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, 2013

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.)**
5101 Tennyson Parkway Plano, Texas	**75024**
(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 $2,077,427,000 based on the reported last sale price of common stock on June 30, 2013, 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 13, 2014 was 32,925,000.

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 14, 2014.

Table of Contents

TYLER TECHNOLOGIES, INC.

FORM 10-K

TABLE OF CONTENTS

2

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 major areas of operations 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-filing), 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.

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.

Gartner estimates that state and local government application and vertical specific software spending will grow from $10.1 billion in 2014 to $11.5 billion in 2017. The professional services and support segments of the market, where our business is primarily focused, is expected to expand from $34.7 billion in 2014 to $37.3 billion in 2017. Application and vertical specific software sales in the primary and secondary education segments of the market is expected to expand from $1.7 billion in 2014 to $2.2 billion in 2017 while professional services and support are expected to grow from $2.3 billion in 2014 to $2.6 billion in 2017.

Table of Contents

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 and royalties;
- 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.

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.

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 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.

Table of Contents

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 through 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-filing are included in subscription-based revenues, and are derived from transaction fees and in some cases fixed fee arrangements.

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.

6

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 of features and functionality, 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. In 2010, we began providing e-filing for courts and law offices, which simplify the filing and management of court related documents. In late 2012, we signed a contract with the Texas Office of Court Administration to manage e-filing of court documents. In early 2013 the state of Texas issued an order mandating e-filing in civil cases beginning in January 2014. We expect this contract to provide a long-term recurring revenue stream of $17 million to $19 million annually when e-filing becomes mandatory beginning in 2014. We believe revenues from e-filing solutions will grow over time as more local and state governments begin mandating electronic document filings. We also 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 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. In addition, we have also broadened our offerings of consulting and business process reengineering services.

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 increasing 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 $253.6 million, or 61% of total revenues, in 2013. 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 $17.2 million in 2009 to $61.9 million in 2013.

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 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 focus 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 2013, approximately 46% 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, Infor Lawson, SAP AG, Affiliated Computer Services, Inc. (a unit of Xerox Corporation), SunGard Data Systems, Inc., Thomson Reuters Corporation, New World Systems, American Cadastre, LLC (AmCad) and Constellation Software, Inc. In addition, we sometimes compete with consulting and systems integration firms, 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 advantage. Local governmental units often are required to seek competitive proposals through a request for proposal process and some prospective clients use consultants to assist them with the proposal and vendor selection 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, 2013, our estimated revenue backlog was approximately $551.7 million, compared to $380.6 million at December 31, 2012. The backlog represents signed contracts under which the revenue has not been recognized as of year-end. Approximately $311.0 million, or 56%, of the backlog is expected to be recognized during 2014.

Table of Contents

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, 2013, we had 2,573 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 website. 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 website.

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 and profitability in 2014 and beyond. 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.

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.

12

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 have in the past been 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 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.

Table of Contents

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

Table of Contents

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 625,000 square feet of office space, of which 360,000 square feet is in office facilities we own. We 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, 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, 2013, we had approximately 1,776 stockholders of record. A number of our stockholders hold their shares in street name; therefore, there are substantially more than 1,776 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.

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	$ 61.60	$ 48.86
	Second Quarter	70.49	57.00
	Third Quarter	88.68	68.60
	Fourth Quarter	105.74	83.25
2014:	First Quarter (through February 13, 2014)	$ 107.99	$ 87.22

We did not pay any cash dividends in 2013 or 2012. 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, 2013.

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights as of December 31, 2013	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, 2013)
Equity compensation plans approved by security shareholders:			
Stock options	5,719,374	$ 34.66	1,139,755
ESPP	9,783	86.81	994,514
Equity compensation plans not approved by security shareholders			
	5,729,157	$ 34.75	2,134,269

As of December 31, 2013, 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, 2013. The repurchase program, which was approved by our board of directors, was announced in October 2002, and was amended in April 2003, 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, 2008. 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	12/31/08	12/31/09	12/31/10	12/31/11	12/30/12	12/30/13
Tyler Technologies, Inc.	100	166.19	173.29	251.34	404.34	852.50
S&P 500 Index	100	126.46	145.51	148.59	172.37	228.19
S&P 600 Information Technology Index	100	148.16	184.60	177.17	198.48	287.61

Table of Contents

ITEM 6. SELECTED FINANCIAL DATA.

(In thousands, except per share data)

	FOR THE YEARS ENDED DECEMBER 31,				
	2013	2012	2011	2010	2009
STATEMENT OF OPERATIONS DATA:					
Revenues	$ 416,643	$ 363,304	$ 309,391	$ 288,628	$ 290,286
Costs and expenses:					
Cost of revenues	223,440	195,602	167,479	160,311	161,523
Selling, general and administrative expenses	98,289	86,706	75,650	69,480	70,115
Research and development expense	23,269	20,140	16,414	13,971	11,159
Amortization of customer and trade name intangibles	4,517	4,279	3,331	3,225	2,705
Operating income	67,128	56,577	46,517	41,641	44,784
Other expense, net	(1,309)	(2,709)	(2,404)	(1,742)	(146)
Income from operations before income taxes	65,819	53,868	44,113	39,899	44,638
Income tax provision	26,718	20,874	16,556	14,845	17,628
Net income	$ 39,101	$ 32,994	$ 27,557	$ 25,054	$ 27,010
Net income per diluted share	$ 1.13	$ 1.00	$ 0.83	$ 0.71	$ 0.74
Weighted average diluted shares	34,590	32,916	33,154	35,528	36,624
STATEMENT OF CASH FLOWS DATA:					
Cash flows provided by operating activities	$ 66,090	$ 58,668	$ 56,435	$ 35,350	$ 42,941
Cash flows used by investing activities	(25,658)	(34,736)	(28,809)	(8,694)	(13,658)
Cash flows provided (used) by financing activities	32,038	(18,852)	(28,414)	(34,238)	(21,349)
BALANCE SHEET DATA:					
Total assets	$ 444,488	$ 338,666	$ 295,391	$ 264,032	$ 270,670
Revolving line of credit		18,000	60,700	26,500	
Shareholders equity	246,319	145,299	78,110	106,972	134,358

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, forecas estimates, plans, intends, continues, may, will, should, projects, might, could or other similar wor 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-filing). In 2010 we began providing e-filing for courts and law offices, which simplify the filing and management of court, related documents. Revenues for e-filing are derived from transaction fees and in some cases fixed fee arrangements. 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.

