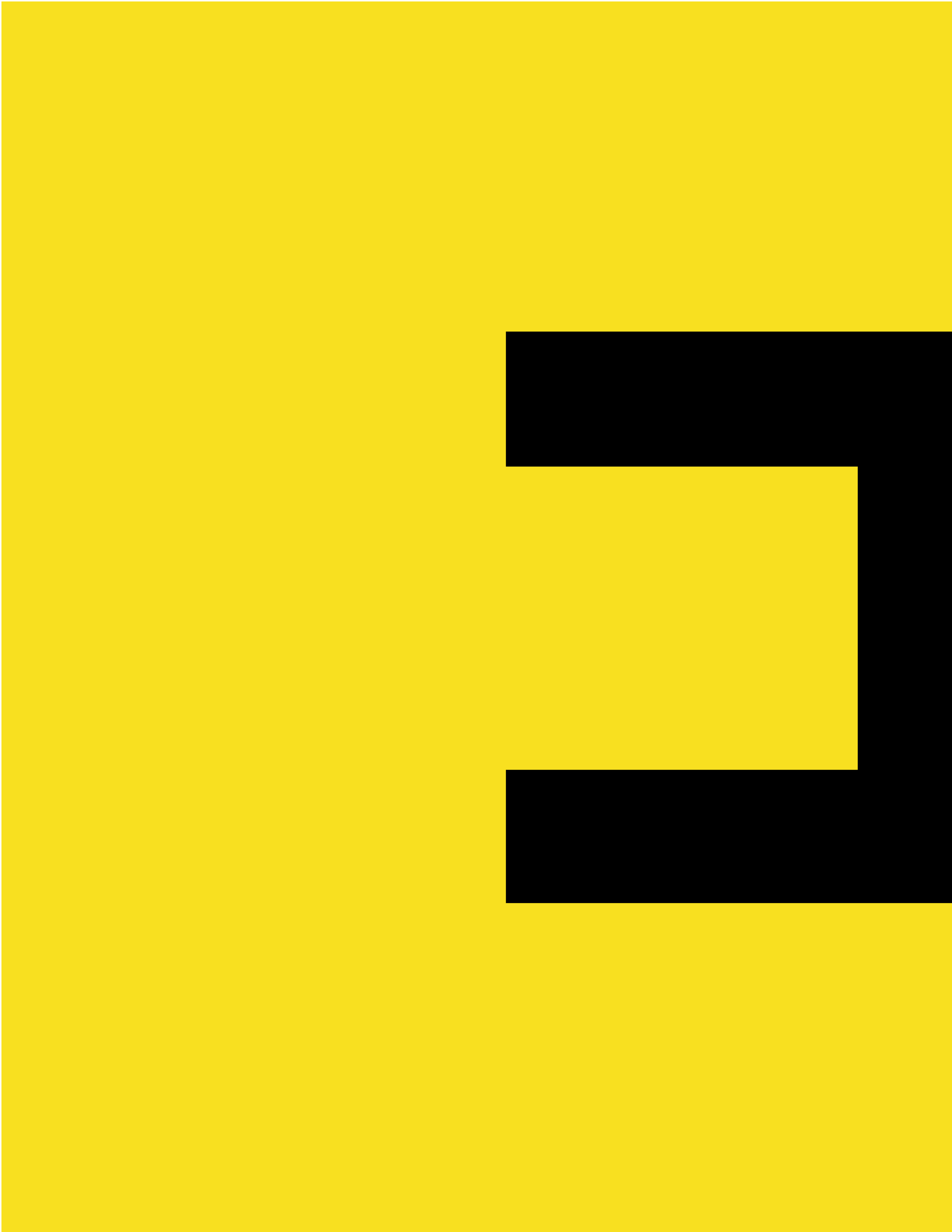
Welcome to e-government.

1999 Annual Report

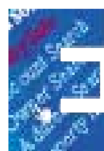


E stands for practically everything being only a mouse click away.

The way local government was meant to work.

Tyler Technologies is revolutionizing the way local government operates. As one of the leading providers of Internet-enabled information solutions for local government agencies nationwide, we are making government more accessible to the public, more responsive to the needs of the citizens and more efficient and cost-effective to manage. We have established ourselves as a premier provider of information management solutions in the local government marketplace and we are using our substantial installed client base, our relationships with government agencies and our reputation within the marketplace to develop innovative new e-government solutions and services that will leverage our combined knowledge and expertise to dramatically improve the ways local governments interact with citizens. And by doing so, we expect to continue to expand our business and increase shareholder value.

To Our Shareholders:



Exciting is a good description for 1999 at Tyler Technologies. We exceeded our revenue growth targets, doubling our annual revenue run rate to nearly $145 million. We are continuing to follow a multi-phase strategy and growth plan that uses both internal growth and targeted strategic acquisitions to focus on the specialized information management needs of local government. With the solid base we have built over the last two years, we are now focusing on the next phase of our growth strategy by partnering with clients to implement a new generation of e-government solutions that make local government more accessible, responsive and cost-effective for all.

With the initial phase of our growth plan largely complete, we have established ourselves as a leading provider of information management solutions in the local government marketplace. We currently offer a huge variety of products and services, spanning virtually every area of city and county government operations from Law Enforcement, to Courts, Financial Systems, Appraisal and Taxation, Records Management and Utility Billing. Our installed base for these products now includes over 5,000 local government offices in nearly every state in the USA, as well as Canada and Puerto Rico. With our expanded client base and extensive product lines we are on track to meet both our own growth targets and increasing customer expectations for e-government services in the year ahead.

