

Maintenance.

The following table sets forth a comparison of our maintenance revenues for the years ended December 31:

			Change	
($ in thousands)	2012	2011	$	%
ESS	$ 155,290	$ 130,999	$ 24,291	19 %
ATSS	16,561	15,499	1,062	7
Total maintenance revenue	$ 171,851	$ 146,498	$ 25,353	17 %

We provide maintenance and support services for our software products and certain third party software. Excluding the impact of acquisitions, maintenance revenue grew 9% from 2011. This increase was due to growth in our installed customer base and maintenance rate increases on most of our product lines, offset slightly by customers converting to our SaaS model.

Appraisal services.

The following table sets forth a comparison of our appraisal service revenues for the years ended December 31:

			Change	
($ in thousands)	2012	2011	$	%
ESS	$	$	$	%
ATSS	22,543	23,228	(685)	(3)
Total appraisal services revenue	$ 22,543	$ 23,228	$ (685)	(3)%

Appraisal services revenue declined 3% in 2012 compared to 2011. The appraisal services business is somewhat cyclical and driven in part by statutory revaluation cycles in various states. The decline is mainly due to the completion of a large contract in Pennsylvania offset slightly by the start-up of smaller projects in 2012, including several in Ohio. We expect appraisal revenues for 2013 will increase slightly compared to 2012.

Table of Contents

Cost of Revenues and Gross Margins

The following table sets forth a comparison of the key components of our cost of revenues for the years ended December 31:

($ in thousands)	2012	2011	Change $	%
Software licenses	$ 1,983	$ 3,034	$ (1,051)	(35)%
Acquired software	1,888	1,125	763	68
Software services, maintenance and subscriptions	171,584	143,776	27,808	19
Appraisal services	14,889	14,550	339	2
Hardware and other	5,258	4,994	264	5
Total cost of revenues	$ 195,602	$ 167,479	$ 28,123	17%

The following table sets forth a comparison of gross margin percentage by revenue type for the years ended December 31:

Gross margin percentage	2012	2011	Change
Software license and acquired software	88.3%	87.2%	1.1%
Software services, maintenance and subscriptions	42.8	41.9	0.9
Appraisal services	34.0	37.4	(3.4)
Hardware and other	31.8	20.7	11.1
Overall gross margin	46.2%	45.9%	0.3%

Software license and acquired software. Costs of software license and acquired software are primarily comprised of third party software costs and amortization expense for software acquired through acquisitions. In 2012 our software license gross margin percentage increased compared to 2011 because our product mix included less third party software which offset higher amortization expense associated with acquisitions.

Software services, maintenance and subscription-based services. Cost of software services, maintenance and subscription-based services primarily consists of personnel costs related to installation of our software, conversion of customer data, training customer personnel and support activities and various other services such as SaaS arrangements and e-filings. Maintenance and various other services such as SaaS costs typically grow at a slower rate than related revenues due to leverage in the utilization of our support and maintenance staff and economies of scale. In 2012, the software services, maintenance and subscriptions gross margin increased compared to the prior year partly because we improved our utilization of our support and maintenance staff and due to annual rate increases on certain services. We are managing costs and staff levels to ensure they are in line with demand for professional services. Excluding 147 employees added with acquisitions, our implementation and support staff has increased by 103 employees since 2011. Most of these additions occurred mid- to late 2012. We expect to increase development efforts in 2013 for geographic expansion efforts, primarily in California and in our e-filing solutions infrastructure in order to pursue more opportunities with both existing and new clients.

In late 2012 we signed a contract with the Texas Office of Court Administration for our Odyssey File and Serve e-filing offering for TexFile, a unified, statewide electronic filing system for courts. Subsequently, the state of Texas issued an order mandating e-filing in civil cases beginning in January 2014. Mandatory e-filing will be phased in over a two and a half year period, beginning with the largest counties in January 2014. We will be paid on a per-filing basis but expect very limited revenues from TexFile e-filings in 2013. However, during 2013 we will invest significant amounts in the range of $3.0 million, to prepare to implement the system with courts across the state. With the recent order mandating e-filing in Texas, we expect that this contract will provide a long-term recurring revenue stream of $15.0 million to $20.0 million when it becomes fully mandatory.

Table of Contents

Appraisal services. Appraisal services revenues are approximately 6% of total revenues. The appraisal services gross margin declined compared to 2011. A high proportion of the costs of appraisal services revenue are variable, as we often hire temporary employees to assist in appraisal projects, whose term of employment generally ends with the projects completion. The appraisal services gross margin in 2011 was also favorably impacted by operational efficiencies associated with a large revaluation contract which began in mid-2010 and was substantially complete by mid-2011.

Our blended gross margin for 2012 increased 0.3% from 2011 mainly due to leverage in the utilization of our support, maintenance and subscription-based services staff and economies of scale and slightly higher rates on certain services. The gross margin also benefited from lower third party software costs.

Selling, General and Administrative Expenses

Selling, general and administrative (SG&A) expenses consist primarily of salaries, employee benefits, travel, share-based compensation expense, commissions and related overhead costs for administrative and sales and marketing employees as well as, professional fees, trade show activities, advertising costs and other marketing related costs. The following table sets forth a comparison of our SG&A expenses for the following years ended December 31:

			Change	
($ in thousands)	2012	2011	$	%
Selling, general and administrative expenses	$ 86,706	$ 75,650	$ 11,056	15%

Excluding the impact of acquisitions, SG&A increased approximately 11% compared to 2011. SG&A as a percentage of revenues was 23.9% in 2012 compared to 24.5% in 2011. SG&A expenses increased due to higher commission expense in connection with increased sales; increased headcount in sales and related expenses to support geographic expansion; and increased incentive compensation costs due to improved results and higher stock compensation expense because our company stock price has increased substantially over the last few years.

Research and Development Expense

Research and development expense consists primarily of salaries, employee benefits and related overhead costs associated with product development. The following table sets forth a comparison of our research and development expense for the years ended December 31:

			Change	
($ in thousands)	2012	2011	$	%
Research and development expense	$ 20,140	$ 16,414	$ 3,726	23%

Research and development expense consist mainly of costs associated with development of new products and new software platforms from which we do not currently generate revenue. These include the next version of Microsoft Dynamics AX project, as well as other new product development efforts. In 2007, we entered into a Software Development and License Agreement, which provides for a strategic alliance with Microsoft Corporation (Microsoft) to jointly develop core public sector functionality for Microsoft Dynamics AX to address the accounting needs of public sector organizations worldwide. This agreement and subsequent amendments granted Microsoft intellectual property rights in the software code provided and developed by Tyler into Microsoft Dynamics AX products to be marketed and sold outside of the public sector in exchange for reimbursement payments to partially offset the research and development costs and royalties on direct and indirect public-sector sales worldwide of the solutions co-developed under this arrangement. In addition, Tyler has agreed to commit certain resources to the development of the next version of Dynamics AX and will receive software and maintenance royalties on direct and indirect public-sector sales worldwide of the solutions co-developed under this arrangement.

Our research and development expense increased $3.7 million in 2012 compared to 2011. The increase is mainly due to lower reimbursements from Microsoft in 2012. In 2012 we had $1.0 million in research and development expense offsets compared to $3.5 million in 2011, which were the amounts earned under the terms of our agreement with Microsoft. Under our amended agreement with Microsoft, the project included offsets to research and development expense, varying in amount from quarter to quarter from 2009 through 2012 for a total of approximately $6.2 million. As of September 30, 2012, we received the final $1.0 million under the agreement.

Table of Contents

Amortization of Customer and Trade Name Intangibles

Acquisition intangibles are comprised of the excess of the purchase price over the fair value of net tangible assets acquired that is allocated to acquired software and customer and trade name intangibles. The remaining excess purchase price is allocated to goodwill that is not subject to amortization. Amortization expense related to acquired software is included with cost of revenues, while amortization expense of customer and trade name intangibles is recorded as other operating expense. The estimated useful lives of both customer and trade name intangibles are five to 25 years. The following table sets forth a comparison of amortization of customer and trade name intangibles for the years ended December 31:

			Change	
($ in thousands)	2012	2011	$	%
Amortization of customer and trade name intangibles	$ 4,279	$ 3,331	$ 948	28%

In 2012, we completed several acquisitions that increased amortizable customer and trade name intangibles by approximately $11.1 million. This amount is being amortized over a weighted average period of 11.8 years.

Estimated annual amortization expense relating to customer and trade name acquisition intangibles, excluding acquired software for which the amortization expense is recorded as cost of revenues, for the next five years is as follows (in thousands):

2013	$ 4,491
2014	4,490
2015	4,490
2016	4,490
2017	4,490

Other

The following table sets forth a comparison of other expense, net for the years ended December 31:

			Change	
($ in thousands)	2012	2011	$	%
Other expense, net	$ 2,709	$ 2,404	$ 305	13%

Other expense is primarily comprised of interest expense, non-usage and other fees associated with our revolving line of credit agreement. Interest expense was higher in 2012 than 2011 due to higher debt levels associated with several acquisitions completed since October 2011 and stock repurchases in the last half of 2011. The effective interest rate in 2012 was 3.4% compared to 3.3% in 2011.

Income Tax Provision

The following table sets forth a comparison of our income tax provision for the years ended December 31:

			Change	
($ in thousands)	2012	2011	$	%
Income tax provision	$ 20,874	$ 16,556	$ 4,318	26%
Effective income tax rate	38.8%	37.5%		

Table of Contents

The effective income tax rates for both years were different from the statutory United States federal income tax rate of 35% due to state income taxes, non-deductible share-based compensation expense, the qualified manufacturing activities deduction, disqualifying incentive stock option (ISOs) dispositions and non-deductible meals and entertainment costs. The effective income tax rate in 2011 was also reduced by a research and development tax credit. The qualified manufacturing activities deduction declined in 2012 contributing to a higher effective tax rate.

Approximately 35% of our stock option expense is related to ISOs. As such, a tax benefit is not recorded at the time the compensation cost related to the options is recorded for book purposes due to the fact that an ISO does not ordinarily result in a tax benefit unless there is a disqualifying disposition. Non-qualified stock options result in the creation of a deferred tax asset, which is a temporary difference, until the time that the option is exercised. Due to the treatment of ISOs for tax purposes, our effective tax rate from year to year is subject to variability.

2011 Compared to 2010

Revenues

Software licenses.

The following table sets forth a comparison of our software license revenues for the years ended December 31:

($ in thousands)	2011	2010	Change $	Change %
ESS	$ 30,194	$ 32,757	$ (2,563)	(8)%
ATSS	2,400	2,156	244	11
Total software license revenue	$ 32,594	$ 34,913	$ (2,319)	(7)%

In October 2011, we acquired Windsor, which provides a suite of financial and human capital management software solutions to the K-12 education market and is included in our ESS segment. Excluding the impact of this acquisition, total software license revenue declined by 8% compared to 2010. The decrease in software license revenues is mainly attributable to longer sales cycles and postponements of customer purchasing decisions mainly due to budgetary constraints related to economic conditions. In addition, a portion of the decline was due to a growing number of customers choosing our subscription-based options, rather than purchasing the software under a traditional perpetual software license arrangement.

Subscriptions.

The following table sets forth a comparison of our subscription revenues for the years ended December 31:

($ in thousands)	2011	2010	Change $	Change %
ESS	$ 30,400	$ 22,975	$ 7,425	32%
ATSS	760	323	437	135
Total subscriptions revenue	$ 31,160	$ 23,298	$ 7,862	34%

New customers for SaaS arrangements as well as existing customers who converted to our SaaS model provided the majority of the subscription revenue increase. In 2011, we added 47 new customers and 40 existing customers elected to convert to our SaaS model. E-filing services also contributed approximately $500,000 of the subscription revenue increase as a result of several counties and one state adopting or expanding mandatory e-filing for court documents in the last half of 2011.

Table of Contents

Software services.

The following table sets forth a comparison of our software service revenues for the years ended December 31:

			Change	
($ in thousands)	2011	2010	$	%
ESS	$ 60,840	$ 58,371	$ 2,469	4%
ATSS	8,777	9,969	(1,192)	(12)
Total software services revenue	$ 69,617	$ 68,340	$ 1,277	2%

Excluding the impact of the Windsor acquisition, software services increased 1%. In 2011 software services revenue included more third party vendor services to build certain software interfaces associated with a state-wide contract, and reflected slightly higher billing rates.

Maintenance.

The following table sets forth a comparison of our maintenance revenues for the years ended December 31:

			Change	
($ in thousands)	2011	2010	$	%
ESS	$ 130,999	$ 120,764	$ 10,235	8%
ATSS	15,499	14,891	608	4
Total maintenance revenue	$ 146,498	$ 135,655	$ 10,843	8%

Excluding the impact of the Windsor acquisition, maintenance revenue grew 7% from 2010. This increase was due to growth in our installed customer base and slightly higher maintenance rates on most of our product lines. Our annual maintenance revenue growth rate has been reduced somewhat by the effect of existing installed customers converting to our SaaS model, which results in a loss of maintenance revenue offset by a larger increase in subscription revenue.

Appraisal services.