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 and royalties; subscription-based arrangements; software services; maintenance and appraisal services. Subscriptions and maintenance are considered recurring revenue sources and comprised approximately 61% of our revenue in 2013. 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 2013, 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 and royalties, 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, 2013, our total employee count increased to 2,573 from 2,388 at December 31, 2012.

Selling, General and Administrative (SG&A) Expenses The primary components of SG&A expenses are administrative and sales personnel salaries and commissions, share-based compensation expense, marketing 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 2013, we invested $26.9 million in property and equipment. Our investment in property and equipment included $20.3 million in connection with the construction of an office building in Plano, Texas. 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.

Outlook

We expect the trend of gradual improvements in the marketplace to continue in 2014. We have made significant investments in our business that we believe will enhance our market leadership and improve long-term revenue and margin growth.

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 and royalties, 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.

Our annual goodwill impairment analysis, which we performed quantitatively during the second quarter of 2013, did not result in an impairment charge. During 2013, we did not identify any triggering events which would require an update to our annual impairment review.

All intangible assets (other than goodwill) are reviewed for impairment 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 weighted-average period the stock options are expected to be outstanding based primarily on the options vesting terms, remaining contractual life and the employees expected exercise based on historical patterns. 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.

25

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, 2013, 2012 and 2011.

	Percentage of Total Revenue Years ended December 31,		
	2013	2012	2011
Revenue:			
Software licenses and royalties	9.8%	9.3%	10.5%
Subscriptions	14.8	12.3	10.1
Software services	22.4	23.0	22.5
Maintenance	46.0	47.3	47.4
Appraisal services	5.0	6.2	7.5
Hardware and other	2.0	1.9	2.0
Total revenue	100.0	100.0	100.0
Operating Expenses:			
Cost of software licenses, royalties and acquired software	1.1	1.1	1.3
Cost of software services, maintenance and subscriptions	47.9	47.2	46.5
Cost of appraisal services	3.3	4.1	4.7
Cost of hardware and other	1.3	1.4	1.6
Selling, general and administrative expenses	23.6	23.9	24.5
Research and development expense	5.6	5.5	5.3
Amortization of customer base and trade name intangibles	1.1	1.2	1.1
Operating income	16.1	15.6	15.0
Other expense	0.3	0.8	0.7
Income before income taxes	15.8	14.8	14.3
Income tax provision	6.4	5.7	5.4
Net income	9.4%	9.1%	8.9%

Table of Contents

2013 Compared to 2012

Revenues

Software licenses and royalties.

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

			Change	
($ in thousands)	2013	2012	$	%
ESS	$ 38,774	$ 32,060	$ 6,714	21%
ATSS	2,067	1,868	199	11
Total software licenses and royalties revenue	$ 40,841	$ 33,928	$ 6,913	20%

Since March 2012, we have acquired two companies which provide financial and human capital management software solutions to the K-12 education market and one company that provides enterprise permitting, land management, licensing and regulatory software solutions to governmental agencies. The results of these acquisitions are included in our ESS segment from the dates of their acquisitions. Excluding the impact of acquisitions, total software licenses and royalties revenue increased 12% compared to 2012. Approximately half of the growth was due to an increase of $2.3 million in royalties on sales of Microsoft Dynamics AX by other Microsoft partners compared to the prior year. We record royalty revenue when the fees are fixed or determinable, which is known when we receive notice of the amounts earned pursuant to our royalty arrangements which are generally 30 to 60 days after each quarterly reporting period. Royalty revenue is dependent upon sales volume from Microsoft partners, as well as the timing of maintenance renewals, and can vary substantially from period to period. Excluding the impact of acquisitions, software licenses grew 5% mainly due to increased investments in product development over the past few years. However, 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 100 new customers that entered into subscription-based arrangements in 2013 compared to 76 new customers in 2012.

Subscriptions.

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

			Change	
($ in thousands)	2013	2012	$	%
ESS	$ 59,070	$ 43,319	$ 15,751	36%
ATSS	2,794	1,299	1,495	115
Total subscriptions revenue	$ 61,864	$ 44,618	$ 17,246	39%

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-filing that simplify the filing and management of court related documents for courts and law offices. Revenues for e-filing are derived from transaction fees or in some cases fixed fee arrangements. 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 37% compared to 2012. New SaaS customers as well as existing customers who converted to our SaaS model provided the majority of the subscription-based revenue increase. In 2013, we added 100 new customers and 63 existing customers elected to convert to our SaaS model. E-filing services also contributed approximately $5.0 million of the subscription revenue increase. E-filing revenue included $3.8 million related to a new contract with the Texas Office of Court Administration for our Odyssey File and Serve e-filing system for Texas courts (e-File Texas.gov), which was implemented in September 2013. This contract is a fixed fee arrangement and we expect it will provide a long-term recurring revenue stream of $17 million to $19 million annually when e-filing becomes mandatory in Texas in 2014. The remaining e-filing revenue increase is mainly the result of existing clients expanding mandatory e-filing for court documents.

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)	2013	2012	$	%
ESS	$ 85,459	$ 76,103	$ 9,356	12%
ATSS	7,808	7,305	503	7
Total software services revenue	$ 93,267	$ 83,408	$ 9,859	12%

Software services revenues primarily consist 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 7% compared to 2012. The increase is partly due to growth in software license activity and due to contract arrangements that included more programming and other services.

Maintenance.

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

			Change	
($ in thousands)	2013	2012	$	%
ESS	$ 175,180	$ 155,290	$ 19,890	13%
ATSS	16,540	16,561	(21)	
Total maintenance revenue	$ 191,720	$ 171,851	$ 19,869	12%

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 2012. This increase was due to growth in our installed customer base from new software license sales and maintenance rate increases.

Appraisal services.

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

			Change	
($ in thousands)	2013	2012	$	%
ESS	$	$	$	%
ATSS	20,825	22,543	(1,718)	(8)

Total appraisal services revenue	$ 20,825	$ 22,543	$ (1,718)	(8)%

Appraisal services revenue declined 8% in 2013 compared to 2012. 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 in mid-2012 of a large contract in Pennsylvania. We expect appraisal revenues for 2014 will increase slightly compared to 2013.