Tyler Technologies continued to report strong year-over-year increases in revenues and operating income during 1999. Revenues more than doubled during the year to $108.4 million from $50.5 million in 1998. Operating income rose 38% to $6.9 million in 1999 from $5.0 million in 1998. EBITDA (as defined elsewhere in this report) for the year increased 46% to $20.0 million ($0.51 per diluted share), up from $13.7 million ($0.40 per diluted share) the previous year. Higher interest expense and an unusually high effective income tax rate resulted in near-breakeven results from continuing operations ($0.00 per diluted share) for 1999, compared to income from continuing operations of $1.2 million ($0.03 per diluted share) for 1998.

Looking forward, Tyler Technologies is undertaking several significant initiatives to expand our e-business product offerings during the year 2000. We will be bringing local government directly to the people with a number of new Internet-accessible solutions. Our goal is to provide real-time public access to a variety of widely used public information, including:

- Criminal and civil court records
- Jail booking and release information
- Bond and bondsmen information
- Court calendars and dockets
- Property appraisal information
- Tax billing and collection information
- Utility billing records and history

Additionally, we have begun to deploy a series of e-commerce and e-government solutions designed to improve government efficiency and cost-effectiveness by accepting payments for traffic and parking tickets, utility bills and current and delinquent tax payments directly over the Internet.

Finally, we are planning to offer many of our core information management solutions in an applications service provider (ASP) environment. The ASP market in general is projected to grow at nearly 100% annually and we are positioning Tyler to be a leader in offering the ASP model for the local government sector.

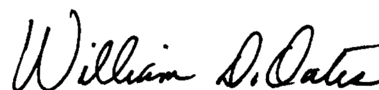
We are also excited about the opportunities for our national data repository, NationsData.com. We have made a major investment, in terms of both money and effort, in the development of a national transaction-based business-to-business Internet portal for public data, leveraging proprietary databases acquired through our land records business. The portal is operational now and can be accessed at www.NationsData.com. Our data repository already contains property tax information on over 65,000,000 parcels of real property nationwide to address the data needs of the mortgage and financial services markets. Our plans are to continue to add content to the database, while pursuing strategic partnerships to further enhance the value of NationsData.com.

With an experienced management team in place and the divestiture of non-core assets complete, we feel that Tyler Technologies is well-positioned to solidify its leadership position as a provider of information management, automation and Internet access services to our country's local government agencies. We are unique in our ambitions to automate local government operations and create a comprehensive national data repository for public records that will be accessible through the Internet. As we come closer and closer to this ambitious goal, we find that the opportunities for the future have never been brighter.

There is still much work to be done, but the foundation of the new Tyler we envisioned at the beginning of our 1998 transformation initiative is already in place. As we enter a new millennium, we would like to thank our shareholders and employees for their continued support. Thanks to you, we look forward to productive and exciting times in the year ahead.

Louis A Waters
Chairman and Co-Chief Executive Officer

John M. Yeaman
President and Co-Chief Executive Officer



William D. Oates
Chairman of the Executive Committee

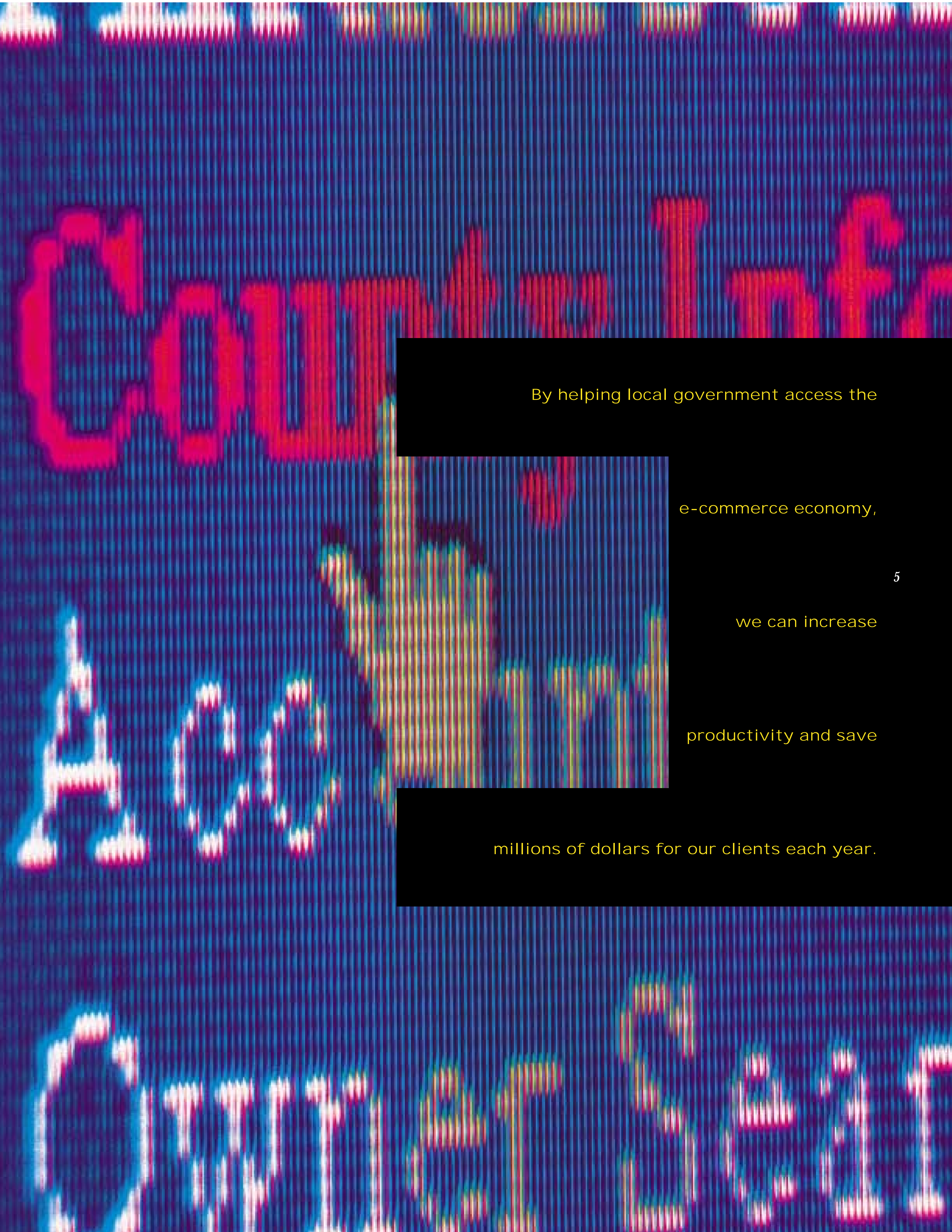
Public Records: finding a needle in a bureaucratic haystack.