The following table sets forth a comparison of our appraisal service revenues for the years ended December 31:

			Change	
($ in thousands)	2011	2010	$	%
ESS	$	$	$	%
ATSS	23,228	20,554	2,674	13
Total appraisal services revenue	$ 23,228	$ 20,554	$ 2,674	13%

Appraisal services revenue increased 13% in 2011 compared to 2010. The appraisal services business is somewhat cyclical and driven in part by statutory revaluation cycles in various states. We began work on several new large revaluation contracts in late 2009 and mid-2010 which provided the majority of the increase in appraisal services revenues.

Table of Contents

Cost of Revenues and Gross Margin

The following table sets forth a comparison of the key components of our cost of revenues for the years ended December 31:

			Change	
($ in thousands)	2011	2010	$	%
Software licenses	$ 3,034	$ 3,456	$ (422)	(12)%
Acquired software	1,125	1,592	(467)	(29)
Software services, maintenance and subscriptions	143,776	138,085	5,691	4
Appraisal services	14,550	12,910	1,640	13
Hardware and other	4,994	4,268	726	17
Total cost of revenues	$ 167,479	$ 160,311	$ 7,168	4%

The following table sets forth a comparison of gross margin percentage by revenue type for the years ended December 31:

Gross margin percentage	2011	2010	Change
Software license and acquired software	87.2%	85.5%	1.7%
Software services, maintenance and subscriptions	41.9	39.2	2.7
Appraisal services	37.4	37.2	0.2
Hardware and other	20.7	27.3	(6.6)
Overall gross margin	45.9%	44.5%	1.4%

Software license and acquired software. Cost of software license and acquired software in 2011 was comprised of third party software license with the remaining balance primarily related to amortization expense related to acquired software. In 2010, cost of software license and acquired software also included amortization expense associated with capitalized software development. In early 2011 most of our capitalized software development costs became fully amortized. We did not capitalize any internal software development costs in 2011 or 2010. Cost of software license and acquired software also declined due to several acquired software solutions that became fully amortized in early 2011.

In 2011, our software license gross margin percentage increased compared to the prior year period because several acquired software solutions and substantially all of our capitalized software development became fully amortized by 2011.

Software services, maintenance and subscription-based services. In 2011, the software services, maintenance and subscriptions gross margin increased compared to the prior year partly because we improved our utilization of our support and maintenance staff and due to annual rate increases on certain services.

Appraisal services. Our appraisal services gross margin was flat compared to 2010. A high proportion of the costs of appraisal services revenue are variable, as we often hire temporary employees to assist in appraisal projects whose term of employment generally ends with the projects completion.

Our blended gross margin for 2011 increased 1.4% from 2010 mainly due to leverage in the utilization of our support, maintenance and subscription-based services staff and economies of scale and slightly higher rates on certain services. The gross margin also benefited from lower acquired software amortization costs.

Table of Contents

Selling, General and Administrative Expenses

The following table sets forth a comparison of our SG&A expenses for the years ended December 31:

($ in thousands)	2011	2010	Change $	%
Selling, general and administrative expenses	$ 75,650	$ 69,480	$ 6,170	9%

SG&A as a percentage of revenues was 24.5% in 2011 compared to 24.1% in 2010. SG&A expenses in 2011 included costs associated with consolidating office space in our new Yarmouth, Maine facility and other facilities related costs.

Research and Development Expense

The following table sets forth a comparison of our research and development expense for the years ended December 31:

($ in thousands)	2011	2010	Change $	%
Research and development expense	$ 16,414	$ 13,971	$ 2,443	17%

Research and development expense consist mainly of costs associated with development of new products and new software platforms from which we do not currently generate revenue. These include costs associated with the Microsoft Dynamics AX project, as well as other new product development efforts. In 2011 and 2010, we offset our research and development expense by $3.5 million and $5.1 million, respectively, which were the amounts earned under the terms of our agreement with Microsoft.

Amortization of Customer and Trade Name Intangibles

The following table sets forth a comparison of amortization of customer and trade name intangibles for the years ended December 31:

($ in thousands)	2011	2010	Change $	%
Amortization of customer and trade name intangibles	$ 3,331	$ 3,225	$ 106	3%

In October 2011 we completed an acquisition that increased amortizable customer and trade name intangibles by approximately $5.6 million. This amount is being amortized over 10 years.

Other

The following table sets forth a comparison of other expense, net for the years ended December 31:

($ in thousands)	2011	2010	Change $	%
Other expense, net	$ 2,404	$ 1,742	$ 662	38%

Interest expense was higher in 2011 than 2010 due to higher debt levels associated with our stock repurchases and the acquisition of Windsor in October 2011. The effective interest rate in 2011 was 3.3% compared to 3.4% in 2010.

Income Tax Provision

The following table sets forth a comparison of our income tax provision for the years ended December 31:

			Change	
($ in thousands)	2011	2010	$	%
Income tax provision	$ 16,556	$ 14,845	$ 1,711	12%
Effective income tax rate	37.5%	37.2%		

The effective income tax rates for both years were different from the statutory United States federal income tax rate of 35% due to state income taxes, non-deductible share-based compensation expense, the qualified manufacturing activities deduction, the research and development tax credit and non-deductible meals and entertainment costs.

FINANCIAL CONDITION AND LIQUIDITY

As of December 31, 2012, we had cash and cash equivalents of $6.4 million and investments available-for-sale of $2.0 million, compared to cash and cash equivalents of $1.3 million and investments available-for-sale of $2.0 million at December 31, 2011. As of December 31, 2012, we had $18.0 million in outstanding borrowings and outstanding letters of credit totaling $5.9 million. Some of our customers, primarily those for our property appraisal services, require that we secure performance bonds in connection with our contracts. The maximum potential amount of an outstanding performance bond would be the remaining cost of work to be performed under our contracts. The notional amount of performance guarantees outstanding as of December 31, 2012 was estimated to be $35.1 million. We provide letters of credit as security for the issuance of performance bonds. We do not believe these letters of credit will be required to be drawn upon. These letters of credit expire in 2013. We believe our $150.0 million revolving line of credit provides us with sufficient flexibility to meet our long-term financial needs.

The following table sets forth a summary of cash flows for the years ended December 31:

($ in thousands)	2012	2011	2010
Cash flows provided (used) by:			
Operating activities	$ 58,668	$ 56,435	$ 35,350
Investing activities	(34,736)	(28,809)	(8,694)
Financing activities	(18,852)	(28,414)	(34,238)
Net increase (decrease) in cash and cash equivalents	$ 5,080	$ (788)	$ (7,582)

Net cash provided by operating activities continues to be our primary source of funds to finance operating needs and capital expenditures. Other potential capital resources include cash on hand, public and private issuances of debt or equity securities, and bank borrowings. It is possible that our ability to access the capital and credit markets in the future may be limited by economic conditions or other factors. We currently believe that cash provided by operating activities, cash on hand and available credit are sufficient to fund our working capital requirements, capital expenditures, income tax obligations, and share repurchases for at least the next twelve months.

In 2012, operating activities provided net cash of $58.7 million, primarily generated from net income of $33.0 million, non-cash depreciation and amortization charges of $12.7 million and non-cash share-based compensation expense of $7.4 million. Working capital, excluding cash, declined $13.6 million mainly due to higher deferred revenue balances than 2011 due to an increase in annual software maintenance billings as a result of growth in our installed customer base. In addition, our growth in subscription-based arrangements has also contributed to larger deferred revenue balances. The increase in deferred revenues was offset somewhat by higher accounts receivable balances from annual software maintenance billings.

In general, changes in the balance of deferred revenue are cyclical and primarily driven by the timing of our maintenance renewal billings. Our renewal dates occur throughout the year but our heaviest renewal cycles occur in the second and fourth quarters.

Table of Contents

At December 31, 2012, our days sales outstanding (DSOs) were 95 days compared to DSOs of 99 days at December 31, 2011. DSOs are calculated based on accounts receivable (excluding long-term receivables, but including unbilled receivables) divided by the quotient of annualized quarterly revenues divided by 360 days.

Investments available-for-sale consist of two auction rate municipal securities (ARS) which are collateralized debt obligations supported by municipal agencies and do not include mortgage-backed securities. These ARS are debt instruments with stated maturities of 19 to 29 years, for which the interest rate is designed to be reset through Dutch auctions approximately every 30 days. However, due to events in the credit markets, auctions for these securities have not occurred since February 2008. Both of our ARS have had very small partial redemptions at par in the period from July 2009 through July 2012. As of December 31, 2012 we have continued to earn and collect interest on both of our ARS. Because quoted prices in active markets are no longer available we determined the estimated fair values of these securities utilizing a discounted trinomial model. The model considers the probability of three potential occurrences for each auction event through the maturity date of each ARS. The three potential outcomes for each auction are (i) successful auction/early redemption, (ii) failed auction and (iii) issuer default. Inputs in determining the probabilities of the potential outcomes include but are not limited to, the securities collateral, credit rating, insurance, issuer s financial standing, contractual restrictions on disposition and the liquidity in the market. The fair value of each ARS is determined by summing the present value of the probability-weighted future principal and interest payments determined by the model. Since there can be no assurances that auctions for these securities will be successful in the near future, we have classified our ARS as non-current investments.

In connection with this estimate of fair value, we have recorded an after-tax temporary unrealized gain on our non-current ARS of $87,000, net of related tax effects of $47,000 in 2012, which is included in accumulated other comprehensive loss on our balance sheet.

We consider the impairment in our ARS as temporary because we do not have the intent to sell, nor is it more-likely-than-not that we will be required to sell these securities before recovery of their cost basis. We believe that this temporary decline in fair value is due entirely to liquidity issues, because the underlying assets of these securities are supported by municipal agencies and do not include mortgage-backed securities, have redemption features which call for redemption at 100% of par value and have a current credit rating of A or AA. The ratings on the ARS take into account credit support through insurance policies guaranteeing each of the bonds payment of principal and accrued interest, if it becomes necessary. In addition, both ARS have had very small partial redemptions at par in the period July 2009 through July 2012. Based on our cash and cash equivalents balance, expected operating cash flows and a $150.0 million revolving credit line, we do not believe a lack of liquidity associated with our ARS will adversely affect our ability to conduct business, and believe we have the ability to hold the securities throughout the currently estimated recovery period. We will continue to evaluate any changes in the fair value of our ARS and in the future, depending upon existing market conditions, we may be required to record an other-than-temporary decline in market value.

Investing activities used cash of $34.7 million in 2012 compared to $28.8 million in 2011. In 2012, we completed the acquisitions of Akanda, UniFund, CSA and EnerGov. The combined cash purchase prices paid in 2012, net of cash acquired was approximately $25.7 million. In May 2012 we purchased land and a building in Moraine, Ohio to support our appraisal and tax operations for a purchase price of $2.6 million, which was comprised of $1.7 million in cash and land and a building valued at $900,000. We also paid $2.3 million in 2012 in connection with the construction of an office building in Plano, Texas. These expenditures were funded from cash generated from operations and borrowings under our revolving credit line.

In 2011, we completed the acquisition of Windsor. The purchase price, net of cash acquired, was approximately $16.4 million. In March 2011 we paid $6.6 million for approximately 27 acres of land and a building in Plano, Texas.

In January 2010, we completed the acquisition of the assets of Wiznet, Inc. for $9.5 million in cash. Also, in connection with plans to consolidate workforces and support planned long-term growth, we paid $1.3 million in 2010 in connection with the construction of an office building in Lubbock, Texas. The impact of these investing activities in 2010 was offset somewhat by the release of $6.0 million of restricted cash. In August 2010, we elected to replace our cash-collateralized letters of credit with ones issued under our revolving line of credit.

Cash used in financing activities in 2012 was mainly comprised of $42.7 million in payments on our revolving line of credit offset by collections of $15.1 million from stock option exercises and contributions from the employee stock purchase plan.

In 2011, cash used in financing activities was primarily comprised of purchases of treasury shares, net of proceeds from stock option exercises, borrowings and payments on our revolving credit line and contributions from our employee stock purchase plan. During 2011, we purchased 3.0 million shares of our common stock for an aggregate purchase price of $71.8 million.

The share repurchase program, which was approved by our board of directors, was announced in October 2002, and was amended in April and July 2003, October 2004, October 2005, May 2007, May 2008, October 2008, May 2009, July 2010, October 2010 and September 2011. As of December 31, 2012, we had remaining authorization to repurchase up to 1.7 million additional shares of our common stock. Our share repurchase program allows us to repurchase shares at our discretion and market conditions influence the timing of the buybacks and the number of shares repurchased, as well as the volume of employee stock option exercises. These share repurchases are funded using our existing cash balances and borrowings under our revolving credit agreement and may occur through open market purchases and transactions structured through investment banking institutions, privately negotiated transactions and/or other mechanisms. There is no expiration date specified for the authorization and we intend to repurchase stock under the plan from time to time.

During 2010, we purchased 3.6 million shares of our common stock for an aggregate purchase price of $65.8 million.

In 2012 we issued 1.2 million shares of common stock and received $12.4 million in aggregate proceeds upon exercise of stock options. In 2011 we received $3.6 million from the exercise of options to purchase approximately 582,000 shares of our common stock under our employee stock option plan and during 2010, we received $3.2 million from the exercise of options to purchase approximately 615,000 shares of our common stock under our employee stock option plan. In 2012, 2011 and 2010 we received $2.6 million, $2.0 million and $1.9 million, respectively, from contributions to the Tyler Technologies, Inc. Employee Stock Purchase Plan.