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:

			Change	
($ in thousands)	2013	2012	$	%
Software licenses and royalties	$ 2,377	$ 1,983	$ 394	20%
Acquired software	2,078	1,888	190	10
Software services, maintenance and subscriptions	199,617	171,584	28,033	16
Appraisal services	13,809	14,889	(1,080)	(7)
Hardware and other	5,559	5,258	301	6
Total cost of revenues	$ 223,440	$ 195,602	$ 27,838	14%

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

Gross margin percentage	2013	2012	Change
Software licenses, royalties and acquired software	89.1%	88.6%	0.5%
Software services, maintenance and subscriptions	42.4	42.8	(0.4)
Appraisal services	33.7	34.0	(0.3)
Hardware and other	31.6	24.4	7.2
Overall gross margin	46.4%	46.2%	0.2%

Software licenses, royalties and acquired software. Costs of software licenses, royalties and acquired software are primarily comprised of third party software costs and amortization expense for software acquired through acquisitions. We do not have any direct costs associated with royalties. In 2013, our software licenses, royalties and acquired software gross margin percentage increased compared to 2012 mainly due to higher revenues from royalties. The margin also benefited from a product mix that included slightly more proprietary software revenues, which have a higher gross margin than third party software.

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-filing. 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. However, we accelerated hiring in 2013 to ensure that we were well-positioned to deliver our current backlog and anticipated new business. In late 2012, we signed a contract with the Texas Office of Court Administration for e-FileTexas.gov to manage e-filing of court documents. In early 2013 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 fixed fee basis but had very limited revenues in 2013 from e-FileTexas.gov. However, during 2013, we incurred expenses of approximately $3.3 million in connection with implementing the system in courts across the state. Excluding the limited revenues and cost incurred in connection with implementing e-FileTexas.gov in 2013, our software services, maintenance and subscription services gross margin would have been approximately 42.8%. Our implementation and support staff has increased by 202 employees since 2012. Most of these additions occurred mid-to late 2013.

Appraisal services. Appraisal services revenues are approximately 5% of total revenues. The appraisal services gross margin declined slightly compared to 2012. 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 2013 increased 0.2% from 2012. The increase was due to higher royalty revenue and also benefited from a product mix that included slightly higher proprietary software revenues than third party software. Costs incurred related to our implementation of e-FileTexas.gov with minimal related revenues as well as increased hiring of implementation and support staff in order to expand our capacity to implement our contract backlog offset some of the positive impact of higher royalty and proprietary software revenue.

Table of Contents

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)	2013	2012	$	%
Selling, general and administrative expenses	$ 98,289	$ 86,706	$ 11,583	13%

SG&A as a percentage of revenues was 23.6% in 2013 compared to 23.9% in 2012. Excluding costs from acquisitions, almost half of the SG&A expense increase is due to increased stock compensation expense resulting from the substantial increase in our stock price over the last twelve months and higher payroll taxes associated with increased stock option exercise activity. Commission expense has also increased compared to the prior year periods due to higher sales.

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)	2013	2012	$	%
Research and development expense	$ 23,269	$ 20,140	$ 3,129	16%

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 $3.1 million in 2013 compared to 2012. In 2013 we did not have any research and development expense offsets earned under the terms of our agreement with Microsoft compared to $1.0 million in research and development expense offsets in 2012.

30

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 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)	2013	2012	$	%
Amortization of customer and trade name intangibles	$ 4,517	$ 4,279	$ 238	6%

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):

2014	$ 4,515
2015	4,515
2016	4,515
2017	4,515
2018	4,366

Other

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

			Change	
($ in thousands)	2013	2012	$	%
Other expense, net	$ 1,309	$ 2,709	$ (1,400)	(52)%

Other expense is primarily comprised of interest expense, non-usage and other fees associated with our revolving line of credit agreement. Interest expense was lower in 2013 than 2012 because we maintained higher debt levels in 2012 associated primarily with several acquisitions completed from October 2011 through November 2012.

Income Tax Provision

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

			Change	
($ in thousands)	2013	2012	$	%
Income tax provision	$ 26,718	$ 20,874	$ 5,844	28%

Effective income tax rate	40.6%	38.8%

The effective income tax rates 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 dispositions and non-deductible meals and entertainment costs. We experienced significant stock option exercise activity in 2013 that generated $28.2 million excess tax benefits. Excess tax benefits reduce tax payments but do not significantly reduce the effective tax rate and can result in limitations on other deductions. In 2013, limitations resulting from excess tax benefits eliminated the qualified manufacturing activities deduction, which negatively impacted our effective tax rate.

Table of Contents

2012 Compared to 2011

Revenues

Software licenses and royalties.

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

($ in thousands)	2012	2011	Change $	%
ESS	$ 32,060	$ 30,194	$ 1,866	6%
ATSS	1,868	2,400	(532)	(22)
Total software licenses and royalties revenue	$ 33,928	$ 32,594	$ 1,334	4%

Excluding the impact of acquisitions, total software licenses and royalties revenue declined by 3% 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.

Subscriptions.

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

($ in thousands)	2012	2011	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%

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.

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%

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.

Table of Contents

Maintenance.

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

($ in thousands)	2012	2011	Change $	Change %
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%

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.

Appraisal services.

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

($ in thousands)	2012	2011	Change $	Change %
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 in mid-2012, of a large contract in Pennsylvania offset slightly by the start-up of smaller projects, including several in Ohio.

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:

			Change	
($ in thousands)	2012	2011	$	%
Software licenses and royalties	$ 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 licenses, royalties and acquired software	88.6%	87.2%	1.4%
Software services, maintenance and subscriptions	42.8	41.9	0.9
Appraisal services	34.0	37.4	(3.4)
Hardware and other	24.4	20.7	3.7
Overall gross margin	46.2%	45.9%	0.3%

Software licenses, royalties and acquired software. In 2012, our software license gross margin percentage increased compared to 2011 due to higher royalties and because our product mix included less third party software which offset higher amortization expense associated with acquisitions.

Software services, maintenance and subscription-based services. 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. 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.

Appraisal services. Appraisal services revenues are approximately 6% of total revenues. The appraisal services gross margin declined compared to 2011. 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 and higher royalties.

Selling, General and Administrative Expenses

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.

Table of Contents

Research and Development Expense

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%

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.

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:

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

In 2012, we completed four 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.

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%

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%		

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 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.