Our country's public records represent one of the last frontiers in an information revolution that is already dramatically transforming the way we live and do business. While many private industries have largely completed initiatives to integrate their own database information and make it available to customers over the Internet, the world of government records still remains fragmented and largely paper-based. Most of the processes and transactions that must take place to access these public records still take place the old fashioned way, at county courthouses and government archives scattered across the country. By helping local government access the e-commerce economy, we can increase productivity and save millions of dollars for our clients each year.

As local government agencies struggle to cope with the growing need for faster, more accurate access to real estate, transportation, human services and criminal justice records, we believe there is a huge emerging opportunity to help them meet those needs through improved information management. With increasing transfers of responsibility from federal and state governments to the county and municipal level, everything from revenue collection to a citizen's ability to make critical business and personal decisions depends on access to information. The information is there. It's just a matter of finding better ways to access it and put it to good use.

The market for information management in the public sector is much larger than most people imagine. The Gartner Group has estimated that state and local governments are already spending almost $40 billion annually on information technology and that total spending could exceed $52 billion by 2003. With today's largely fragmented market, the expenditures for new and improved software alone could approach $10 billion by 2003. Spending for external information technology services could exceed $17 billion during this time period and both of these market segments are expected to grow rapidly. It is in this environment that Tyler Technologies sees its primary opportunities in the years ahead.

We see opportunities to make local government more accessible by using Internet-enabled and Interactive Voice Response systems to provide quick and easy access to public information. We see many opportunities to make local government more responsive by using electronic imaging to improve access to records and documents, by automating manual operations and functions, by creating and hosting local government web sites and by accepting e-commerce payments for tickets, utility bills, and taxes. We also see ongoing opportunities to make local government more cost-effective and efficient in our role as an outsource partner, providing single source responsibility for all information management and e-government needs, leveraging the vast technical resources and the economies of scale we are able to make available through the support of common software systems across a huge installed base.



By helping local government access the e-commerce economy, we can increase productivity and save millions of dollars for our clients each year.

Thousands of sources for government information. One place to find it all.

The implications of Internet access to public information are huge. Today, it can take days or even weeks to find information that could be vital to initiate a court proceeding, complete a real estate transaction or update an appraisal. The inefficiencies and delays that result from hard-to-access public records currently cost individuals and businesses millions of dollars every year. Because accurate and valid public records are still required to complete a large and growing variety of business transactions, even industries that have completed upgrading their own information infrastructures are penalized by our existing public records system. An inefficient public records system has become the weak link in the chain for many businesses.

Tyler Technologies has already begun changing all this. Our efforts to digitize, integrate and aggregate public records data from hundreds of separate sources is creating the country's most comprehensive single source for government and other public information. We continue to build our national data repository through our NationsData.com operating company. With over 65,000,000 property tax records now in our master database, we are now marketing an Internet accessible business-to-business solution that initially addresses the specialized data needs of the financial services marketplace.

This and other recent information management initiatives leave us poised to become the premier provider of local e-government solutions in the country. With a large and growing installed client base, strong relationships with local governments throughout the country and a reputation for delivering effective solutions, we are continuing to develop new products and services that add value to local government, including:

- Nationwide branded application solutions
- Improved state-of-the-art technologies
- Internet accessibility for citizens
- Electronic commerce solutions
- ASP hosting and data center services
- Outsourcing capabilities

Our fundamental commitment to the local government information management marketplace will ultimately enable us to provide the public with easy Internet access to government and public records, saving billions of dollars in lost time and significantly improving productivity in both the private and public sectors.