We have a $150.0 million Credit Agreement (the Credit Facility) and a related pledge and security agreement with a group of seven financial institutions, with Bank of America, N.A., as Administrative Agent. The Credit Facility provides for a revolving credit line of $150.0 million (which may be increased up to $200.0 million subject to our obtaining commitments for such increase), with a $25.0 million sublimit for letters of credit. The Credit Facility matures on August 11, 2014. Borrowings under the Credit Facility may be used for general corporate purposes, including working capital requirements, acquisitions and share repurchases. In 2010 we paid $2.0 million in related debt issuance costs.

Borrowings under the Credit Facility bear interest at a rate of either (1) the Bank of America s prime rate plus a margin of 1.50% to 2.75% or (2) the 30, 60, 90 or 180-day LIBOR rate plus a margin of 2.50% to 3.75%, with the margin determined by our consolidated leverage ratio. In 2012 and 2011 our effective average interest rate for borrowings was 3.4% and 3.3%, respectively. As of December 31, 2012 our interest rate was 2.7%. The Credit Facility is secured by substantially all of our assets, excluding real property. The Credit Facility requires us to maintain certain financial ratios and other financial conditions and prohibits us from making certain investments, advances, cash dividends or loans, and limits incurrence of additional indebtedness and liens. As of December 31, 2012, we were in compliance with those covenants.

As of December 31, 2012, we had $18.0 million in outstanding borrowings and unused available borrowing capacity of $126.1 million under the Credit Facility. In addition, as of December 31, 2012, our bank had issued outstanding letters of credit totaling $5.9 million to secure surety bonds required by some of our customer contracts. These letters of credit reduce our available borrowing capacity and expire in 2013.

We paid income taxes, net of refunds received, of $13.1 million in 2012, $13.4 million in 2011, and $15.8 million in 2010.

Excluding acquisitions and investments in office buildings, we anticipate that 2013 capital spending will be between $8.2 million and $9.2 million. We expect the majority of this capital spending will consist of computer equipment and software for infrastructure replacements and expansion. We currently do not expect to capitalize significant amounts related to software development in 2013, but the actual amount and timing of those costs, and whether they are capitalized or expensed may result in additional capitalized software development. We also plan to spend approximately $14.8 million in 2013 in connection with the completion of construction of an office building in Plano, Texas. Capital spending, including the construction of an office facility, is expected to be funded from existing cash balances and cash flows from operations.

From time to time we engage in discussions with potential acquisition candidates. In order to pursue such opportunities, which could require significant commitments of capital, we may be required to incur debt or to issue additional potentially dilutive securities in the future. No assurance can be given as to our future acquisition opportunities and how such opportunities will be financed.

Table of Contents

We lease office facilities, as well as transportation, computer and other equipment used in our operations under non-cancelable operating lease agreements expiring at various dates through 2021. Most leases contain renewal options and some contain purchase options.

Summarized in the table below are our obligations to make future payments under our long-term revolving credit agreement and lease obligations at December 31, 2012 (in thousands):

	2013	2014	2015	2016	2017	Thereafter	Total
Revolving line of credit	$	$ 18,000	$	$	$	$	$ 18,000
Lease obligations	6,278	4,519	3,949	3,682	3,223	3,482	25,133
Total future payment obligations	$ 6,278	$ 22,519	$ 3,949	$ 3,682	$ 3,223	$ 3,482	$ 43,133

As of December 31, 2012, we do not have any off-balance sheet arrangements, guarantees to third parties or material purchase commitments, except for the operating lease commitments listed above.

CAPITALIZATION

At December 31, 2012, our capitalization consisted of $18.0 million in long-term obligations and $145.3 million of shareholders equity. Our total debt-to-capital ratio was 11.0% at December 31, 2012.

Table of Contents

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market risk represents the risk of loss that may affect us due to adverse changes in financial market prices and interest rates. As of December 31, 2012 we had $18.0 million in outstanding borrowings under the Credit Facility. These borrowings bear interest at a rate of either (1) the Bank of America s prime rate plus a margin of 1.50% to 2.75% or (2) the 30, 60, 90 or 180-day LIBOR rate plus a margin of 2.50% to 3.75%, with the margin determined by our consolidated leverage ratio. In 2012 and 2011 our effective average interest rate for borrowings was 3.4% and 3.3%, respectively. As of December 31, 2012 our interest rate was 2.7%. Assuming borrowings of $18.0 million, a hypothetical 10% increase in our interest rate at December 31, 2012 for a one year period would result in approximately $49,000 of additional interest rate expense.

Investments available-for-sale consist of two ARS with stated maturities of 19 to 29 years, for which the interest rate is designed to be reset through Dutch auctions approximately every 30 days which would have qualified as Level 1 under ASC 820, Fair Value Measurements. However, due to events in the credit markets, auctions for these securities have not occurred since February 2008. Therefore, quoted prices in active markets are no longer available and we determined the estimated fair values of these securities as of December 31, 2012, utilizing a discounted trinomial model.

In association with this estimate of fair value, we have recorded an after-tax temporary unrealized gain on our non-current ARS of $87,000, net of related tax effects of $47,000 in 2012, which is included in accumulated other comprehensive loss on our balance sheet. We consider the impairment in our ARS as temporary because we do not have the intent to sell, nor is it more-likely-than-not that we will be required to sell these securities before recovery of their cost basis. We believe that this temporary decline in fair value is due entirely to liquidity issues, because the underlying assets of these securities are supported by municipal agencies and do not include mortgage-backed securities, have redemption features which call for redemption at 100% of par value and have a current credit rating of A or AA. The ratings on the ARS take into account credit support through insurance policies guaranteeing each of the bonds payment of principal and accrued interest, if it becomes necessary. In addition, both ARS have had very small partial redemptions at par in the period July 2009 through July 2012. Based on our cash and cash equivalents balance, expected operating cash flows and a $150.0 million revolving credit line, we do not believe a lack of liquidity associated with our ARS will adversely affect our ability to conduct business, and believe we have the ability to hold the securities throughout the currently estimated recovery period. We will continue to evaluate any changes in the fair value of our ARS and in the future, depending upon existing market conditions, we may be required to record an other-than-temporary decline in market value.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

The reports of our independent registered public accounting firm and our financial statements, related notes, and supplementary data are included as part of this Annual Report beginning on page F-1.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.
None.

ITEM 9A. CONTROLS AND PROCEDURES.

Evaluation of Disclosure Controls and Procedures We maintain disclosure controls and procedures (as defined in Rule 13a-15(e) of the Securities Exchange Act) designed to provide reasonable assurance that the information required to be disclosed by us in the reports we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC s rules and forms. These include controls and procedures designed to ensure that this information is accumulated and communicated to our management, including our chief executive officer and chief financial officer, as appropriate to allow timely decisions regarding required disclosures. Management, with the participation of the chief executive officer and chief financial officer, evaluated the effectiveness of our disclosure controls and procedures as of December 31, 2012. Based on this evaluation, the chief executive officer and chief financial officer have concluded that our disclosure controls and procedures were effective as of December 31, 2012.

Management s Report on Internal Control Over Financial Reporting Tyler s management is responsible for establishing and maintaining effective internal control over financial reporting as defined in Securities Exchange Act Rule 13a-15(f). Tyler s internal control over financial reporting is designed to provide reasonable assurance to Tyler s management and board of directors regarding the preparation and fair presentation of published financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

Management assessed the effectiveness of Tyler s internal control over financial reporting as of December 31, 2012. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in *Internal Control Integrated Framework*. Based on our assessment, we concluded that, as of December 31, 2012, Tyler s internal control over financial reporting was effective based on those criteria.

Tyler s internal control over financial reporting as of December 31, 2012 has been audited by Ernst & Young LLP, the independent registered public accounting firm who also audited Tyler s financial statements. Ernst & Young s attestation report on Tyler s internal control over financial reporting appears on page F-2 hereof.

Changes in Internal Control Over Financial Reporting During the quarter ended December 31, 2012, there were no changes in our internal control over financial reporting, as defined in Securities Exchange Act Rule 13a-15(f), that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

ITEM 9B. OTHER INFORMATION.

None.

PART III

See the information under the following captions in Tyler s definitive Proxy Statement, which is incorporated herein by reference. Only those sections of the Proxy Statement that specifically address the items set forth herein are incorporated by reference. Such incorporation by reference does not include the Compensation Discussion and Analysis, the Compensation Committee Report or the Audit Committee Report which are included in the Proxy Statement.

	Headings in Proxy Statement
ITEM 10. DIRECTORS, EXECUTIVE OFFICERS, AND CORPORATE GOVERNANCE.	Tyler Management and Corporate Governance Principles and Board Matters
ITEM 11. EXECUTIVE COMPENSATION.	Executive Compensation
ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS.	Security Ownership of Certain Beneficial Owners and Management
ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE.	Executive Compensation and Certain Relationships and Related Transactions

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES.
The information required under this item may be found under the section captioned Proposals For Consideration Proposal Two Ratification of Ernst & Young LLP as Our Independent Auditors for Fiscal Year 2013 in our Proxy Statement and is incorporated herein by reference.

Table of Contents

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES.

The following documents are filed as part of this Annual Report:

(a) (1) The financial statements are filed as part of this Annual Report.

(2) Financial statement schedules:

There are no financial statement schedules filed as part of this Annual Report, since the required information is included in the financial statements, including the notes thereto, or the circumstances requiring inclusion of such schedules are not present.

(3) Exhibits

Certain of the exhibits to this Annual Report are hereby incorporated by reference, as specified:

Exhibit Number	Description
3.1	Restated Certificate of Incorporation of Tyler Three, as amended through May 14, 1990, and Certificate of Designation of Series A Junior Participating Preferred Stock (filed as Exhibit 3.1 to our Form 10-Q for the quarter ended June 30, 1990, and incorporated by reference herein).
3.2	Certificate of Amendment to the Restated Certificate of Incorporation (filed as Exhibit 3.1 to our Form 8-K, dated February 19, 1998, and incorporated by reference herein).
3.3	Amended and Restated By-Laws of Tyler Corporation, dated November 4, 1997 (filed as Exhibit 3.3 to our Form 10-K for the year ended December 31, 1997, and incorporated by reference herein).

Exhibit Number	Description
3.4	Certificate of Amendment dated May 19, 1999 to the Restated Certificate of Incorporation (filed as Exhibit 3.4 to our Form 10-K for the year ended December 31, 2000, and incorporated by reference herein).
4.1	Specimen of Common Stock Certificate (filed as Exhibit 4.1 to our registration statement no. 33-33505 and incorporated by reference herein).
4.2	Credit Agreement dated August 11, 2010, among Tyler Technologies, Inc. and Bank of America, N. A. as Administrative Agent and other lenders party hereto (filed as Exhibit 4.1 to our Form 8-K dated August 12, 2010, and incorporated by reference herein).
10.1	Form of Indemnification Agreement for directors and officers (filed as Exhibit 10.1 to our Form 10-K for the year ended December 31, 2002 and incorporated by reference herein).
10.2	Tyler Technologies, Inc. 2010 Stock Option Plan effective as of May 13, 2010 (filed as Exhibit 4.1 to our registration statement no. 333-168499 and incorporated by reference herein).
*10.3	Employment and Non-Competition Agreement between Tyler Technologies, Inc. and John S. Marr Jr. dated February 5, 2013.
*10.4	Employment and Non-Competition Agreement between Tyler Technologies, Inc. and Dustin R. Womble dated February 5, 2013.
*10.5	Employment and Non-Competition Agreement between Tyler Technologies, Inc. and Brian K. Miller dated February 5, 2013.
*10.6	Employment and Non-Competition Agreement between Tyler Technologies, Inc. and H. Lynn Moore dated February 5, 2013.

Table of Contents

Exhibit Number	Description
10.7	Employee Stock Purchase Plan (filed as Exhibit 10.1 to our registration statement 333-182318 dated June 25, 2012 and incorporated by reference herein).
*23	Consent of Independent Registered Public Accounting Firm
*31.1	Rule 13a-14(a) Certification by Principal Executive Officer.
*31.2	Rule 13a-14(a) Certification by Principal Financial Officer.
*32	Section 1350 Certification of Principal Executive Officer and Principal Financial Officer.
**101	Instance Document
**101	Schema Document
**101	Calculation Linkbase Document
**101	Labels Linkbase Document
**101	Definition Linkbase Document
**101	Presentation Linkbase Document

* Filed herewith.

** Pursuant to Rule 406T of Regulation S-T, these interactive data files are deemed not filed or part of a registration statement or prospectus for purposes of Section 11 or 12 of the Securities Act of 1933 or Section 18 of the Securities Exchange Act of 1934 and otherwise not subject to liability.

A copy of each exhibit may be obtained at a price of 15 cents per page, with a $10.00 minimum order, by writing Investor Relations, 5949 Sherry Lane, Suite 1400, Dallas, Texas, 75225.

Table of Contents

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

TYLER TECHNOLOGIES, INC.