Table of Contents

FINANCIAL CONDITION AND LIQUIDITY

As of December 31, 2013, we had cash and cash equivalents of $78.9 million and investments available-for-sale of $1.3 million, compared to cash and cash equivalents of $6.4 million and investments available-for-sale of $2.0 million at December 31, 2012. As of December 31, 2013, we had no outstanding borrowings and an outstanding letter of credit totaling $2.0 million. Some of our customers require a letter of credit in connection with our contracts. The notional amount of performance guarantees outstanding secured by letter of credit as of December 31, 2013 was estimated to be approximately $29.0 million. We do not believe this letter of credit will be required to be drawn upon. We believe that cash from operating activities, cash on hand and access to the credit markets 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)	2013	2012	2011
Cash flows provided (used) by:			
Operating activities	$ 66,090	$ 58,668	$ 56,435
Investing activities	(25,658)	(34,736)	(28,809)
Financing activities	32,038	(18,852)	(28,414)
Net increase (decrease) in cash and cash equivalents	$ 72,470	$ 5,080	$ (788)

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 access to the credit markets are sufficient to fund our working capital requirements, capital expenditures, income tax obligations, and share repurchases for at least the next twelve months.

In 2013, operating activities provided net cash of $66.1 million, primarily generated from net income of $39.1 million, non-cash depreciation and amortization charges of $13.8 million and non-cash share-based compensation expense of $11.7 million. Cash from operations also benefited from timing of payments on wages and bonuses. In addition, deferred revenue balances were higher than 2012 due to an increase in annual software maintenance billings as a result of growth in our installed customer base and growth in subscription-based arrangements. These increases in liabilities were offset somewhat by higher accounts receivable balances from annual software maintenance billings, progress billings associated with large contracts and prepaid commissions on large contracts.

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.

At December 31, 2013, our days sales outstanding (DSOs) were 87 days compared to DSOs of 95 days at December 31, 2012. 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. Accounts receivable at December 31, 2012 included several large billings for retentions associated with appraisal contracts.

Investing activities used cash of $25.7 million in 2013 compared to $34.7 million in 2012. Investing activities in 2013 include $20.3 million paid in connection with the construction of an office building in Plano, Texas compared to $2.3 million in 2012. In 2012, we completed the acquisitions of Akanda Innovations, Inc., UniFund, L.L.C., Computer Software Associates, Inc. and EnerGov Solutions, L.L.C. 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. 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.

Financing activities in 2013 provided cash of $32.0 million compared to cash used by financing activities of $18.9 million in 2012. Financing activities in 2013 were comprised of $18.0 million in net payments on our revolving line of credit offset by collections of $21.8 million from stock option exercises and employee stock purchase plan activity and $28.2 million excess tax benefit from exercises of share-based arrangements. 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 and $8.8 million excess tax benefit from exercises of share-based arrangements.

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 2003, 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, 2013, 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.

In 2013, we issued 1.4 million shares of common stock and received $18.3 million in aggregate proceeds upon exercise of stock options. 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. In 2013, 2012 and 2011 we received $3.5 million, $2.6 million and $2.0 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.

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. 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, 2013, we were in compliance with those covenants.

As of December 31, 2013, we had no outstanding borrowings and unused available borrowing capacity of $148.0 million under the Credit Facility. In addition, as of December 31, 2013, our bank had issued an outstanding letter of credit totaling $2.0 million. This letter of credit reduces our available borrowing capacity and expires in 2014.

We paid income taxes, net of refunds received, of $9.3 million in 2013, $13.1 million in 2012 and $13.4 million in 2011. We experienced significant stock option exercise activity in 2013 that generated $28.2 million excess tax benefits. Excess tax benefits reduce tax payments but do not significantly reduce the effective tax rate and can result in limitations on other deductions. The majority of this excess tax benefit was generated in the last half of 2013 and as a result we anticipate a tax refund in 2014 for approximately $9.7 million. In 2012 and 2011, excess tax benefits were $8.8 million and $3.6 million, respectively.

Excluding acquisitions, we anticipate that 2014 capital spending will be between $12.0 million and $13.0 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 2014, but the actual amount and timing of those costs, and whether they are capitalized or expensed may result in additional capitalized software development. Capital spending is expected to be funded from existing cash balances and cash flows from operations.

Table of Contents

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.

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, 2013 (in thousands):

	2014	2015	2016	2017	2018	Thereafter	Total
Lease obligations	$ 5,680	$ 4,677	$ 4,415	$ 3,880	$ 1,731	$ 2,339	$ 22,722

As of December 31, 2013, 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, 2013, our capitalization consisted of no outstanding borrowings and $246.3 million of shareholders equity.

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, 2013 we had no outstanding borrowings under the Credit Facility. 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.

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, 2013. 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, 2013.

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, 2013. 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 (1992 framework)*. Based on our assessment, we concluded that, as of December 31, 2013, Tyler s internal control over financial reporting was effective based on those criteria.

Tyler s internal control over financial reporting as of December 31, 2013 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-1 hereof.

Changes in Internal Control Over Financial Reporting During the quarter ended December 31, 2013, 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.

Table of Contents

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 Our Independent Auditors for Fiscal Year 2014 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).

Table of Contents

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 (filed as Exhibit 10.3 to our Form 10-K for the year ended December 31, 2012 and incorporated by reference herein).
10.4	Employment and Non-Competition Agreement between Tyler Technologies, Inc. and Dustin R. Womble dated February 5, 2013 (filed as Exhibit 10.4 to our Form 10-K for the year ended December 31, 2012 and incorporated by reference herein).
10.5	Employment and Non-Competition Agreement between Tyler Technologies, Inc. and Brian K. Miller dated February 5, 2013 (filed as Exhibit 10.5 to our Form 10-K for the year ended December 31, 2012 and incorporated by reference herein).
10.6	Employment and Non-Competition Agreement between Tyler Technologies, Inc. and H. Lynn Moore dated February 5, 2013 (filed as Exhibit 10.6 to our Form 10-K for the year ended December 31, 2012 and incorporated by reference herein).

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.

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, 5101 Tennyson Parkway, Plano, Texas, 75024.

43

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 19, 2014	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 19, 2014	By: /s/ John S. Marr John S. Marr Chief Executive Officer and President Director (principal executive officer)
Date: February 19, 2014	By: /s/ John M. Yeaman John M. Yeaman Chairman of the Board
Date: February 19, 2014	By: /s/ Brian K. Miller Brian K. Miller Executive Vice President and Chief Financial Officer (principal financial officer)
Date: February 19, 2014	By: /s/ W. Michael Smith W. Michael Smith Vice President and Chief Accounting Officer (principal accounting officer)

Table of Contents

Date: February 19, 2014	By: /s/ Donald R. Brattain Donald R. Brattain Director
Date: February 19, 2014	By: /s/ J. Luther King J. Luther King Director
Date: February 19, 2014	By: /s/ G. Stuart Reeves G. Stuart Reeves Director
Date: February 19, 2014	By: /s/ Michael D. Richards Michael D. Richards Director
Date: February 19, 2014	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 Tyler Technologies, Inc. s internal control over financial reporting as of December 31, 2013, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (1992 framework) (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, 2013, 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, 2013 and 2012, 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, 2013 and our report dated February 19, 2014 expressed an unqualified opinion thereon.