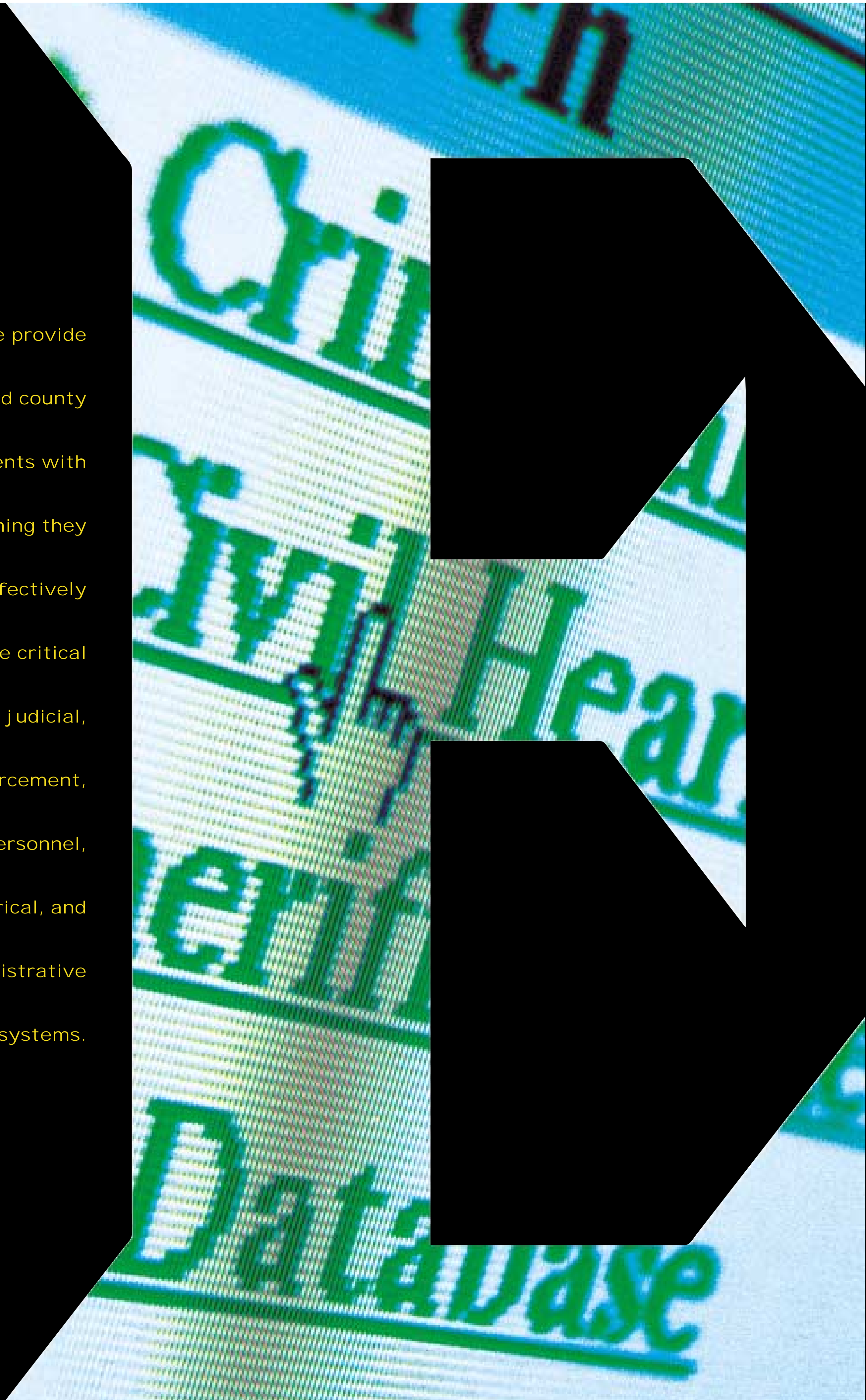
1999 was an exciting year for Tyler Technologies and we are very pleased with the progress we have made toward realizing our vision of becoming the nations leading provider of e-government systems and solutions. This steady progress will accelerate in the year ahead as we continue to develop a new generation of Internet-enabled software products.

Products and services that will revolutionize how local governments work.

Our philosophy of strong internal growth supplemented by targeted strategic acquisitions has provided Tyler Technologies with a solid base of products and services designed to improve access to local government operations. In the year ahead, we will continue our efforts to integrate and Internet-enable our many resources to provide even greater value to our clients. Our growing, browser-based, Internet/Intranet deployable product line is built to utilize state-of-the-art “n”-tier architecture, SQL compliant databases, thin-client workstations and object-oriented, Microsoft component-based technology.

Tyler’s proprietary information management systems are already being used to process tickets for hundreds of courts, generate utility bills in over a thousand municipalities and collect taxes for several thousand different taxing jurisdictions. We believe we are well-positioned to capture a large share of the millions of payment transactions which occur in these local government agencies each month. Additionally, our ability to integrate Internet payment systems with existing back office automation systems allows our e-government solutions to seamlessly post and update back office systems real time, a real advantage over most of our competitors in the local government e-commerce market.

We provide city and county governments with everything they need to effectively manage critical financial, judicial, law enforcement, utilities, personnel, tax, clerical, and administrative systems.



Our growing list of e-government products and services includes:

Software Systems and Services

Tyler Technologies assists local and county governments with a wide range of information technology and automation needs, including software and hardware selection, network design, management, installation, training, support and related services. We provide a variety of sophisticated integrated information management systems and services to county and local governments, integrating our own software products with third-party hardware, database management applications and other office automation software. Currently available information management systems and software include:

Judicial Information Management Products

We offer a complete suite of specialized information management products designed to meet a full spectrum of judicial system needs, including

- Criminal and civil court records
- Jail booking and release information
- Bond and bondsmen information
- Court calendars and dockets

These products may be installed on a stand-alone basis, or integrated with other Tyler court system products to eliminate duplicate entries and improve efficiency.