Date: February 20, 2013	By: /s/ John S. Marr John S. Marr Chief Executive Officer and President (principal executive officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Date: February 20, 2013	By:	/s/ John S. Marr John S. Marr Chief Executive Officer and President Director (principal executive officer)
Date: February 20, 2013	By:	/s/ John M. Yeaman John M. Yeaman Chairman of the Board
Date: February 20, 2013	By:	/s/ Brian K. Miller Brian K. Miller Executive Vice President and Chief Financial Officer (principal financial officer)
Date: February 20, 2013	By:	/s/ W. Michael Smith W. Michael Smith Vice President and Chief Accounting Officer (principal accounting officer)

Table of Contents

Date: February 20, 2013	By:	/s/ Donald R. Brattain Donald R. Brattain Director
Date: February 20, 2013	By:	/s/ J. Luther King J. Luther King Director
Date: February 20, 2013	By:	/s/ G. Stuart Reeves G. Stuart Reeves Director
Date: February 20, 2013	By:	/s/ Michael D. Richards Michael D. Richards Director
Date: February 20, 2013	By:	/s/ Dustin R. Womble Dustin R. Womble Director

Table of Contents

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Shareholders

Tyler Technologies, Inc.

We have audited the accompanying consolidated balance sheets of Tyler Technologies, Inc. as of December 31, 2012 and 2011, and the related consolidated statements of comprehensive income, shareholders equity, and cash flows for each of the three years in the period ended December 31, 2012. These financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Tyler Technologies, Inc. at December 31, 2012 and 2011, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2012, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Tyler Technologies, Inc. s internal control over financial reporting as of December 31, 2012, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 20, 2013 expressed an unqualified opinion thereon.

ERNST & YOUNG LLP

Dallas, Texas

February 20, 2013

Table of Contents

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Shareholders

Tyler Technologies, Inc.

We have audited Tyler Technologies, Inc. s internal control over financial reporting as of December 31, 2012, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Tyler Technologies, Inc. s management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management s Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the company s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Tyler Technologies, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2012, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Tyler Technologies, Inc. as of December 31, 2012 and 2011, and the related consolidated statements of comprehensive income, shareholders equity, and cash flows for each of the three years in the period ended December 31, 2012 and our report dated February 20, 2013 expressed an unqualified opinion thereon.

ERNST & YOUNG LLP

Dallas, Texas

February 20, 2013

Table of Contents

Tyler Technologies, Inc.

Consolidated Statements of Comprehensive Income

For the years ended December 31

(In thousands, except per share amounts)

	2012	2011	2010
Revenues:			
Software licenses	$ 33,172	$ 32,594	$ 34,913
Subscriptions	44,618	31,160	23,298
Software services	83,408	69,617	68,340
Maintenance	171,851	146,498	135,655
Appraisal services	22,543	23,228	20,554
Hardware and other	7,712	6,294	5,868
Total revenues	363,304	309,391	288,628
Cost of revenues:			
Software licenses	1,983	3,034	3,456
Acquired software	1,888	1,125	1,592
Software services, maintenance and subscriptions	171,584	143,776	138,085
Appraisal services	14,889	14,550	12,910
Hardware and other	5,258	4,994	4,268
Total cost of revenues	195,602	167,479	160,311
Gross profit	167,702	141,912	128,317
Selling, general and administrative expenses	86,706	75,650	69,480
Research and development expense	20,140	16,414	13,971
Amortization of customer and trade name intangibles	4,279	3,331	3,225
Operating income	56,577	46,517	41,641
Other expense, net	2,709	2,404	1,742
Income before income taxes	53,868	44,113	39,899
Income tax provision	20,874	16,556	14,845
Net income	$ 32,994	$ 27,557	$ 25,054
Earnings per common share:			
Basic	$ 1.09	$ 0.88	$ 0.74
Diluted	$ 1.00	$ 0.83	$ 0.71
Unrealized gains (losses) on investment securities available-for-sale	$ 134	$ (123)	$ 200
Income tax expense (benefit) related to components of other comprehensive income (loss)	47	(43)	70
Other comprehensive income (loss), net of tax	$ 87	$ (80)	$ 130
Comprehensive income	$ 33,081	$ 27,477	$ 25,184

See accompanying notes.

Table of Contents

Tyler Technologies, Inc.

Consolidated Balance Sheets

(In thousands, except par value and share amounts)

	December 31, 2012	December 31, 2011
ASSETS		
Current assets:		
Cash and cash equivalents	$ 6,406	$ 1,326
Short-term investments available-for-sale		25
Accounts receivable (less allowance for losses of $1,621 in 2012 and $990 in 2011)	100,327	90,012
Prepaid expenses	9,000	8,348
Other current assets	1,480	2,286
Deferred income taxes	5,544	5,095
Total current assets	122,757	107,092
Accounts receivable, long-term portion	1,187	2,095
Property and equipment, net	45,381	40,915
Non-current investments available-for-sale	2,037	1,953
Other assets:		
Goodwill	119,956	106,094
Other intangibles, net	45,800	35,628
Sundry	1,197	1,614
	$ 338,315	$ 295,391
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 3,167	$ 3,211
Accrued liabilities	26,078	24,751
Deferred revenue	140,550	123,678
Total current liabilities	169,795	151,640
Revolving line of credit	18,000	60,700
Deferred income taxes	5,221	4,941
Commitments and contingencies		
Shareholders equity:		
Preferred stock, $10.00 par value; 1,000,000 shares authorized,none issued		
Common stock, $0.01 par value; 100,000,000 shares authorized; 48,147,969 shares issued in 2012 and 2011	481	481
Additional paid-in capital	154,018	152,859
Accumulated other comprehensive loss, net of tax	(268)	(355)
Retained earnings	163,109	130,115
Treasury stock, at cost; 16,816,903 and 18,176,050 shares in 2012 and 2011, respectively	(172,041)	(204,990)
Total shareholders equity	145,299	78,110
	$ 338,315	$ 295,391

See accompanying notes.

Table of Contents

Tyler Technologies, Inc.

Consolidated Statements of Shareholders Equity

For the years ended December 31, 2012, 2011 and 2010

In thousands

	Common Stock		Additional Paid-in	Accumulated Other Comprehensive Income	Retained	Treasury Stock		Total Shareholders
	Shares	Amount	Capital	(Loss)	Earnings	Shares	Amount	Equity
Balance at December 31, 2009	48,148	$ 481	$ 153,734	$ (405)	$ 77,504	(13,028)	$ (96,956)	$ 134,358
Net income					25,054			25,054
Unrealized gain on investment securities, net of tax				130				130
Issuance of shares pursuant to stock compensation plan			(8,157)			615	11,338	3,181
Stock compensation			6,132					6,132
Treasury stock purchases						(3,559)	(65,793)	(65,793)
Issuance of shares pursuant to Employee Stock Purchase Plan			(218)			118	2,043	1,825
Federal income tax benefit related to exercise of stock options			2,085					2,085
Balance at December 31, 2010	48,148	481	153,576	(275)	102,558	(15,854)	(149,368)	106,972
Net income					27,557			27,557
Unrealized loss on investment securities, net of tax				(80)				(80)
Issuance of shares pursuant to stock compensation plan			(10,352)			582	13,905	3,553
Stock compensation			6,253					6,253
Treasury stock purchases						(3,004)	(71,802)	(71,802)
Issuance of shares pursuant to Employee Stock Purchase Plan			(230)			100	2,275	2,045
Federal income tax benefit related to exercise of stock options			3,612					3,612
Balance at December 31, 2011	48,148	481	152,859	(355)	130,115	(18,176)	(204,990)	78,110
Net income					32,994			32,994
Unrealized gain on investment securities, net of tax				87				87
Issuance of shares pursuant to stock compensation plan			(17,018)			1,218	29,461	12,443
Stock compensation			7,411					7,411
Issuance of shares pursuant to Employee Stock Purchase Plan			639			81	2,002	2,641
Federal income tax benefit related to exercise of stock options			8,798					8,798
Issuance of shares for acquisition			1,329			60	1,486	2,815
Balance at December 31, 2012	48,148	$ 481	$ 154,018	$ (268)	$ 163,109	(16,817)	$ (172,041)	$ 145,299

See accompanying notes.

F-5

Table of Contents

Tyler Technologies, Inc.

Consolidated Statements of Cash Flows

For the years ended December 31

(In thousands)

	2012	2011	2010
Cash flows from operating activities:			
Net income	$ 32,994	$ 27,557	$ 25,054
Adjustments to reconcile net income to net cash provided by operations:			
Depreciation and amortization	12,711	10,676	10,788
Share-based compensation expense	7,411	6,253	6,132
Provision for losses - accounts receivable	961	805	1,161
Excess tax benefit from exercises of share-based arrangements	(8,764)	(3,590)	(2,000)
Deferred income tax benefit	(215)	(2,916)	(959)
Changes in operating assets and liabilities, exclusive of effects of acquired companies:			
Accounts receivable	(6,825)	(8,544)	(1,989)
Income tax payable	7,791	6,084	(34)
Prepaid expenses and other current assets	110	(214)	104
Accounts payable	(369)	575	(1,181)
Accrued liabilities	(530)	4,887	(5,200)
Deferred revenue	13,393	14,862	3,474
Net cash provided by operating activities	58,668	56,435	35,350
Cash flows from investing activities:			
Proceeds from sale of investments	75	50	75
Cost of acquisitions, net of cash acquired	(25,680)	(17,298)	(9,661)
Additions to property and equipment	(9,102)	(12,278)	(4,930)
Decrease in restricted investments			6,000
(Increase) decrease in other	(29)	717	(178)
Net cash used by investing activities	(34,736)	(28,809)	(8,694)
Cash flows from financing activities:			
(Decrease) increase in net borrowings on revolving line of credit	(42,700)	34,200	26,500
Purchase of treasury shares		(71,802)	(65,793)
Contributions from employee stock purchase plan	2,641	2,045	1,901
Proceeds from exercise of stock options	12,443	3,553	3,181
Debt issuance costs			(2,027)
Excess tax benefit from exercises of share-based arrangements	8,764	3,590	2,000
Net cash used by financing activities	(18,852)	(28,414)	(34,238)
Net increase (decrease) in cash and cash equivalents	5,080	(788)	(7,582)
Cash and cash equivalents at beginning of period	1,326	2,114	9,696
Cash and cash equivalents at end of period	$ 6,406	$ 1,326	$ 2,114

See accompanying notes.

Table of Contents

Tyler Technologies, Inc.

Notes to Consolidated Financial Statements

(Tables in thousands, except per share data)

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

DESCRIPTION OF BUSINESS

We provide integrated software systems and related services for the public sector, with a focus on local governments. We develop and market a broad line of software solutions and services to address the information technology (IT) needs of cities, counties, schools and other local government entities. In addition, we provide professional IT services, including software and hardware installation, data conversion, training, and for certain customers, product modifications, along with continuing maintenance and support for customers using our systems. We also provide subscription-based services such as software as a service (SaaS) arrangements, which utilize the Tyler private cloud, and electronic document filing solutions (e-filings). We also provide property appraisal outsourcing services for taxing jurisdictions.

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include our parent company and a subsidiary, which is wholly-owned as of December 31, 2012. All significant intercompany balances and transactions have been eliminated in consolidation.

CASH AND CASH EQUIVALENTS

Cash in excess of that necessary for operating requirements is invested in short-term, highly liquid, income-producing investments. Investments with original maturities of three months or less are classified as cash and cash equivalents, which primarily consist of cash on deposit with a bank and money market funds. Cash and cash equivalents are stated at cost, which approximates market value.

INVESTMENTS

Investments consist of auction rate municipal securities. These investments are classified as available-for-sale securities and are stated at fair value in accordance with Accounting Standards Codification (ASC) 820, Fair Value Measurements and Disclosures. Unrealized holding gains and losses, net of the related tax effect, if any, are not reflected in earnings but are reported as a separate component of accumulated other comprehensive income until realized. The cost basis of securities sold is the specific cost of the auction rate municipal security. We account for the transactions as proceeds from sales of investments for the security relinquished, and a purchases of investments for the security purchased, in the accompanying Consolidated Statements of Cash Flows.

REVENUE RECOGNITION

<u>Software Arrangements:</u>

We earn revenue from software licenses, subscriptions, software services, post-contract customer support (PCS or maintenance), and hardware. PCS includes telephone support, bug fixes, and rights to upgrades on a when-and-if available basis. We provide services that range from installation, training, and basic consulting to software modification and customization to meet specific customer needs. In software arrangements that include rights to multiple software products, specified upgrades, PCS, and/or other services, we allocate the total arrangement fee among each deliverable based on the relative fair value of each.

We typically enter into multiple element arrangements, which include software licenses, software services, PCS and occasionally hardware. The majority of our software arrangements are multiple element arrangements, but for those arrangements that involve significant production, modification or customization of the software, or where software services are otherwise considered essential to the functionality of the software in the customer s environment, we use contract accounting and apply the provisions of the Construction Type and Production Type Contracts as discussed in ASC 605-35, Multiple Elements Arrangements.

Table of Contents

If the arrangement does not require significant production, modification or customization or where the software services are not considered essential to the functionality of the software, revenue is recognized when all of the following conditions are met:

i. persuasive evidence of an arrangement exists;

ii. delivery has occurred;

iii. our fee is fixed or determinable; and

iv. collectability is probable.