ERNST & YOUNG LLP

Dallas, Texas

February 19, 2014

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, 2013 and 2012, 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, 2013. 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, 2013 and 2012, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2013, 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, 2013, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (1992 framework) and our report dated February 19, 2014 expressed an unqualified opinion thereon.

ERNST & YOUNG LLP

Dallas, Texas

February 19, 2014

Table of Contents

Tyler Technologies, Inc.

Consolidated Statements of Comprehensive Income

For the years ended December 31

(In thousands, except per share amounts)

	2013	2012	2011
Revenues:			
Software licenses and royalties	$ 40,841	$ 33,928	$ 32,594
Subscriptions	61,864	44,618	31,160
Software services	93,267	83,408	69,617
Maintenance	191,720	171,851	146,498
Appraisal services	20,825	22,543	23,228
Hardware and other	8,126	6,956	6,294
Total revenues	416,643	363,304	309,391
Cost of revenues:			
Software licenses and royalties	2,377	1,983	3,034
Acquired software	2,078	1,888	1,125
Software services, maintenance and subscriptions	199,617	171,584	143,776
Appraisal services	13,809	14,889	14,550
Hardware and other	5,559	5,258	4,994
Total cost of revenues	223,440	195,602	167,479
Gross profit	193,203	167,702	141,912
Selling, general and administrative expenses	98,289	86,706	75,650
Research and development expense	23,269	20,140	16,414
Amortization of customer and trade name intangibles	4,517	4,279	3,331
Operating income	67,128	56,577	46,517
Other expense, net	1,309	2,709	2,404
Income before income taxes	65,819	53,868	44,113
Income tax provision	26,718	20,874	16,556
Net income	$ 39,101	$ 32,994	$ 27,557
Earnings per common share:			
Basic	$ 1.23	$ 1.09	$ 0.88
Diluted	$ 1.13	$ 1.00	$ 0.83
Unrealized gains (losses) on investment securities available-for-sale	$ 341	$ 134	$ (123)

Income tax expense (benefit) related to components of other comprehensive income (loss)	119	47	(43)
Other comprehensive income (loss), net of tax	$ 222	$ 87	$ (80)
Comprehensive income	$ 39,323	$ 33,081	$ 27,477

See accompanying notes.

F-3

Table of Contents

Tyler Technologies, Inc.

Consolidated Balance Sheets

(In thousands, except par value and share amounts)

	December 31, 2013	December 31, 2012
ASSETS		
Current assets:		
Cash and cash equivalents	$ 78,876	$ 6,406
Accounts receivable (less allowance for losses of $1,113 in 2013 and $1,621 in 2012)	106,570	99,212
Prepaid expenses	13,522	9,000
Income tax receivable	9,721	406
Other current assets	787	1,074
Deferred income taxes	7,759	5,955
Total current assets	217,235	122,053
Accounts receivable, long-term portion	588	1,187
Property and equipment, net	64,844	45,381
Non-current investments available-for-sale	1,288	2,037
Other assets:		
Goodwill	121,011	121,011
Other intangibles, net	38,986	45,800
Sundry	536	1,197
	$ 444,488	$ 338,666
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 2,533	$ 3,167
Accrued liabilities	32,839	26,018
Deferred revenue	156,738	140,550
Total current liabilities	192,110	169,735
Revolving line of credit		18,000
Deferred income taxes	6,059	5,632
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 2013 and 2012	481	481
Additional paid-in capital	182,176	154,018
Accumulated other comprehensive loss, net of tax	(46)	(268)
Retained earnings	202,210	163,109

Treasury stock, at cost; 15,309,940 and 16,816,903 shares in 2013 and 2012, respectively		(138,502)		(172,041)
Total shareholders equity		246,319		145,299
	$	444,488	$	338,666

See accompanying notes.

F-4

Table of Contents

Tyler Technologies, Inc.

Consolidated Statements of Shareholders Equity

For the years ended December 31, 2013, 2012 and 2011

In thousands

	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Treasury Stock Shares	Treasury Stock Amount	Total Shareholders Equity
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
			8,798					8,798

Federal income tax benefit related to exercise of stock options								
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
Net Income					39,101			39,101
Unrealized gain on investment securities, net of tax				222				222
Issuance of shares pursuant to stock compensation plan			(13,742)			1,443	32,031	18,289
Stock compensation			11,653					11,653
Issuance of shares pursuant to Employee Stock Purchase Plan			2,034			64	1,508	3,542
Federal income tax benefit related to exercise of stock options			28,213					28,213
Balance at December 31, 2013	48,148	$ 481	$ 182,176	$ (46)	$ 202,210	(15,310)	$ (138,502)	$ 246,319

See accompanying notes.

F-5

Table of Contents

Tyler Technologies, Inc.

Consolidated Statements of Cash Flows

For the years ended December 31

(In thousands)

	2013	2012	2011
Cash flows from operating activities:			
Net income	$ 39,101	$ 32,994	$ 27,557
Adjustments to reconcile net income to net cash provided by operations:			
Depreciation and amortization	13,786	12,711	10,676
Share-based compensation expense	11,653	7,411	6,253
Provision for losses - accounts receivable	729	961	805
Excess tax benefit from exercises of share-based arrangements	(28,207)	(8,764)	(3,590)
Deferred income tax benefit	(1,497)	(215)	(2,916)
Changes in operating assets and liabilities, exclusive of effects of acquired companies:			
Accounts receivable	(7,488)	(6,825)	(8,544)
Income tax receivable	18,898	7,791	6,084
Prepaid expenses and other current assets	(4,154)	110	(214)
Accounts payable	(574)	(369)	575
Accrued liabilities	7,655	(530)	4,887
Deferred revenue	16,188	13,393	14,862
Net cash provided by operating activities	66,090	58,668	56,435
Cash flows from investing activities:			
Proceeds from sale of investments	1,090	75	50
Cost of acquisitions, net of cash acquired	(181)	(25,680)	(17,298)
Additions to property and equipment	(26,858)	(9,102)	(12,278)
Decrease (increase) in other	291	(29)	717
Net cash used by investing activities	(25,658)	(34,736)	(28,809)
Cash flows from financing activities:			
(Decrease) increase in net borrowings on revolving line of credit	(18,000)	(42,700)	34,200
Purchase of treasury shares			(71,802)
Contributions from employee stock purchase plan	3,542	2,641	2,045
Proceeds from exercise of stock options	18,289	12,443	3,553
Excess tax benefit from exercises of share-based arrangements	28,207	8,764	3,590
Net cash provided (used) by financing activities	32,038	(18,852)	(28,414)
Net increase (decrease) in cash and cash equivalents	72,470	5,080	(788)

Cash and cash equivalents at beginning of period	6,406	1,326	2,114
Cash and cash equivalents at end of period	$ 78,876	$ 6,406	$ 1,326

See accompanying notes.