Court Systems

Our Internet-enabled court system products are designed to automate the tracking and management of information involved in criminal and civil cases. These integrated applications track cases, process fines and fees and generate the specialized judgment and sentencing documents, citations, notices and forms required in a civil proceeding. Additional judicial applications are available that can automate the management of court calendars, coordinate judges' schedules, generate court dockets, manage justice of the peace processes and automate district attorney or prosecutors functions. Related Tyler judicial information products also include a jury selection application, "hot" check processing application, and adult and juvenile probation processing applications.

Law Enforcement Systems

Our advanced law enforcement management systems are automating all aspects of local and county law enforcement, including jail management, inmate medical processing, incident and offense tracking, report and warrant tracking and the payment of traffic and parking tickets. Our state-of-the-art dispatch/emergency 911 system can track both the availability and status of emergency response vehicles responding to calls. This sophisticated system has the ability to interface with local and state searches and assists dispatchers in processing emergency information.

Property Appraisal and Tax

Our powerful, Internet-enabled software systems are already automating the assessment and appraisal of real and personal property nationwide. Current system capabilities include record keeping, mass appraisal, inquiry and protest tracking, appraisal and tax roll generation, tax statement processing, and electronic state level reporting. Our systems can be image and video-enabled to facilitate the storage of property related documents

and digital photographs for use in defending values in protest situations. Related property and tax applications support the needs of counties, cities, school tax offices, and special collection agencies for billing, collections, lock box operations and mortgage company electronic payments. We are also the nation's largest provider of mass real property appraisal services for local governmnet taxing authorities.

Fund Accounting

Our modular accounting packages can be tailored to meet the needs of virtually any government agency or nonprofit entity. Available modules, including accounts payable, general ledger, payroll/personnel, purchasing, project/grant accounting, fixed assets, revenues, bank manager and human resources conform to generally accepted accounting principles, while meeting all government accounting and financial reporting requirements.

Utility Customer Information Systems

As part of our on-going effort to meet the needs of municipal and public sector customers, Tyler Technologies provides a variety of information systems designed to automate the billing and collection of both metered and non-metered utilities services provided by municipal governments. As part of our initiative to provide more effective e-government services, we will be offering a variety of convenient Internet-enabled utility bill payment options during 2000.

Specialized Municipal Information Products

Tyler Technologies systems are already automating a multitude of city hall functions, including municipal court management, equipment and project costing, inventory, special assessments and tax billing and collection. Other applications designed to meet specific city and municipal government needs include cemetery records management, ambulance billing and fleet maintenance, citizen complaint tracking, permits and inspections and business licenses.

Specialized County Products

As part of our ongoing efforts to add value to public information, we offer a variety of specialized applications designed to help county governments enhance and automate courthouse operations. Currently our information systems support child support tracking, voter registration, election result tabulations, motor vehicle registration, and the indexing of official public records such as deeds, birth and death certificates.

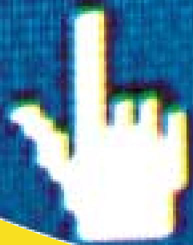
Property Records Services

Tyler Technologies currently offers a diverse and growing range of information management outsourcing services to government and commercial customers, designed to manage and improve access to real property and other records

Our services include title plant data and update services, records management, micrographic reproduction, computerized indexing, and digital imaging of property records and much more.

National Data Repository

We are constructing a national repository of public records data, with an initial target market of the mortgage and financial services industries. This database currently has web-enabled property tax information for over 65,000,000 parcels of real property nationwide. We plan to add a wide range of other public information, including real property assessment data, chain of property records and images, and UCC filing data.



Tyler Technologies information systems not only make government agencies more efficient, they will enable anyone who needs access to a deed, appraisal, court record or other government information, or who wants to pay a ticket, utility bill or property taxes, to complete their task more quickly and efficiently than ever before.

Property Records Software and Services

Tyler Technologies' proprietary indexing and retrieval software automates the recording and indexing of real property transactions, maintaining archival copies of the filed documents, and making them accessible for public inspection and copying. These software products also provide multi-platform access and storage for a wide range of digitized and microfilm documents used by governmental agencies and private companies.

Title Plant Services

We offer a wide variety of professional services to title companies, including advanced software designed to facilitate and automate the closing process. Our proprietary software systems store all the necessary information about the real estate transaction, automatically tracking the progress of the closing, and producing the necessary closing documents and other related services. We also provide comprehensive title plant data and update services to title companies and other firms that need title search or underwriting capabilities.

Document Management and Imaging Solutions Software Products

Our sophisticated image storage and retrieval systems allow us to provide a total document management solution for many workgroup and document-intensive departmental applications, particularly where hybrid media support is a requirement.

Re-creation Services

We provide archival-quality, image-enhanced reprints of old paper-based records, including photostatic prints. We can microfilm backup copies for additional security in case of fire, water damage, or other catastrophic loss.

The knowledge and resources to make e-government a reality

Tyler Technologies has a unique opportunity to redefine and greatly improve the way government works at the local level. Our mission to make local government more accessible, responsive and efficient through innovative e-government systems and solutions has implications for virtually every individual and every type of business. Tyler Technologies information systems not only make government agencies more efficient, they will enable anyone who needs access to a deed, appraisal, court record or other government information, or who wants to pay a ticket, utility bill or property taxes, to complete their task more quickly and efficiently than ever before. We now have the management team and the technological resources in place to make our vision of immediate Internet access to local government a reality. The years ahead will be exciting as we deploy our combined knowledge and technological resources to bring this vision to reality.