For multiple element arrangements, each element of the arrangement is analyzed and we allocate a portion of the total arrangement fee to the elements based on the relative fair value of the element using vendor-specific objective evidence of fair value (VSOE), regardless of any separate prices stated within the contract for each element. Fair value is considered the price a customer would be required to pay if the element was sold separately based on our historical experience of stand-alone sales of these elements to third parties. For PCS, we use renewal rates for continued support arrangements to determine fair value. For software services, we use the fair value we charge our customers when those services are sold separately. We monitor our transactions to determine that we maintain and periodically revise VSOE to reflect fair value. In software arrangements in which we have the fair value of all undelivered elements but not of a delivered element, we apply the residual method, in compliance with ASC 985-605, Software Revenue Recognition, in accounting for any element of a multiple element arrangement involving software that remains undelivered such that any discount inherent in a contract is allocated to the delivered element. Under the residual method, if the fair value of all undelivered elements is determinable, the fair value of the undelivered elements is deferred and the remaining portion of the arrangement fee is allocated to the delivered element(s) and is recognized as revenue assuming the other revenue recognition criteria are met. In software arrangements in which we do not have VSOE for all undelivered elements, revenue is deferred until fair value is determined or all elements for which we do not have VSOE have been delivered. Alternatively, if sufficient VSOE does not exist and the only undelivered element is services that do not involve significant modification or customization of the software, the entire fee is recognized over the period during which the services are expected to be performed.

Software Licenses

We recognize the revenue allocable to software licenses and specified upgrades upon delivery of the software product or upgrade to the customer, unless the fee is not fixed or determinable or collectability is not probable. If the fee is not fixed or determinable, software license revenue is generally recognized as payments become due from the customer. If collectability is not considered probable, revenue is recognized when the fee is collected. Arrangements that include software services, such as training or installation, are evaluated to determine whether those services are essential to the product s functionality.

A majority of our software arrangements involve off-the-shelf software. We consider software to be off-the-shelf software if it can be added to an arrangement with minor changes in the underlying code and it can be used by the customer for the customer s purpose upon installation. For off-the-shelf software arrangements, we recognize the software license fee as revenue after delivery has occurred, customer acceptance is reasonably assured, that portion of the fee represents a non-refundable enforceable claim and is probable of collection, and the remaining services such as training are not considered essential to the product s functionality.

For arrangements that involve significant production, modification or customization of the software, or where software services are otherwise considered essential, we recognize revenue using contract accounting. We generally use the percentage-of-completion method to recognize revenue from these arrangements. We measure progress-to-completion primarily using labor hours incurred, or value added. The percentage-of-completion method generally results in the recognition of reasonably consistent profit margins over the life of a contract because we have the ability to produce reasonably dependable estimates of contract billings and contract costs. We use the level of profit margin that is most likely to occur on a contract. If the most likely profit margin cannot be precisely determined, the lowest probable level of profit in the range of estimates is used until the results can be estimated more precisely. These arrangements are often implemented over an extended time period and occasionally require us to revise total cost estimates. Amounts recognized in revenue are calculated using the progress-to-completion measurement after giving effect to any changes in our cost estimates. Changes to total estimated contract costs, if any, are recorded in the period they are determined. Estimated losses on uncompleted contracts are recorded in the period in which we first determine that a loss is apparent. For arrangements that include new product releases for which it is difficult to estimate final profitability except to assume that no loss will ultimately be incurred, we recognize revenue under the completed contract method. Under the completed contract method, revenue is recognized only when a contract is completed or substantially complete. Historically these amounts have been immaterial.

Table of Contents

Subscription-Based Services

Subscription-based services primarily consist of revenues derived from SaaS arrangements, which utilize the Tyler private cloud, and e-filings.

We recognize revenue for SaaS arrangements ratably over the period of the applicable agreement as services are provided. Contract terms for SaaS arrangements range from one to ten years but are typically contracted for periods of three to six years. The majority of our SaaS arrangements also include professional services and maintenance and support services, which are classified as subscription-based revenues. In certain SaaS arrangements, the customer also acquires a license to the software.

For SaaS arrangements, we evaluate whether the customer has the contractual right to take possession of our software at any time during the hosting period without significant penalty and whether the customer can feasibly maintain the software on the customer s hardware or enter into another arrangement with a third party to host the software. If we determine that the customer has the contractual right to take possession of our software at any time during the hosting period without significant penalty and can feasibly maintain the software on the customer s hardware or enter into another arrangement with a third party to host the software, we recognize the license, professional services and hosting services revenues pursuant to ASC 985-605, Software Revenue Recognition.

For SaaS arrangements that do not meet the criteria for recognition under ASC 985-605, we account for the elements under ASC 605-25, Multiple Element Arrangements using all applicable facts and circumstances, including whether (i) the element has stand-alone value, (ii) there is a general right of return and (iii) the revenue is contingent on delivery of other elements. We allocate contract value to each element of the arrangement that qualifies for treatment as a separate element based on VSOE, and if VSOE is not available, third party evidence, and if third party evidence is unavailable, estimated selling price. For professional services associated with SaaS arrangements that we determine do not have stand-alone value to the customer or are contingent on delivery of other elements (e.g. hosting), we recognize the services revenue ratably over the remaining contractual period once hosting has gone live and we may begin billing for the hosting services. We record amounts that have been invoiced in accounts receivable and in deferred revenue or revenues, depending on whether the revenue recognition criteria have been met.

Electronic filing transaction fees primarily pertain to documents filed with the courts by attorneys and other third parties via our e-filing services and retrieval of filed documents via our access services. The elements for these arrangements are accounted for under ASC 605-25. For each document filed with a court, the filer generally pays a transaction fee and a court filing fee to us and we remit a portion of the transaction fee and the filing fee to the court. We record as revenue the transaction fee, while the portion of the transaction fee remitted to the courts is recorded as cost of sales as we are acting as a principal in the arrangement. Court filing fees collected on behalf of the courts and remitted to the courts are recorded on a net basis and thus do not affect the statement of comprehensive income.

Costs of performing services under subscription-based arrangements are expensed as incurred, except for certain direct and incremental contract origination and set-up costs associated with SaaS arrangements. Such direct and incremental costs are capitalized and amortized ratably over the related SaaS hosting term.

Software Services

Some of our software arrangements include services considered essential for the customer to use the software for the customer s purposes. For these software arrangements, both the software license revenue and the services revenue are recognized as the services are performed using the percentage-of-completion contract accounting method. When software services are not considered essential, the fee allocable to the service element is recognized as revenue as we perform the services.

Computer Hardware Equipment

Revenue allocable to computer hardware equipment is recognized when we deliver the equipment and collection is probable.

Postcontract Customer Support

Our customers generally enter into PCS agreements when they purchase our software licenses. Our PCS agreements are typically renewable annually. Revenue allocated to PCS is recognized on a straight-line basis over the period the PCS is provided. All significant costs and expenses associated with PCS are expensed as incurred. VSOE of fair value for the maintenance and support obligations for software licenses is based upon the specific sale renewals to customers.

Table of Contents

Allocation of Revenue in Statements of Income

In our statements of income, we allocate revenue to software licenses, software services, maintenance and hardware and other based on the VSOE of fair value for elements in each revenue arrangement and the application of the residual method for arrangements in which we have established VSOE of fair value for all undelivered elements. In arrangements where we are not able to establish VSOE of fair value for all undelivered elements, revenue is first allocated to any undelivered elements for which VSOE of fair value has been established. We then allocate revenue to any undelivered elements for which VSOE of fair value has not been established based upon management s best estimate of fair value of those undelivered elements and apply a residual method to determine the license fee. Management s best estimate of fair value of undelivered elements for which VSOE of fair value has not been established is based upon the VSOE of similar offerings and other objective criteria.

Appraisal Services:

For our property appraisal projects, we recognize revenue using the proportional performance method of revenue recognition since many of these projects are implemented over one to three year periods and consist of various unique activities. Under this method of revenue recognition, we identify each activity for the appraisal project, with a typical project generally calling for bonding, office set up, training, routing of map information, data entry, data collection, data verification, informal hearings, appeals and project management. Each activity or act is specifically identified and assigned an estimated cost. Costs which are considered to be associated with indirect activities, such as bonding costs and office set up, are expensed as incurred. These costs are typically billed as incurred and are recognized as revenue equal to cost. Direct contract fulfillment activities and related supervisory costs such as data collection, data entry and verification are expensed as incurred. The direct costs for these activities are determined and the total contract value is then allocated to each activity based on a consistent profit margin. Each activity is assigned a consistent unit of measure to determine progress towards completion and revenue is recognized for each activity based upon the percentage complete as applied to the estimated revenue for that activity. Progress for the fulfillment activities is typically based on labor hours or an output measure such as the number of parcel counts completed for that activity. Estimated losses on uncompleted contracts are recorded in the period in which we first determine that a loss is apparent.

Other:

The majority of deferred revenue consists of unearned support and maintenance revenue that has been billed based on contractual terms in the underlying arrangement with the remaining balance consisting of payments received in advance of revenue being earned under software licensing, subscription-based services, software and appraisal services and hardware installation. Unbilled revenue is not billable at the balance sheet date but is recoverable over the remaining life of the contract through billings made in accordance with contractual agreements. The termination clauses in our contracts generally provide for the payment for the value of products delivered and services performed in the event of an early termination.

Prepaid expenses and other current assets include direct and incremental costs such as commissions associated with arrangements for which revenue recognition has been deferred. Such costs are expensed at the time the related revenue is recognized.

USE OF ESTIMATES

The preparation of our financial statements in conformity with accounting principles generally accepted in the United States (GAAP) requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant items subject to such estimates and assumptions include the application of the percentage-of-completion and proportional performance methods of revenue recognition, the carrying amount and estimated useful lives of intangible assets, determination of share-based compensation expense and valuation allowance for receivables. Actual results could differ from estimates.

PROPERTY AND EQUIPMENT, NET

Property, equipment and purchased software are recorded at original cost and increased by the cost of any significant improvements after purchase. We expense maintenance and repairs when incurred. Depreciation and amortization is calculated using the straight-line method over the shorter of the asset s estimated useful life or the term of the lease in the case of leasehold improvements. For income tax purposes, we use accelerated depreciation methods as allowed by tax laws.

Table of Contents

RESEARCH AND DEVELOPMENT COSTS

We expensed research and development costs of $20.1 million during 2012, $16.4 million during 2011 and $14.0 million during 2010. We reduced our research and development expense by approximately $1.0 million in 2012, $3.5 million in 2011 and $5.1 million in 2010, which was the amount earned under the terms of our strategic alliance with a development partner.

INCOME TAXES

Income taxes are accounted for under the asset and liability method. Deferred taxes arise because of different treatment between financial statement accounting and tax accounting, known as temporary differences. We record the tax effect of these temporary differences as deferred tax assets (generally items that can be used as a tax deduction or credit in the future periods) and deferred tax liabilities (generally items that we received a tax deduction for, which have not yet been recorded in the income statement). The deferred tax assets and liabilities are measured using enacted tax rules and laws that are expected to be in effect when the temporary differences are expected to be recovered or settled. A valuation allowance would be established to reduce deferred tax assets if it is more likely than not that a deferred tax asset will not be realized.

SHARE-BASED COMPENSATION

We have a stock option plan that provides for the grant of stock options to key employees, directors and non-employee consultants. Stock options vest after three to six years of continuous service from the date of grant and have a contractual term of ten years. We account for share-based compensation utilizing the fair value recognition pursuant to ASC 718, Stock Compensation. See Note 10 Share-Based Compensation for further information.

GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill

Goodwill represents the excess of the purchase price over the fair value of net assets acquired, including identifiable intangible assets, in connection with our business combinations. Upon acquisition, goodwill is assigned to the reporting unit that is expected to benefit from the synergies of the business combination, which is the reporting unit to which the related acquired technology is assigned. A reporting unit is the operating segment, or a business unit one level below that operating segment, for which discrete financial information is prepared and regularly reviewed by executive management. We assess goodwill for impairment annually as of April, or more frequently whenever events or changes in circumstances indicate its carrying value may not be recoverable.

When testing goodwill for impairment quantitatively, we first compare the fair value of each reporting unit with its carrying amount. If the carrying amount of a reporting unit exceeds its fair value, a second step is performed to measure the amount of potential impairment. In the second step, we compare the implied fair value of reporting unit goodwill with the carrying amount of the reporting unit s goodwill. If the carrying amount of reporting unit goodwill exceeds the implied fair value of that goodwill, an impairment loss is recognized. The fair values calculated in our impairment tests are determined using discounted cash flow models involving several assumptions. The assumptions that are used are based upon what we believe a hypothetical marketplace participant would use in estimating fair value. We evaluate the reasonableness of the fair value calculations of our reporting units by comparing the total of the fair value of all of our reporting units to our total market capitalization.

In the first quarter of 2012, ASU 2011-08, Testing Goodwill for Impairment became effective. ASU 2011-08 allows entities testing goodwill for impairment the option of performing a qualitative assessment before calculating the fair value of a reporting unit (i.e., the first step of the goodwill impairment test). If entities determine, on the basis of qualitative factors, that the fair value of the reporting unit is more likely than not greater than the carrying amount, a quantitative calculation would not be needed.

Our annual goodwill impairment analysis, which we performed quantitatively during the second quarter of 2012, did not result in an impairment charge.