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-filing). In addition, 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. All significant intercompany balances and transactions have been eliminated in consolidation.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of cash on deposit with a bank. 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

We earn revenue from software licenses, royalties, subscriptions, software services, post-contract customer support (PCS or maintenance), hardware and appraisal services.

Software Arrangements:

For the majority of our software arrangements, we provide services that range from installation, training, and basic consulting to software modification and customization to meet specific customer needs. 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. 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 and Royalties

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 and apply the provisions of the Construction Type and Production Type Contracts as discussed in ASC 605-35, Multiple Elements Arrangements. 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.

We recognize royalty revenue when earned under the terms of our third party royalty arrangements, provided the fees are considered fixed or determinable and realization of payment is probable. Currently, our third party royalties are variable in nature and such amounts are not considered fixed or determinable until we receive notice of amounts earned. Typically, we receive notice of royalty revenues earned on a quarterly basis in the immediate quarter following the royalty reporting period.

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.

Table of Contents

Post contract Customer Support

Our customers generally enter into PCS agreements when they purchase our software licenses. PCS includes telephone support, bug fixes, and rights to upgrades on a when-and-if available basis. 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.

Subscription-Based Services:

Subscription-based services consist of revenues derived from SaaS arrangements, which utilize the Tyler private cloud, and electronic filing transactions.

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. In cases where the customer has the contractual right to take possession of our software at any time during the hosting period without significant penalty and 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, 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. We recognize hosting services ratably over the term of the arrangement, which range from one to 10 years but are typically for a period of three to six years. 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 we have provided the customer access to the software and we may begin billing for 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. In some cases, we are paid on a fixed fee basis and recognize the revenue ratably over the contractual period.

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.

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.

Allocation of Revenue in Statements of Comprehensive Income

In our statements of comprehensive 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.

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.

RESEARCH AND DEVELOPMENT COSTS

We expensed research and development costs of $23.3 million during 2013, $20.1 million during 2012 and $16.4 million during 2011. We reduced our research and development expense by approximately $1.0 million in 2012 and,

$3.5 million in 2011, 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 generally 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.

Our annual goodwill impairment analysis, which we performed quantitatively during the second quarter of 2013, 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.

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. 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. We have not capitalized any internal software development costs in any of the periods presented.

Table of Contents

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, 2013 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.

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 available-for-sale and accounts receivable from trade customers. Our cash and cash equivalents primarily consists of operating account balances, which are maintained at one major financial institution and the balances often exceed insured amounts. As of December 31, 2013 we had cash and cash equivalents of $78.9 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, 2013.

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,		
	2013	2012	2011
Balance at beginning of year	$ 1,621	$ 990	$ 1,603
Provisions for losses accounts receivable	729	961	805
Collection of accounts previously reserved			(142)
Deductions for accounts charged off or credits issued	(1,237)	(330)	(1,276)
Balance at end of year	$ 1,113	$ 1,621	$ 990

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 $10.8 million and $11.8 million at December 31, 2013 and 2012, respectively. We also have recorded retention receivables of $2.6 million and $1.3 million at December 31, 2013 and 2012, 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.

Table of Contents

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.

RECLASSIFICATIONS

Certain amounts for previous years have been reclassified to conform to the current year presentation.

(2) ACQUISITIONS

2012

In November 2012, we acquired all of the capital stock of EnerGov Solutions, L.L.C. (EnerGov) that 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. As of December 31, 2012 the purchase price allocation was not yet complete. In March 2013, we finalized the purchase price allocation, which resulted in additional goodwill of $1.1 million and a corresponding reduction in tangible assets. The balance sheet at December 31, 2012 has been retrospectively revised to include this adjustment.

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., (Akanda) 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.

2011

In October 2011, we acquired all of the capital stock of Windsor Management Group, L.L.C. 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.

(3) FAIR VALUE OF FINANCIAL INSTRUMENTS

Assets recorded at fair value in the balance sheet as of December 31, 2013 are categorized based upon the level of judgment associated with the inputs used to measure their fair value as defined by ASC 820, Fair Value Measurements and Disclosures. We have investments available-for-sale (consisting of auction rate securities) that are considered to be Level 3 assets for which little or no market data exist and are required to be measured at fair value on a recurring basis. The fair value of our investments available-for-sale as of December 31, 2013 and December 31, 2012 was $1.3 million and $2.0 million, respectively. As of December 31, 2013 the par value of our investments available-for-sale was $1.4 million and the related temporary impairment was $72,000, based on our estimate of the related fair value using a discounted trinomial model.

Table of Contents

In association with this estimate of fair value, we have recorded an after-tax temporary unrealized gain on our investments available-for-sale of $222,000, net of related tax effects of $119,000 in 2013, which is included in accumulated other comprehensive loss on our balance sheet. The unrealized gain includes the impact of adjusting previously recorded unrealized losses of approximately $138,000 net of related tax effects of $74,000 as of December 31, 2013 for one security, which was partially redeemed at par during 2013.

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, 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	
Transfers out of level 3	
Purchases, sales issuances and settlements	(50)
Unrealized gains included in accumulated loss	134
Balance as of December 31, 2012	2,037
Transfers into level 3	
Transfers out of level 3	
Purchases, sales issuances and settlements	(1,090)
Unrealized gains included in accumulated loss	341
Balance as of December 31, 2013	$ 1,288

(4) PROPERTY AND EQUIPMENT, NET

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

	Useful Lives (years)	2013	2012
Land		$ 7,800	$ 7,800
Building and leasehold improvements	5-39	50,523	33,299
Computer equipment and purchased software	3-5	27,071	24,036
Furniture and fixtures	5	10,834	8,108
Transportation equipment	5	241	274
		96,469	73,517
Accumulated depreciation and amortization		(31,625)	(28,136)

Property and equipment, net	$ 64,844	$ 45,381

Depreciation expense was $6.4 million during 2013, $5.6 million during 2012 and $5.3 million during 2011.