FINANCIAL INFORMATION

Selected Financial Data 15

Management's Discussion and Analysis
of Financial Condition and Results of Operations 16

Consolidated Statements of Operations 24

Consolidated Balance Sheets 25

Consolidated Statements of Shareholders' Equity 26

Consolidated Statements of Cash Flows 27

Notes to Consolidated Financial Statements 28

Report of Independent Auditors 47

Corporate Information 48

Selected Financial Data

As of or for the Years Ended December 31,
(Dollars And Average Shares In Thousands, Except Per Share Data)

	1999	1998	1997	1996	1995
Statement of operations data:[1]					
Revenues	$108,401	$ 50,549	$ —	$ —	$ —
Costs and expenses:					
Cost of revenues[2]	54,413	24,749	—	—	—
Selling, general and administrative expense[2]	37,909	14,461	2,959	6,858[3]	4,126
Costs of certain acquisition opportunities	1,851	3,146	—	—	—
Amortization of intangibles	7,315	3,173	—	—	—
Interest (income) expense, net	4,573	1,831	(822)	(304)	1,003
Income (loss) from continuing operations before taxes	2,340	3,189	(2,137)	(6,554)	(5,129)
Income tax provision (benefit)	2,404	2,033	(918)	(1,573)	(1,753)
Income (loss) from continuing operations	$ (64)	$ 1,156	$(1,219)	$(4,981)	$ (3,376)
Income (loss) from continuing operations per common share–diluted	$ (0.00)	$ 0.03	$ (0.06)	$ (0.25)	$ (0.17)
Average number of diluted shares	39,105	34,400	20,498	19,876	19,869
Other data:					
EBITDA[4]	$ 20,025	$ 13,669	$(2,843)	$(6,757)	$ (3,864)

As of December 31,

	1999	1998	1997	1996	1995
Balance sheet data:[1]					
Total assets	$272,535	$150,094	$47,150	$52,484	$109,559
Long-term obligations, excluding current portion	67,446	37,189	—	—	—
Shareholders' equity	138,904	76,346	31,403	32,041	93,362
Statement of Cash Flows Data:					
Cash flows from operating activities	$ 654	$ 2,088	$(5,829)	$ 6,484	$ 13,514
Cash flows from investing activities	(24,743)	(36,787)	(2,020)	6,139	49,187
Cash flows from financing activities	24,955	27,893	2,515	9	(62,663)

[1] 1999 and 1998 includes the results of operations from the software systems and services segment and information and property records services segment from the acquired companies' respective dates of acquisition and excludes the results of operations from the discontinued automotive parts and supplies business. Prior years' selected financial data has been restated to reflect discontinuation of the automotive parts and supply business in 1998 and discontinuation of the fund-raising segment in 1997 and for years prior to 1998, selling, general and administrative expense includes only data relating to the holding company. See Notes 2 and 3 in Notes to Consolidated Financial Statements.

[2] Depreciation and amortization included in cost of revenues and selling, general and administrative expenses for 1999, 1998, 1997, 1996 and 1995 was $3,946, $2,330, $116, $101 and $262, respectively.

[3] 1996 selling, general and administrative expenses include pretax restructuring and other charges of $3,616.

[4] EBITDA consists of income from continuing operations before interest, costs of certain acquisition opportunities, income taxes, depreciation and amortization. Although EBITDA is not calculated in accordance with accounting principles generally accepted in the United States, the Company believes that EBITDA is widely used as a measure of operating performance. Nevertheless, this measure should not be considered in isolation or as a substitute for operating income, cash flows from operating activities or any other measure for determining the Company's operating performance or liquidity that is calculated in accordance with generally accepted accounting principles. EBITDA does not take into account the Company's debt service requirements and other commitments and accordingly EBITDA is not necessarily indicative of amounts that may be available for reinvestment in the Company's business or other discretionary uses. In addition since all companies do not calculate EBITDA in the same manner, this measure may not be comparable to similarly titled measures reported by other companies.

Management's Discussion And Analysis Of Financial Condition And Results Of Operations

Forward-Looking Statements

This Annual Report on Form 10-K contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. All statements other than historical or current facts, including, without limitation, statements about the business, financial condition, business strategy, plans and objectives of management, and prospects of the Company are forward-looking statements. Although the Company believes that the expectations reflected in such forward-looking statements are reasonable, such forward-looking statements are subject to risks and uncertainties that could cause actual results to differ materially from these expectations. Such risks and uncertainties include, without limitation, the ability of the Company to successfully integrate the operations of acquired companies, technological risks associated with the development of new products and the enhancement of existing products, changes in the budgets and regulating environments of the Company's government customers, the ability to attract and retain qualified personnel, changes in product demand, the availability of products, changes in competition, changes in economic conditions, risks associated with Year 2000 and similar issues, changes in tax risks and other risks indicated in the Company's filings with the Securities and Exchange Commission. These risks and uncertainties are beyond the ability of the Company to control, and in many cases, the Company cannot predict the risks and uncertainties that could cause its actual results to differ materially from those indicated by the forward-looking statements.

When used in this Annual Report, the words "believes," "plans," "estimates," "expects," "anticipates," "intends," "continue," "may," "will," "should," "projects," "forecasts," "might," "could," or the negative of such terms and similar expressions as they relate to the Company or its management are intended to identify forward-looking statements.

General

In October 1997, the Company sold Institutional Financing Services, Inc. ("IFS") which provided products for fund-raising programs. In March 1999, the Company sold Forest City Auto Parts Company ("Forest City"), which was an automotive parts and supplies business. With the disposal of Forest City, the Company has focused solely on the software systems and services segment and the information and property records services segment. Therefore, historical financial information attributable to the automotive parts and supply business has been reported as discontinued operations in 1999, 1998 and 1997, together with the results of operations associated with the products for fund raising business and all prior year financial information included herein has been restated to reflect these dispositions. In 1997, continuing operations includes only corporate expense and interest income mainly attributable to proceeds from disposals of prior operating companies. Continuing operations in 1999 and 1998 are comprised of the results of operations from the information management businesses from their respective dates of acquisition.