Other Intangible Assets

We make judgments about the recoverability of purchased intangible assets other than goodwill whenever events or changes in circumstances indicate that an impairment may exist. Customer base constitutes approximately 80% of our purchased intangible assets other than goodwill. We review our customer turnover each year for indications of impairment. Our customer turnover has historically been very low. If indications of impairment are determined to exist, we measure the recoverability of assets by a comparison of the carrying amount of the asset to the estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of the assets exceeds their estimated future cash flows, an impairment charge is recognized for the amount by which the carrying amount of the assets exceeds the fair value of the assets. There have been no significant impairments of intangible assets in any of the periods presented.

Table of Contents

IMPAIRMENT OF LONG-LIVED ASSETS

We periodically evaluate whether current facts or circumstances indicate that the carrying value of our property and equipment or other long-lived assets to be held and used may not be recoverable. If such circumstances are determined to exist, we measure the recoverability of assets to be held and used by a comparison of the carrying amount of the asset or appropriate grouping of assets and the estimated undiscounted future cash flows expected to be generated by the assets. If the carrying amount of the assets exceeds their estimated future cash flows, an impairment charge is recognized for the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of would be separately presented in the balance sheet and reported at the lower of the carrying amount or fair value less costs to sell, and are no longer depreciated. The assets and liabilities of a disposed group classified as held for sale would be presented separately in the appropriate asset and liability sections of the balance sheet. There have been no significant impairments of long-lived assets in any of the periods presented.

COSTS OF COMPUTER SOFTWARE

We capitalize software development costs upon the establishment of technological feasibility and prior to the availability of the product for general release to customers. We did not capitalize any internal software development costs in 2012, 2011 or 2010. Software development costs primarily consist of personnel costs and rent for related office space. We begin to amortize capitalized costs when a product is available for general release to customers. Amortization expense is determined on a product-by-product basis at a rate not less than straight-line basis over the product s remaining estimated economic life, but not to exceed five years.

FAIR VALUE OF FINANCIAL INSTRUMENTS

Cash and cash equivalents, accounts receivables, accounts payables, short-term obligations and certain other assets at cost approximate fair value because of the short maturity of these instruments. Our investments available-for-sale are recorded at fair value as of December 31, 2012 based upon the level of judgment associated with the inputs used to measure their fair value. See Note 3 Fair Value of Financial Instruments for further information. The fair value of our revolving line of credit approximates book value as of December 31, 2012, because our interest rates reset approximately every 30 days or less. See Note 7 Revolving Line of Credit for further discussion.

CONCENTRATIONS OF CREDIT RISK AND UNBILLED RECEIVABLES

Financial instruments that potentially subject us to significant concentrations of credit risk consist principally of cash and cash equivalents, investments in auction rate securities and accounts receivable from trade customers. Our cash and cash equivalents primarily consists of operating account balances and money market fund investments which are maintained at one major financial institution and the balances often exceed insured amounts. As of December 31, 2012 we had cash and cash equivalents of $6.4 million. We perform periodic evaluations of the credit standing of this financial institution.

Concentrations of credit risk with respect to receivables are limited due to the size and geographical diversity of our customer base. Historically, our credit losses have not been significant. As a result, we do not believe we have any significant concentrations of credit risk as of December 31, 2012.

We maintain allowances for doubtful accounts and sales adjustments, which are provided at the time the revenue is recognized. Since most of our customers are domestic governmental entities, we rarely incur a loss resulting from the inability of a customer to make required payments. Events or changes in circumstances that indicate that the carrying amount for the allowances for doubtful accounts and sales adjustments may require revision, include, but are not limited to, deterioration of a customer s financial condition, failure to manage our customer s expectations regarding the scope of the services to be delivered, and defects or errors in new versions or enhancements of our software products.

The following table summarizes the changes in the allowances for doubtful accounts and sales adjustments:

	Years ended December 31,		
	2012	2011	2010
Balance at beginning of year	$ 990	$ 1,603	$ 2,389
Provisions for losses - accounts receivable	961	805	1,161
Collection of accounts previously reserved		(142)	4
Deductions for accounts charged off or credits issued	(330)	(1,276)	(1,951)

Balance at end of year	$ 1,621	$ 990	$ 1,603

The termination clauses in most of our contracts provide for the payment for the value of products delivered or services performed in the event of early termination. Our property appraisal outsourcing service contracts can range up to three years and, in a few cases, as long as five years, in duration. In connection with these contracts, as well as certain software service contracts, we may perform work prior to when the software and services are billable and/or payable pursuant to the contract. We have historically recorded such unbilled receivables (costs and estimated profit in excess of billings) in connection with (1) property appraisal services contracts accounted for using proportional performance accounting in which the revenue is earned based upon activities performed in one accounting period but the billing normally occurs subsequently and may span another accounting period; (2) software services contracts accounted for using the percentage-of-completion method of revenue recognition using labor hours as a measure of progress towards completion in which the services are performed in one accounting period but the billing for the software element of the arrangement may be based upon the specific phase of the implementation; (3) software revenue for which we have objective evidence that the customer-specified objective criteria has been met but the billing has not yet been submitted to the customer; (4) some of our contracts provide for an amount to be withheld from a progress billing (generally a 10% retention) until final and satisfactory project completion is achieved; and (5) in a limited number of cases, we may grant extended payment terms generally to existing customers with whom we have a long-term relationship and favorable collection history.

In connection with this activity, we have recorded unbilled receivables of $11.8 million and $7.2 million at December 31, 2012 and 2011, respectively. We also have recorded retention receivables of $1.3 million and $1.9 million at December 31, 2012 and 2011, respectively, and these retentions become payable upon the completion of the contract or completion of our field work and formal hearings. Unbilled receivables and retention receivables expected to be collected in excess of one year have been included with accounts receivable, long-term portion in the accompanying consolidated balance sheets.

INDEMNIFICATION

Most of our software license agreements indemnify our customers in the event that the software sold infringes upon the intellectual property rights of a third party. These agreements typically provide that in such event we will either modify or replace the software so that it becomes non-infringing or procure for the customer the right to use the software. We have recorded no liability associated with these indemnifications, as we are not aware of any pending or threatened infringement actions that are possible losses. We believe the estimated fair value of these intellectual property indemnification clauses is minimal.

We have also agreed to indemnify our officers and board members if they are named or threatened to be named as a party to any proceeding by reason of the fact that they acted in such capacity. We maintain directors and officers insurance coverage to protect against any such losses. We have recorded no liability associated with these indemnifications. Because of our insurance coverage, we believe the estimated fair value of these indemnification agreements is minimal.

(2) ACQUISITIONS

2012

In November 2012, we acquired all of the capital stock of EnerGov Solutions, L.L.C. (EnerGov) which develops and sells enterprise permitting, land management, licensing and regulatory software solutions to governmental agencies. The purchase price, net of cash acquired of $15,000 was $10.5 million in cash and 60,000 shares of Tyler common stock valued at $2.8 million, based on the stock price on the acquisition date. In connection with this transaction we acquired total tangible assets of approximately $2.9 million and assumed liabilities of approximately $2.1 million. We have recorded goodwill of approximately $7.2 million, all of which is expected to be deductible for tax purposes, and other intangible assets of approximately $5.2 million. The $5.2 million of intangible assets is attributable to customer relationships, acquired software and trade name that will be amortized over a weighted average period of approximately nine years. We believe this transaction will broaden our portfolio of citizen services software solutions and that likely market participants for this transaction would be software companies with a presence in the citizen services market. Therefore, the goodwill of $7.2 million arising from this acquisition is primarily attributed to our ability to integrate EnerGov software solutions with our existing portfolio and maximize the value of the customer base through Tyler s software product suite that targets the citizen services software market and to a much lesser extent, the assembled workforce of EnerGov. As of December 31, 2012, the purchase price allocation for EnerGov is not yet complete. The preliminary estimates of fair value assumed at the acquisition date are subject to change as valuations are finalized.

In April 2012, we acquired all of the capital stock of Computer Software Associates, Inc. (CSA) for a cash purchase price of $9.4 million, net of cash acquired of $437,000. CSA is a reseller of Tyler s Infinite Visions school enterprise solution, and sells proprietary CSA tax and recording solutions to county governments, primarily in the Northwest. In connection with this transaction we acquired total tangible assets of approximately $1.3 million and assumed liabilities of approximately $1.9 million. We recorded goodwill of approximately $4.6 million, all of which is expected to be deductible for tax purposes, and other intangible assets of approximately $5.3 million. The $5.3 million of intangible assets is attributable to customer relationships, acquired software and trade name that will be amortized over a weighted average period of approximately 11 years.

In March 2012, we acquired all the capital stock of UniFund, L.L.C. (UniFund) for a cash purchase price of $4.6 million, net of cash acquired of $780,000. UniFund provides enterprise resource planning solutions to schools and local governments, primarily in the Northeast. UniFund is also a reseller of Tyler s Infinite Visions school enterprise solution. In connection with this transaction we acquired total tangible assets of approximately $745,000 and assumed liabilities of approximately $1.5 million. We recorded goodwill of approximately $1.1 million, all of which is expected to be deductible for tax purposes, and other intangible assets of approximately $4.3 million. The $4.3 million of intangible assets is attributable to customer relationships and acquired software that will be amortized over a weighted average period of approximately 11 years.

We recorded combined goodwill of approximately $5.7 million in connection with the acquisitions of CSA and UniFund, which are both resellers of Tyler s Infinite Visions school enterprise solution. We believe likely market participants for these transactions would be software companies with a presence in the K-12 school market. Therefore, the combined goodwill of $5.7 million arising from these acquisitions is primarily attributed to our ability to maximize the value of the customer base through Tyler s software product suite that targets the K-12 school market and to a much lesser extent, the assembled workforces of CSA and UniFund.

The operating results of EnerGov, CSA and UniFund are included with the operating results of the Enterprise Software Solutions segment since their dates of acquisition.

In January 2012, we acquired substantially all of the assets of Akanda Innovation, Inc., a provider of web-based solutions to the public sector which are integrated with our property tax software, for a total purchase price of $2.9 million. The purchase price included certain liabilities we assumed of approximately $800,000, resulting in net cash paid to the sellers of $2.1 million, of which $900,000 was paid prior to December 31, 2011. We recorded goodwill of approximately $1.0 million, all of which is expected to be deductible for tax purposes, and acquired software of approximately $1.9 million that will be amortized over five years. The operating results of Akanda are included with the operating results of the Appraisal and Tax Software Solutions and Services segment since the date of acquisition.

2011

In October 2011, we acquired all of the capital stock of Windsor Management Group, L.L.C. (Windsor) for a cash purchase price of $16.4 million, net of cash acquired of $7.4 million. Windsor provides Infinite Visions suite of school enterprise solutions for the K-12 education market, primarily in the Southwest.

2010

In January 2010 we acquired all of the assets of Wiznet, Inc. (Wiznet) for a cash purchase price of $9.5 million. Wiznet provides electronic document filing solutions for courts and law offices throughout the United States and is integrated with our primary courts and justice solution.

(3) FAIR VALUE OF FINANCIAL INSTRUMENTS

Assets recorded at fair value in the balance sheet as of December 31, 2012 are categorized based upon the level of judgment associated with the inputs used to measure their fair value. Hierarchical levels, defined by ASC 820, Fair Value Measurements and Disclosures, are directly related to the amount of subjectivity associated with the inputs to fair valuation of these assets, are as follows:

Level 1	Inputs are unadjusted, quoted prices in active markets for identical assets or liabilities at the measurement date;
Level 2	Inputs other than Level 1 inputs that are either directly or indirectly observable; and
Level 3	Unobservable inputs, for which little or no market data exist, therefore requiring an entity to develop its own assumptions.

Table of Contents

As of December 31, 2012 we held investments available-for-sale that are required to be measured at fair value on a recurring basis. The following tables summarize the fair value of these financial assets as well as cash and cash equivalents:

	December 31, 2012			
	Total	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Cash and cash equivalents	$ 6,406	$ 6,406	$	$
Investments available-for-sale	2,037			2,037
Total	$ 8,443	$ 6,406	$	$ 2,037

	December 31, 2011			
	Total	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Cash and cash equivalents	$ 1,326	$ 1,326	$	$
Investments available-for-sale	1,978	25		1,953
Total	$ 3,304	$ 1,351	$	$ 1,953

Cash and cash equivalents consist of cash on deposit with a bank and money market funds with original maturity dates of three months or less, for which we determine fair value through quoted market prices. These money market funds did not experience any declines in fair value in 2012.

Investments available-for-sale consist of two auction rate municipal securities (ARS) which are collateralized debt obligations supported by municipal agencies and do not include mortgage-backed securities. These ARS are debt instruments with stated maturities of 19 and 29 years, for which the interest rate is designed to be reset through Dutch auctions approximately every 30 days. However, due to events in the credit markets, auctions for these securities have not occurred since February 2008. Both of our ARS have had very small partial redemptions at par in the period from July 2009 through July 2012. As of December 31, 2012 we have continued to earn and collect interest on both of our ARS.

Because quoted prices in active markets are no longer available we determined the estimated fair values of these securities utilizing a discounted trinomial model. The model considers the probability of three potential occurrences for each auction event through the maturity date of each ARS. The three potential outcomes for each auction are (i) successful auction/early redemption, (ii) failed auction and (iii) issuer default. Inputs in determining the probabilities of the potential outcomes include but are not limited to, the securities collateral, credit rating, insurance, issuer s financial standing, contractual restrictions on disposition and the liquidity in the market. The fair value of each ARS is determined by summing the present value of the probability-weighted future principal and interest payments determined by the model. Since there can be no assurances that auctions for these securities will be successful in the near future, we have classified our ARS as non-current investments.