We own office buildings in Yarmouth, Maine, Lubbock and Plano, Texas, and Moraine, Ohio. We lease some space in these buildings to third-party tenants. These leases expire between 2014 and 2017 and are expected to provide rental income of approximately $834,000 during 2014, $685,000 during 2015, $319,000 during 2016 and $46,000 during 2017. Rental income associated with third party tenants was $704,000 in 2013, $586,000 in 2012 and $1.2 million in 2011, and was included as a reduction of selling, general and administrative expenses.

Table of Contents

(5) GOODWILL AND OTHER INTANGIBLE ASSETS

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

	2013	2012
Gross carrying amount of acquisition intangibles:		
Customer related intangibles	$ 60,547	$ 60,547
Software acquired	32,003	32,003
Trade name	3,109	3,272
Lease acquired	1,387	1,387
	97,046	97,209
Accumulated amortization	(58,060)	(51,489)
Acquisition intangibles, net	$ 38,986	$ 45,720
Post acquisition software development costs	$ 36,701	$ 36,701
Accumulated amortization	(36,701)	(36,621)
Post acquisition software costs, net	$	$ 80
Total other intangibles	$ 38,986	$ 45,800

Total amortization expense, for acquisition related intangibles and post acquisition software development costs, was $6.8 million in 2013, $6.5 million during 2012, and $4.9 million during 2011.

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

	December 31, 2013			December 31, 2012		
	Gross Carrying Amount	Weighted Average Amortization Period	Accumulated Amortization	Gross Carrying Amount	Weighted Average Amortization Period	Accumulated Amortization
Non-amortizable intangibles:						
Goodwill	$ 121,011		$	$ 121,011		$
Amortizable intangibles:						
Customer related intangibles	60,547	15 years	28,864	60,547	15 years	24,554
Software acquired	32,003	5 years	26,584	32,003	5 years	24,505
Trade name	3,109	15 years	1,225	3,272	15 years	1,182
Lease acquired	1,387	5 years	1,387	1,387	5 years	1,248

Table of Contents

The changes in the carrying amount of goodwill for the two years ended December 31, 2013 are as follows:

	Enterprise Software Solutions	Appraisal and Tax Software Solutions and Services	Total
Balance as of December 31, 2011	$ 100,504	$ 5,590	$ 106,094
Goodwill acquired during 2012 related to the purchase of Akanda		967	967
Goodwill acquired during 2012 related to the purchase of UniFund	1,055		1,055
Goodwill acquired during 2012 related to the purchase of CSA	4,634		4,634
Goodwill acquired during 2012 related to the purchase of EnerGov	8,261		8,261
Balance as of December 31, 2012 and December 31, 2013	$ 114,454	$ 6,557	$ 121,011

Estimated annual amortization expense relating to acquisition intangibles, including acquired software for which the amortization expense is recorded as cost of revenues is as follows:

Years ending December 31,	
2014	$ 6,308
2015	6,128
2016	6,039
2017	5,042
2018	4,366

(6) ACCRUED LIABILITIES

Accrued liabilities consist of the following at December 31:

	2013	2012
Accrued wages, bonuses and commissions	$ 25,471	$ 17,875
Other accrued liabilities	7,368	8,143
	$ 32,839	$ 26,018

(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. 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, 2013, we were in compliance with those covenants.

As of December 31, 2013, we had no outstanding borrowings and unused available borrowing capacity of $148.0 million under the Credit Facility. In addition, as of December 31, 2013, we had an outstanding letter of credit totaling $2.0 million. Some of our customers require a letter of credit guaranteeing performance in connection with our contracts. The notional amount of performance

Table of Contents

guarantees outstanding as of December 31, 2013 was estimated to be approximately $29.0 million. This letter of credit is issued under our revolving line of credit and reduces our available borrowing capacity. We do not believe this letter of credit will be required to be drawn upon. The letter of credit expires in 2014.

We paid interest of $899,000 in 2013 and $2.0 million in 2012.

(8) INCOME TAX

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

	Years ended December 31,		
	2013	2012	2011
Current:			
Federal	$ 25,625	$ 19,113	$ 17,239
State	2,590	1,976	2,233
	28,215	21,089	19,472
Deferred	(1,497)	(215)	(2,916)
	$ 26,718	$ 20,874	$ 16,556

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

	Years ended December 31,		
	2013	2012	2011
Federal income tax expense at statutory rate	$ 23,037	$ 18,854	$ 15,440
State income tax, net of federal income tax benefit	2,371	1,365	1,238
Non-deductible business expenses	1,110	1,087	918
Qualified manufacturing activities		(717)	(840)
Research and development credit			(177)
Other, net	200	285	(23)
	$ 26,718	$ 20,874	$ 16,556

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

	2013	2012
Deferred income tax assets:		
Operating expenses not currently deductible	$ 7,360	$ 5,372
Stock option and other employee benefit plans	7,089	6,097
Capital loss and credit carryforward	185	275
Property and equipment	149	570

Total deferred income tax assets	14,783	12,314
Deferred income tax liabilities:		
Intangible assets	(12,910)	(11,838)
Other	(173)	(153)
Total deferred income tax liabilities	(13,083)	(11,991)
Net deferred income tax asset	$ 1,700	$ 323

At December 31, 2013, we had approximately $650,000 of net operating loss carryforwards for Federal income tax reporting purposes available to offset future taxable income. The $650,000 was attributable to excess tax benefits related to share-based arrangements for which authoritative guidance prohibits the recognition of a deferred tax asset. The $650,000 tax benefit will be accounted for as an increase to shareholders equity and a reduction in income tax payable when realized. This carryforward expires in 2034. We recognized approximately $28.2 million excess tax benefits related to share-based arrangements in 2013 as a credit to shareholders equity and a reduction in income taxes payable.

Table of Contents

Although realization is not assured, we believe it is more likely than not that all the deferred tax assets at December 31, 2013 and 2012 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 $9.3 million in 2013, $13.1 million in 2012, and $13.4 million in 2011.

(9) SHAREHOLDERS EQUITY

The following table details activity in our common stock:

	Years ended December 31,					
	2013		2012		2011	
	Shares	Amount	Shares	Amount	Shares	Amount
Stock option exercises	1,443	$ 18,289	1,218	$ 12,443	582	$ 3,553
Purchases of common stock					(3,004)	(71,802)
Employee stock plan purchases	64	3,542	81	2,641	100	2,045
Shares issued for acquisition			60	2,815		

As of February 19, 2014 we had authorization from our board of directors to repurchase up to 1.7 million additional shares of our common stock.