As discussed in Note 16 in the Notes to Consolidated Financial Statements, the Company adopted in the fourth quarter of 1999 a change in its accounting for the sales of copies of title plants which only occurred during the year ended December 31, 1999. The following discussion takes into consideration the effects of this accounting change.

Results of Operations

1999 Compared to 1998

Following is a summary of significant acquisitions consummated in 1998 and 1999:

On February 19, 1998, the Company acquired The Software Group ("TSG") and Interactive Computer Designs, Inc. ("INCODE"), which provide county, local and municipal governments with software, systems and services to serve their information technology and automation needs. Their customer base is mainly located in Texas, Georgia and Oregon.

On February 19, 1998, the Company also acquired Business Resources Corporation ("Resources"), a major provider of a wide range of information management outsourcing services, primarily to county governments, as well as to some commercial users. These outsourcing services currently include records management and micrographic reproduction, computerized indexing, and imaging of real property records maintained by county clerks and recorders, as well as information management outsourcing and professional services required by other county government units and agencies. Resources also provides title plant data and property records database information and title plant copies and title plant update services.

On June 5, 1998, the Company acquired a line of document management software and related customer installations and service contracts from the Business Imaging Systems division of Eastman Kodak Company. Kofile, a newly formed subsidiary in the Company's Resources unit, provides development, support and marketing of document management software and related customer installations and service contracts throughout the United States. Kofile's customer base includes both commercial and governmental users.

Effective August 1, 1998, the Company completed the purchase of Computer Management Services ("CMS"). CMS provides integrated information management systems and services to county and municipal governments throughout Iowa, Minnesota, Missouri, South Dakota, Illinois, Wisconsin and other states, primarily in the upper Midwest.

Effective March 1, 1999, the Company acquired Eagle Computer Systems, Inc. ("Eagle"). Eagle supplies networked computing solutions and services for county governments, primarily in the western United States.

Effective April 1, 1999, the Company completed its acquisition of Micro Arizala Systems, Inc. d/b/a FundBalance ("FundBalance"), a company which develops and markets fund accounting software and other applications for state and local governments, not-for-profit organizations and cemeteries.

On April 21, 1999, the Company acquired Process Incorporated d/b/a Computer Center Software ("MUNIS"), which designs and develops integrated financial and land management information systems for counties, cities, schools and not-for-profit organizations primarily located in the northeastern and southeastern United States.

On July 16, 1999, the Company acquired Pacific Data Technologies, Inc. ("Pacific Data"). Pacific Data is the primary developer of the Company's database, which consists of software and systems that automate and manage public information records for Internet delivery.

On November 4, 1999, the Company acquired selected assets and assumed selected liabilities of Cole Layer Trumble Company ("CLT"), a division of a privately held company. CLT provides appraisal software and services to governments.

During 1998 and 1999, the Company also made other acquisitions, which were immaterial. All of the Company's acquisitions have been accounted for using the purchase method for business combinations, and the results of operations of the acquired entities are included in the Company's historical consolidated financial statements from their respective dates of acquisition. Because of the significance of these acquisitions, in the following analysis of results of operations the Company has provided pro forma amounts as if all of the Company's acquisitions had occurred as of the beginning of 1998. In comparing 1998 to 1997, the pro forma amounts include only completed acquisitions as of December 31, 1998 as if they had occurred as of the beginning of 1997.

Revenues

For the year ended December 31, 1999, Tyler had revenues from continuing operations of $108.4 million, $70.0 million of which were attributable to the software systems and services segment and $38.4 million of which were derived from the information and property records and services segment. On a pro forma basis, total revenues in 1999 were $144.4 million compared to $114.6 million in 1998.

Software Systems and Services Segment

On a pro forma basis, total revenues from the software systems and services segment increased $23.6 million, or 29% to $106.0 million, for the twelve months ended December 31, 1999 compared to $82.4 million in the comparable prior year period. Pro forma software license revenue in 1999 increased approximately 31% compared to 1998. Software license revenue benefited from the installation of several large contracts in 1999 for judicial information management and court systems and property appraisal and tax systems and increased sales volume from utilities applications. As a percentage of total revenues on a pro forma basis, software license revenue was approximately 23% in both 1999 and 1998.

Professional service revenue on a pro forma basis increased approximately 37% in 1999 compared to 1998. Approximately two-thirds of this increase is primarily due to customization and modifications of software products required in several large contracts installed in 1999. The remaining one-third of the increase is due to increased volume in mass appraisal services. Professional service revenue was approximately 40% of total revenues for this segment in 1999 compared to approximately 38% in 1998, on a pro forma basis.

Pro forma maintenance revenue increased $7.0 million due to an increase in the Company's base of installed software and systems products. Maintenance revenue was approximately 26% of total revenue for this segment in 1999 compared to approximately 25% in 1998, on a pro forma basis.

Hardware revenues on a pro forma basis decreased approximately 8% in 1999 compared to 1998 as a result of the Company focusing its sales effort on higher margin products and services. This decrease was offset slightly by an increase in customer upgrades due to Year 2000 compliance requirements.

The Company anticipates revenues may be down slightly in 2000 in comparison to 1999 as revenues generated from Year 2000 compliance decline.