The par and carrying values, and related cumulative unrealized loss for our non-current ARS as of December 31, 2012 are as follows:

	Par Value	Temporary Impairment	Carrying Value
Non-current investments available-for-sale	$ 2,450	$ 413	$ 2,037

In association with this estimate of fair value, we have recorded an after-tax temporary unrealized gain on our non-current ARS of $87,000, net of related tax effects of $47,000 in 2012, which is included in accumulated other comprehensive loss on our balance sheet. We consider the impairment in our ARS as temporary because we do not have the intent to sell, nor is it more-likely-than-not that we will be required to sell these securities before recovery of their cost basis. We believe that this temporary decline in fair value is due entirely to liquidity issues, because the underlying assets of these securities are supported by municipal agencies and do not include mortgage-backed securities, have redemption features which call for redemption at 100% of par value and have a current credit rating of A or AA. The ratings on the ARS take into account credit support through insurance policies guaranteeing each of the bonds payment of principal and accrued interest, if it becomes necessary. In addition, both ARS have had very small partial redemptions at par in the period July 2009 through July 2012. Based on our cash and cash equivalents balance, expected operating cash flows, and a $150.0 million credit line, we do not believe a lack of liquidity associated with our ARS will adversely affect our ability to conduct business, and believe we have the ability to hold the securities throughout the currently estimated recovery period. We will continue to evaluate any changes in the fair value of our ARS and in the future, depending upon existing market conditions, we may be required to record an other-than-temporary decline in market value.

The following table reflects the activity for assets measured at fair value using Level 3 inputs for the years ended December 31:

Balance as of December 31, 2009	$ 1,976
Transfers into level 3	
Transfers out of level 3	(25)
Purchases, sales issuances and settlements	(25)
Unrealized gains included in accumulated loss	200
Balance as of December 31, 2010	2,126
Transfers into level 3	
Transfers out of level 3	(25)
Purchases, sales issuances and settlements	(25)
Unrealized losses included in accumulated loss	(123)
Balance as of December 31, 2011	1,953
Transfers into level 3	
Purchases, sales issuances and settlements	(50)
Transfers out of level 3	
Unrealized gains included in accumulated loss	134
Balance as of December 31, 2012	$ 2,037

(4) PROPERTY AND EQUIPMENT, NET

Property and equipment, net consists of the following at December 31:

	Useful Lives (years)	2012	2011
Land		$ 7,800	$ 7,549
Building and leasehold improvements	5-39	33,299	29,299
Computer equipment and purchased software	3-5	24,036	21,303
Furniture and fixtures	5	8,108	7,656
Transportation equipment	5	274	248
		73,517	66,055
Accumulated depreciation and amortization		(28,136)	(25,140)
Property and equipment, net		$ 45,381	$ 40,915

Depreciation expense was $5.6 million during 2012, $5.3 million during 2011, and $5.1 million during 2010. In May 2012 we purchased land and a building in Moraine, Ohio to support our appraisal and tax operations for a purchase price of $2.6 million, which was comprised of $1.7 million in cash and land and a building valued at $900,000.

Table of Contents

We own office buildings in Yarmouth, Maine, Lubbock, Texas, and Moraine, Ohio. We lease some space in these buildings to third-party tenants. These leases expire between 2013 and 2017 and are expected to provide rental income of approximately $512,000 during 2013, $335,000 during 2014, $178,000 during 2015, $100,000 during 2016, and $67,000 during 2017. Rental income associated with third party tenants was $586,000 in 2012, $1.2 million in 2011 and $1.4 million in 2010, and was included as a reduction of selling, general and administrative expenses.

(5) GOODWILL AND OTHER INTANGIBLE ASSETS

Other intangible assets and related accumulated amortization consists of the following at December 31:

	2012	2011
Gross carrying amount of acquisition intangibles:		
Customer related intangibles	$ 60,547	$ 50,552
Software acquired	32,003	26,363
Trade name	3,272	2,211
Lease acquired	1,387	1,387
	97,209	80,513
Accumulated amortization	(51,489)	(45,045)
Acquisition intangibles, net	$ 45,720	$ 35,468
Post acquisition software development costs	$ 36,701	$ 36,701
Accumulated amortization	(36,621)	(36,541)
Post acquisition software costs, net	$ 80	$ 160
Total other intangibles	$ 45,800	$ 35,628

Total amortization expense, for acquisition related intangibles and post acquisition software development costs, was $6.5 million during 2012, $4.9 million during 2011, and $5.5 million during 2010.

The allocation of acquisition intangible assets is summarized in the following table:

	December 31, 2012			December 31, 2011		
	Gross Carrying Amount	Weighted Average Amortization Period	Accumulated Amortization	Gross Carrying Amount	Weighted Average Amortization Period	Accumulated Amortization
Non-amortizable intangibles:						
Goodwill	$ 119,956		$	$ 106,094		$
Amortizable intangibles:						
Customer related intangibles	60,547	15 years	24,554	50,552	16 years	20,409
Software acquired	32,003	5 years	24,505	26,363	5 years	22,617
Trade name	3,272	15 years	1,182	2,211	18 years	1,048
Lease acquired	1,387	5 years	1,248	1,387	5 years	971

Table of Contents

The changes in the carrying amount of goodwill for the two years ended December 31, 2012 are as follows:

	Enterprise Software Solutions	Appraisal and Tax Software Solutions and Services	Total
Balance as of December 31, 2010	$ 87,241	$ 5,590	$ 92,831
Goodwill acquired during the year related to the purchase of Windsor	13,263		13,263
Balance as of December 31, 2011	100,504	5,590	106,094
Goodwill acquired during the year related to the purchase of Akanda		967	967
Goodwill acquired during the year related to the purchase of UniFund	1,055		1,055
Goodwill acquired during the year related to the purchase of CSA	4,634		4,634
Goodwill acquired during the year related to the purchase of EnerGov	7,206		7,206
Balance as of December 31, 2012	$ 113,399	$ 6,557	$ 119,956

Estimated annual amortization expense relating to acquisition intangibles, including acquired software for which the amortization expense is recorded as cost of revenues and acquired leases for which amortization expense is recorded as selling, general and administrative expenses, is as follows:

Years ending December 31,	
2013	$ 6,757
2014	6,282
2015	6,103
2016	6,014
2017	5,037

(6) ACCRUED LIABILITIES

Accrued liabilities consist of the following at December 31:

	2012	2011
Accrued wages, bonuses and commissions	$ 17,875	$ 16,971
Other accrued liabilities	6,724	6,510
Accrued health claims	1,479	1,270
	$ 26,078	$ 24,751

(7) REVOLVING LINE OF CREDIT

On August 11, 2010, we entered into a new $150.0 million Credit Agreement (the Credit Facility) and a related pledge and security agreement with a group of seven financial institutions, with Bank of America, N.A., as Administrative Agent. The Credit Facility provides for a revolving credit line of $150.0 million (which may be increased up to $200.0 million subject to our obtaining commitments for such increase), with a $25.0 million sublimit for letters of credit. The Credit Facility matures on August 11, 2014. Borrowings under the Credit Facility may be used for general corporate purposes, including working capital requirements, acquisitions and share repurchases.

Borrowings under the Credit Facility bear interest at a rate of either (1) the Bank of America s prime rate plus a margin of 1.50% to 2.75% or (2) the 30, 60, 90 or 180-day LIBOR rate plus a margin of 2.50% to 3.75%, with the margin determined by our consolidated leverage ratio. In 2012 and 2011, our effective average interest rate for borrowings was 3.4% and 3.3%, respectively. As of December 31, 2012, our interest rate was 2.7%. The Credit Facility is secured by substantially all of our assets, excluding real property. The Credit Facility requires us to maintain certain financial ratios and other financial conditions and prohibits us from making certain investments, advances, cash dividends or loans, and limits incurrence of additional indebtedness and liens. As of December 31, 2012, we were in compliance with those covenants.

Table of Contents

As of December 31, 2012, we had $18.0 million in outstanding borrowings and unused available borrowing capacity of $126.1 million under the Credit Facility. In addition, as of December 31, 2012, we had outstanding letters of credit totaling $5.9 million. Some of our customers, primarily those for our property appraisal services, require that we obtain performance bonds in connection with our contracts. The maximum potential amount of an outstanding performance bond would be the remaining cost of work to be performed under our contracts. The notional amount of performance guarantees outstanding as of December 31, 2012 was estimated to be $35.1 million. We provide letters of credit as security for the issuance of performance bonds. These letters of credit are issued under our revolving line of credit and reduce our available borrowing capacity. We do not believe these letters of credit will be required to be drawn upon. These letters of credit expire in 2013.

We paid interest of $2.0 million in 2012 and $1.9 million in 2011.

(8) INCOME TAX

The income tax provision (benefit) on income from operations consists of the following:

	Years ended December 31,		
	2012	2011	2010
Current:			
Federal	$ 19,113	$ 17,239	$ 13,552
State	1,976	2,233	2,252
	21,089	19,472	15,804
Deferred	(215)	(2,916)	(959)
	$ 20,874	$ 16,556	$ 14,845

Reconciliation of the U.S. statutory income tax rate to our effective income tax expense rate for operations follows:

	Years ended December 31,		
	2012	2011	2010
Federal income tax expense at statutory rate	$ 18,854	$ 15,440	$ 13,965
State income tax, net of federal income tax benefit	1,365	1,238	1,218
Non-deductible business expenses	1,087	918	976
Qualified manufacturing activities	(717)	(840)	(728)
Research and development credit		(177)	(579)
Other, net	285	(23)	(7)
	$ 20,874	$ 16,556	$ 14,845

Approximately 35% of our stock option expense is derived from incentive stock options (ISOs). As such, a tax benefit is not recorded at the time the compensation cost related to the options is recorded for book purposes due to the fact that an ISO does not ordinarily result in a tax benefit unless there is a disqualifying disposition. Stock option grants of non-qualified options result in the creation of a deferred tax asset, which is a temporary difference, until the time that the option is exercised. Due to the treatment of ISOs for tax purposes, our effective tax rate from year to year is subject to variability.

The tax effects of the major items recorded as deferred tax assets and liabilities as of December 31 are:

	2012	2011
Deferred income tax assets:		
Operating expenses not currently deductible	$ 4,992	$ 4,597
Stock option and other employee benefit plans	5,666	5,156
Capital loss carryforward	145	203
Property and equipment	531	397
Total deferred income tax assets	11,334	10,353
Deferred income tax liabilities:		
Intangible assets	(10,868)	(10,043)
Other	(143)	(156)
Total deferred income tax liabilities	(11,011)	(10,199)
Net deferred income tax asset	$ 323	$ 154

Although realization is not assured, we believe it is more likely than not that all the deferred tax assets at December 31, 2012 and 2011 will be realized. Accordingly, we believe no valuation allowance is required for the deferred tax assets. However, the amount of the deferred tax asset considered realizable could be adjusted in the future if estimates of reversing taxable temporary differences are revised.

No reserves for uncertain income tax positions have been recorded pursuant to ASC 740-10, Income Taxes.

The Internal Revenue Service (IRS) is examining our U.S. income tax return for the year 2010. We are unable to make a reasonable estimate as to when cash settlements related to the examination, if any, will occur.

We are subject to U.S. federal tax as well as income tax of multiple state and local jurisdictions. We are no longer subject to United States federal income tax examinations for years before 2009. We are no longer subject to state and local income tax examinations by tax authorities for the years before 2008.

We paid income taxes, net of refunds received, of $13.1 million in 2012, $13.4 million in 2011, and $15.8 million in 2010.

(9) SHAREHOLDERS EQUITY

The following table details activity in our common stock:

	Years ended December 31,					
	2012		2011		2010	
	Shares	Amount	Shares	Amount	Shares	Amount
Stock option exercises	1,218	$ 12,443	582	$ 3,553	615	$ 3,181
Purchases of common stock			(3,004)	(71,802)	(3,559)	(65,793)
Employee stock plan purchases	81	2,641	100	2,045	118	1,825
Shares issued for acquisition	60	2,815				

As of February 18, 2013 we had authorization from our board of directors to repurchase up to 1.7 million additional shares of our common stock.

Table of Contents

(10) SHARE-BASED COMPENSATION

Share-Based Compensation Plan

We have a stock option plan that provides for the grant of stock options to key employees, directors and non-employee consultants. Stock options vest after three to six years of continuous service from the date of grant and have a contractual term of ten years. Once options become exercisable, the employee can purchase shares of our common stock at the market price on the date we granted the option. We account for share-based compensation utilizing the fair value recognition pursuant to ASC 718, Stock Compensation.

As of December 31, 2012, there were 2.6 million shares available for future grants under the plan from the 16.0 million shares previously approved by the stockholders.

Determining Fair Value of Stock Compensation

Valuation and Amortization Method. We estimate the fair value of share-based awards granted using the Black-Scholes option valuation model. We amortize the fair value of all awards on a straight-line basis over the requisite service periods, which are generally the vesting periods.