(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 generally 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, 2013, there were 1.1 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. The expected life represents the weighted-average period the stock options are expected to be outstanding based primarily on the options vesting terms, remaining contractual life and the employees expected exercise based on historical patterns.

Table of Contents

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,		
	2013	2012	2011
Expected life (in years)	6.4	6.7	6.7
Expected volatility	32.4%	32.6%	33.1%
Risk-free interest rate	1.4%	1.0%	1.7%
Expected forfeiture rate	3%	3%	3%

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,		
	2013	2012	2011
Cost of software services, maintenance and subscriptions	$ 1,509	$ 1,084	$ 871
Selling, general and administrative expense	10,144	6,327	5,382
Total share-based compensation expense	11,653	7,411	6,253
Tax benefit	(3,363)	(2,040)	(1,545)
Net decrease in net income	$ 8,290	$ 5,371	$ 4,708

Table of Contents

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, 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		
Granted	1,453	67.08		
Exercised	(1,443)	12.68		
Forfeited	(1)	68.17		
Outstanding at December 31, 2013	5,720	34.66	7	$ 385,868
Exercisable at December 31, 2013	1,971	$ 15.41	5	$ 170,956

We had unvested options to purchase 3.5 million shares with a weighted average grant date exercise price of $44.55 as of December 31, 2013 and unvested options to purchase 2.8 million shares with a weighted average grant date exercise price of $27.20 as of December 31, 2012. As of December 31, 2013, we had $48.3 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:

	2013	2012	2011
Weighted average grant-date fair value of stock options granted	$ 23.27	$ 15.24	$ 9.91
Total intrinsic value of stock options exercised	99,393	40,589	12,289

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, 2013, there were 1.0 million shares available for future grants under the ESPP from the 2.0 million shares previously approved by the stockholders.

Table of Contents

(11) EARNINGS PER SHARE

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

	Years Ended December 31,		
	2013	2012	2011
Numerator for basic and diluted earnings per share:			
Net income	$ 39,101	$ 32,994	$ 27,557
Denominator:			
Weighted-average basic common shares outstanding	31,891	30,327	31,267
Assumed conversion of dilutive securities:			
Stock options	2,699	2,589	1,887
Denominator for diluted earnings per share Adjusted weighted-average shares	34,590	32,916	33,154
Earnings per common share:			
Basic	$ 1.23	$ 1.09	$ 0.88
Diluted	$ 1.13	$ 1.00	$ 0.83

Stock options representing the right to purchase common stock of 62,000 shares in 2013, 463,000 shares in 2012, and 714,000 shares in 2011 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 owned by an executive s father and brother. 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 $7.5 million in 2013, $7.2 million in 2012, and $5.9 million in 2011, which included rent expense associated with related party lease agreements of $1.7 million in 2013, $1.7 million in 2012, and $1.8 million in 2011.

Future minimum lease payments under all non-cancelable leases at December 31, 2013 are as follows:

Years ending December 31,	
2014	$ 5,680
2015	4,677

2016	4,415
2017	3,880
2018	1,731
Thereafter	2,339
	$ 22,722

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

Table of Contents

(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 $3.8 million during 2013, $3.3 million during 2012, and $2.9 million during 2011.

(14) COMMITMENTS AND CONTINGENCIES

Other than routine litigation incidental to our business, there are no material legal proceedings pending to which we are party or to which any of our properties are subject.

(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.

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.

ESS segment capital expenditures in 2013, 2012 and 2011 included $19.6 million, $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.

Table of Contents

As of and year ended December 31, 2013

	Enterprise Software Solutions	Appraisal and Tax Software Solutions and Services	Corporate	Totals
Revenues				
Software licenses and royalties	$ 38,774	$ 2,067	$	$ 40,841
Subscriptions	59,070	2,794		61,864
Software services	85,459	7,808		93,267
Maintenance	175,180	16,540		191,720
Appraisal services		20,825		20,825
Hardware and other	6,342		1,784	8,126
Intercompany	2,899		(2,899)	
Total revenues	$ 367,724	$ 50,034	$ (1,115)	$ 416,643
Depreciation and amortization expense	10,569	1,028	2,189	13,786
Segment operating income	85,045	9,428	(20,750)	73,723
Capital expenditures	22,457	250	3,438	26,145
Segment assets	$ 161,923	$ 16,244	$ 266,321	$ 444,488

As of and year ended December 31, 2012

	Enterprise Software Solutions	Appraisal and Tax Software Solutions and Services	Corporate	Totals
Revenues				
Software licenses and royalties	$ 32,060	$ 1,868	$	$ 33,928
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	5,297		1,659	6,956
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	$ 134,160	$ 18,464	$ 186,042	$ 338,666

As of and year ended December 31, 2011

	Enterprise Software Solutions	Appraisal and Tax Software Solutions and Services	Corporate	Totals
Revenues				
Software licenses and royalties	$ 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

Reconciliation of reportable segment operating income to the Company s consolidated totals:	2013	2012	2011
Total segment operating income	$ 73,723	$ 62,744	$ 50,973
Amortization of acquired software	(2,078)	(1,888)	(1,125)
Amortization of customer and trade name intangibles	(4,517)	(4,279)	(3,331)
Other expense, net	(1,309)	(2,709)	(2,404)
Income before income taxes	$ 65,819	$ 53,868	$ 44,113

(16) QUARTERLY FINANCIAL INFORMATION (unaudited)

The following table contains selected financial information from unaudited statements of income for each quarter of 2013 and 2012.

	Quarters Ended							
	2013				2012			
	Dec. 31	Sept. 30	June 30	Mar. 31	Dec. 31	Sept. 30	June 30	Mar. 31
Revenues	$ 110,735	$ 107,021	$ 103,088	$ 95,799	$ 95,368	$ 93,845	$ 91,368	$ 82,723
Gross profit	52,767	49,549	47,042	43,845	44,640	44,944	40,699	37,419
Income before income taxes	19,062	17,572	15,053	14,132	15,035	17,810	11,682	9,341

Net income	10,512	11,049	9,047	8,493	9,376	10,832	7,105	5,681
Earnings per diluted share	0.30	0.32	0.26	0.25	0.28	0.33	0.22	0.17
Shares used in computing diluted earnings per share	35,348	34,764	34,290	33,948	33,421	32,986	32,769	32,530