Expected Life. The expected life of awards granted represents the period of time that they are expected to be outstanding. As provided by ASC 718-10 we use the simplified method which is allowed for those companies that cannot reasonably estimate expected life of options based on its historical share option exercise experience. We use the simplified method to estimate expected life due to insufficient historical exercise data for the current optionee group. This optionee group has not been in place long enough to generate sufficient historical data to estimate the expected period of time an option award would be expected to be outstanding.

Expected Volatility. Using the Black-Scholes option valuation model, we estimate the volatility of our common stock at the date of grant based on the historical volatility of our common stock.

Risk-Free Interest Rate. We base the risk-free interest rate used in the Black-Scholes option valuation model on the implied yield currently available on U.S. Treasury zero-coupon issues with an equivalent remaining term equal to the expected life of the award.

Expected Dividend Yield. We have not paid any cash dividends on our common stock in the last ten years and we do not anticipate paying any cash dividends in the foreseeable future. Consequently, we use an expected dividend yield of zero in the Black-Scholes option valuation model.

Expected Forfeitures. We use historical data to estimate pre-vesting option forfeitures. We record share-based compensation only for those awards that are expected to vest.

The following weighted average assumptions were used for options granted:

	Years ended December 31,		
	2012	2011	2010
Expected life (in years)	6.7	6.7	6.7
Expected volatility	32.6%	33.1%	35.0%
Risk-free interest rate	1.0%	1.7%	2.7%
Expected forfeiture rate	3%	3%	3%

F-21

Table of Contents

The following table summarizes share-based compensation expense related to share-based awards which is recorded in the statements of comprehensive income:

	Years ended December 31, 2012	2011	2010
Cost of software services, maintenance and subscriptions	$ 1,084	$ 871	$ 739
Selling, general and administrative expense	6,327	5,382	5,393
Total share-based compensation expense	$ 7,411	$ 6,253	$ 6,132
Tax benefit	(2,040)	(1,545)	(1,475)
Net decrease in net income	$ 5,371	$ 4,708	$ 4,657

Stock Option Activity

Options granted, exercised, forfeited and expired are summarized as follows:

	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (Years)	Aggregate Intrinsic Value
Outstanding at December 31, 2009	5,704	$ 11.12		
Granted	765	18.82		
Exercised	(615)	5.17		
Forfeited	(18)	16.59		
Outstanding at December 31, 2010	5,836	12.74		
Granted	831	26.83		
Exercised	(582)	6.10		
Forfeited	(26)	15.78		
Outstanding at December 31, 2011	6,059	15.31		
Granted	930	43.53		
Exercised	(1,218)	10.22		
Forfeited	(60)	28.07		
Outstanding at December 31, 2012	5,711	20.86	7	$ 157,481
Exercisable at December 31, 2012	2,655	$ 13.10	5	$ 93,849

We had unvested options to purchase 2.8 million shares with a weighted average grant date exercise price of $27.20 as of December 31, 2012 and unvested options to purchase 2.7 million shares with a weighted average grant date exercise price of $19.35 as of December 31, 2011. As of December 31, 2012, we had $25.5 million of total unrecognized compensation cost related to unvested options, net of expected forfeitures, which is expected to be amortized over a weighted average amortization period of four years.

Other information pertaining to option activity was as follows during the twelve months ended December 31:

	2012	2011	2010
Weighted average grant-date fair value of stock options granted	$ 15.24	$ 9.91	$ 7.70
Total intrinsic value of stock options exercised	40,589	12,289	8,119

F-22

Table of Contents

Employee Stock Purchase Plan

Under our Employee Stock Purchase Plan (ESPP) participants may contribute up to 15% of their annual compensation to purchase common shares of Tyler. The purchase price of the shares is equal to 85% of the closing price of Tyler shares on the last day of each quarterly offering period. As of December 31, 2012, there were 1.1 million shares available for future grants under the ESPP from the 2.0 million shares previously approved by the stockholders.

(11) EARNINGS PER SHARE

Basic earnings and diluted earnings per share data were computed as follows:

	Years Ended December 31, 2012	2011	2010
Numerator for basic and diluted earnings per share:			
Net income	$ 32,994	$ 27,557	$ 25,054
Denominator:			
Weighted-average basic common shares outstanding	30,327	31,267	34,075
Assumed conversion of dilutive securities:			
Stock options	2,589	1,887	1,453
Denominator for diluted earnings per share - Adjusted weighted-average shares	32,916	33,154	35,528
Earnings per common share:			
Basic	$ 1.09	$ 0.88	$ 0.74
Diluted	$ 1.00	$ 0.83	$ 0.71

Stock options representing the right to purchase common stock of 463,000 shares in 2012, 714,000 shares in 2011, and 1.8 million shares in 2010 were not included in the computation of diluted earnings per share because their inclusion would have had an anti-dilutive effect.

(12) LEASES

We lease office facilities for use in our operations, as well as transportation, computer and other equipment. We also have an office facility lease agreement with an entity in which an executive s father and brother have a 100% ownership interest. The executive does not have an interest in the entity that leases the property to us and the lease arrangement existed at the time we acquired the business unit that occupies this property. Most of our leases are non-cancelable operating lease agreements and they expire at various dates through 2021. In addition to rent, the leases generally require us to pay taxes, maintenance, insurance and certain other operating expenses.

Rent expense was approximately $7.2 million in 2012, $5.9 million in 2011, and $5.4 million in 2010, which included rent expense associated with related party lease agreements of $1.7 million in 2012, $1.8 million in 2011 and $1.9 million in 2010.

Table of Contents

Future minimum lease payments under all non-cancelable leases at December 31, 2012 are as follows:

Years ending December 31,	
2013	$ 6,278
2014	4,519
2015	3,949
2016	3,682
2017	3,223
Thereafter	3,482
	$ 25,133

Included in future minimum lease payments are non-cancelable payments due to related parties of $1.7 million in 2013, $1.7 million in 2014, $1.7 million in 2015, $1.7 million in 2016, and $1.7 million in 2017.

(13) EMPLOYEE BENEFIT PLANS

We provide a defined contribution plan for the majority of our employees meeting minimum service requirements. The employees can contribute up to 30% of their current compensation to the plan subject to certain statutory limitations. We contribute up to a maximum of 3% of an employee s compensation to the plan. We made contributions to the plan and charged operating results $3.3 million during 2012, $2.9 million during 2011, and $2.8 million during 2010.

(14) COMMITMENTS AND CONTINGENCIES

Other than routine litigation incidental to our business and except as described in this Annual Report, there are no material legal proceedings pending to which we are party or to which any of our properties are subject.

During 2011, Tyler performed certain software services for a customer under a contractual arrangement with a total value of approximately $785,000. During 2012, this customer notified us that it was not going to accept our services and was considering a termination for cause. We had collected $575,000 to date from this customer. We believed the amounts collected and related services performed were valid under the terms of the arrangement. In January 2013, we settled the dispute and paid an immaterial amount that was less than cash previously collected from the customer.

(15) SEGMENT AND RELATED INFORMATION

We are a major provider of integrated information management solutions and services for the public sector, with a focus on local and state governments.

We provide our software systems and services and appraisal services through four business units which focus on the following products:

- financial management and education software solutions;
- financial management and municipal courts, and land and vital records software solutions;
- courts and justice software solutions; and

appraisal and tax software solutions and property appraisal services.

In accordance with ASC 280-10, Segment Reporting, the financial management and education software solutions unit, financial management and municipal courts and land and vital records software solutions unit and the courts and justice software solutions unit meet the criteria for aggregation and are presented in one reportable segment, Enterprise Software Solutions (ESS). The ESS segment provides municipal and county governments and schools with software systems and services to meet their information technology and automation needs for mission-critical back-office functions such as financial management and courts and justice processes. The Appraisal and Tax Software Solutions and Services (ATSS) segment provides systems and software that automate the appraisal and assessment of real and personal property as well as property appraisal outsourcing services for local governments and taxing authorities. Property appraisal outsourcing services include: the physical inspection of commercial and residential properties; data collection and processing; computer analysis for property valuation; preparation of tax rolls; community education; and arbitration between taxpayers and the assessing jurisdiction.

Table of Contents

We evaluate performance based on several factors, of which the primary financial measure is business segment operating income. We define segment operating income for our business units as income before noncash amortization of intangible assets associated with their acquisition, interest expense and income taxes. Segment operating income includes intercompany transactions. The majority of intercompany transactions relate to contracts involving more than one unit and are valued based on the contractual arrangement. Segment operating income for corporate primarily consists of compensation costs for the executive management team and certain accounting and administrative staff and share-based compensation expense for the entire company. Corporate segment operating income also includes revenues and expenses related to a company-wide user conference. The accounting policies of the reportable segments are the same as those described in Note 1, Summary of Significant Accounting Policies.

Segment assets include net accounts receivable, prepaid expenses and other current assets and net property and equipment. Corporate assets consist of cash and investments, prepaid insurance, intangibles associated with acquisitions, deferred income taxes and net property and equipment mainly related to unallocated information and technology assets. Segment assets reported in 2011 and 2010 have been reclassified to conform to current year presentation.

ESS segment capital expenditures in 2012 and 2011 included $3.0 million and $6.6 million, respectively for the construction of a new building and purchase of an existing building and land in connection with plans to consolidate workforces and support long-term growth. ATSS segment capital expenditures in 2012 included $2.6 million for the purchase of a building and land to support long-term growth.

As of and year ended December 31, 2012

	Enterprise Software Solutions	Appraisal and Tax Software Solutions and Services	Corporate	Totals
Revenues				
Software licenses	$ 31,304	$ 1,868	$	$ 33,172
Subscriptions	43,319	1,299		44,618
Software services	76,103	7,305		83,408
Maintenance	155,290	16,561		171,851
Appraisal services		22,543		22,543
Hardware and other	6,053		1,659	7,712
Intercompany	2,249		(2,249)	
Total revenues	$ 314,318	$ 49,576	$ (590)	$ 363,304
Depreciation and amortization expense	9,929	958	1,824	12,711
Segment operating income	71,135	8,498	(16,889)	62,744
Capital expenditures	5,469	3,382	1,865	10,716
Segment assets	$ 134,220	$ 18,464	$ 185,631	$ 338,315

Table of Contents

As of and year ended December 31, 2011

	Enterprise Software Solutions	Appraisal and Tax Software Solutions and Services	Corporate	Totals
Revenues				
Software licenses	$ 30,194	$ 2,400	$	$ 32,594
Subscriptions	30,400	760		31,160
Software services	60,840	8,777		69,617
Maintenance	130,999	15,499		146,498
Appraisal services		23,228		23,228
Hardware and other	5,199		1,095	6,294
Intercompany	2,103		(2,103)	
Total revenues	$ 259,735	$ 50,664	$ (1,008)	$ 309,391
Depreciation and amortization expense	8,516	650	1,510	10,676
Segment operating income	56,856	9,786	(15,669)	50,973
Capital expenditures	11,143	137	998	12,278
Segment assets	$ 119,595	$ 20,535	$ 155,261	$ 295,391

As of and year ended December 31, 2010

	Enterprise Software Solutions	Appraisal and Tax Software Solutions and Services	Corporate	Totals
Revenues				
Software licenses	$ 32,757	$ 2,156	$	$ 34,913
Subscriptions	22,975	323		23,298
Software services	58,371	9,969		68,340
Maintenance	120,764	14,891		135,655
Appraisal services		20,554		20,554
Hardware and other	5,727	6	135	5,868
Intercompany	1,978		(1,978)	
Total revenues	$ 242,572	$ 47,899	$ (1,843)	$ 288,628
Depreciation and amortization expense	8,903	683	1,202	10,788
Segment operating income	51,942	8,883	(14,367)	46,458
Capital expenditures	2,960	350	310	3,620
Segment assets	$ 100,508	$ 23,929	$ 139,595	$ 264,032

Reconciliation of reportable segment operating income to the Company s consolidated totals:	2012	2011	2010
Total segment operating income	$ 62,744	$ 50,973	$ 46,458
Amortization of acquired software	(1,888)	(1,125)	(1,592)
Amortization of customer and trade name intangibles	(4,279)	(3,331)	(3,225)
Other expense, net	(2,709)	(2,404)	(1,742)
Income before income taxes	$ 53,868	$ 44,113	$ 39,899

Table of Contents

(16) QUARTERLY FINANCIAL INFORMATION (unaudited)

The following table contains selected financial information from unaudited statements of income for each quarter of 2012 and 2011.

	Quarters Ended							
	2012				2011			
	Dec. 31	Sept. 30	June 30	Mar. 31	Dec. 31	Sept. 30	June 30	Mar. 31
Revenues	$ 95,368	$ 93,845	$ 91,368	$ 82,723	$ 82,079	$ 77,184	$ 76,735	$ 73,393
Gross profit	44,640	44,944	40,699	37,419	39,020	36,132	34,137	32,623
Income before income taxes	15,035	17,810	11,682	9,341	13,504	11,818	9,309	9,482
Net income	9,376	10,832	7,105	5,681	8,699	7,506	5,624	5,728
Earnings per diluted share	0.28	0.33	0.22	0.17	0.27	0.23	0.17	0.17
Shares used in computing diluted earnings per share	33,421	32,986	32,769	32,530	32,031	32,960	33,848	33,720