Information and Property Records Services Segment

On a pro forma basis, total revenues from the information and property records services segment increased $6.2 million or 19% to $38.4 million, for the twelve months ended December 31, 1999 compared to $32.2 million in the comparable prior year period. Sales of document management services contracts and recording and imaging products provided the majority of the increase. In July 1999, the Company was awarded a $4.5 million contract with the Cook County, Illinois, Recorder of Deeds in Chicago. Under the contract, Tyler will convert to digitized images documents recorded and stored on microfilm from 1985 to 1997. Those images will be accessed through Tyler's automated document management system. In the fourth quarter of 1999, revenues recognized relating to this contract were approximately $1.8 million and the remainder of the contract is expected to be completed by

the third quarter of 2000. The revenue increase relating to this contract was offset by $3.6 million of revenue recorded in 1998 relating to a previous completed contract with Cook County to design and install an electronic document management and imaging system. Other sources of revenue increases were provided by optical imaging services, title company software and title plant update services.

Cost of Revenues

For the year ended December 31, 1999, the Company had cost of revenues from continuing operations of $54.4 million, $32.7 million of which were attributable to the software systems and services segment and $21.7 million of which were derived from the information and property records and services segment. On a pro forma basis, cost of revenues were $77.5 million in 1999 compared to $62.2 million in 1998.

Software Systems and Services Segment

On a pro forma basis, total cost of revenues from the software systems and services segment increased $10.8 million, or 24%, for the twelve months ended December 31, 1999 compared to $45.0 million in the comparable prior year period. The software systems and services gross margin increased to 47% in 1999 compared to 45% for the same period in the prior year, on a pro forma basis. The gross margin benefited from a product mix in 1999, which included less hardware and third party software than the prior year on a pro forma basis. Hardware and third party software have a lower margin than proprietary software license products and services. The gross margin increase was offset slightly by higher costs associated with third party services utilized in connection with the installation of two large mass appraisal contracts in 1999.

Information and Property Records Services Segment

On a pro forma basis, total cost of revenues from the information and property records services segment increased $4.5 million, or 26%, for the twelve months ended December 31, 1999 compared to $17.2 million in the comparable prior year period. The gross margin from information and property records services was lower at 44%, compared to the prior year period amount of 47%, on a pro forma basis. This margin decline is mainly attributable to changes in product mix caused by an increase in document management services, which have a lower gross margin than other services.

Selling, General and Administrative Expenses

Selling, general and administrative expenses were $37.9 million in 1999, compared to $14.5 million in 1998. The current year includes a full year of selling, general and administrative expenses associated with 1998 acquired companies and partial year expenses for 1999 acquired companies. On a pro forma basis, selling, general and administrative expenses as a percent of revenues was approximately 32% for both 1999 and 1998.

Costs of Certain Acquisition Opportunities

In March 1999, the Company entered into a merger agreement pursuant to which the Company contemplated the acquisition of all of the outstanding common stock of CPS Systems, Inc. ("CPS"). In connection with that agreement, the Company provided CPS with bridge financing in the form of notes secured by a second lien on substantially all of the assets of CPS, including accounts receivable, inventory, intangibles, equipment and intellectual property.

In January 2000, CPS filed a voluntary petition for relief under Chapter 11 of the United States Bankruptcy Code. On March 24, 2000, the bankruptcy court conducted a public auction of the assets of CPS. The Company submitted a cash only bid of $100,000 for the California Visual Basic/Oracle Tax and CAMA software assets of CPS.

The Company closed on the transaction on March 30, 2000, and anticipates minimal to no recovery of amounts due under its secured notes. Accordingly, the aggregate bridge financings and related accrued interest receivable and other costs amounting to $1.9 million were expensed in the 1999 consolidated financial statements.

On July 31, 1998, the Company entered into a letter of intent with a Fortune 500 company to acquire certain businesses of the company in a transaction to be accounted for as a purchase business combination. These businesses had estimated annual revenues in excess of $500 million and represented a business opportunity which was aligned with the Company's strategy in the information management business. Direct and incremental costs totaling $3.1 million associated with the combination, primarily consisting of fees paid to outside legal and accounting advisors for due diligence, were incurred by the Company and would have been considered as a cost of the acquisition upon the successful closing of the transaction. Subsequent to September 30, 1998, the potential seller elected not to sell any of the businesses. Accordingly, all costs associated with this opportunity were expensed in the 1998 consolidated financial statements.

Amortization of Intangibles

The Company accounted for all 1999 and 1998 acquisitions using the purchase method of accounting for business combinations. The excess of the purchase price over the net identifiable assets of the acquired companies ("goodwill") is amortized using the straight-line method of amortization over their respective estimated useful lives.

At December 31, 1999 and 1998, the Company had $160.7 million and $96.0 million, respectively, of goodwill and other intangible assets, net of accumulated amortization. Such intangibles amounted to 59% and 64% of total assets and 116% and 126% of shareholders' equity at December 31, 1999 and 1998, respectively. Goodwill prior to any amortization, at December 31, 1999 and 1998 was $108.0 million and $71.9 million, respectively.

The Company considers a variety of factors in estimating the useful lives of goodwill and other intangible assets to be recorded as a result of its acquisitions. Determining the appropriate useful life of goodwill and other intangible assets is a matter of judgment. In making its determination, the Company considered a number of factors, including the following:

- position of the acquired enterprise in the market and the extent of barriers to entry for competitors;
- age, historical operating performance, and quality of earnings of the acquired enterprise, including the extent of operating history and the presence or lack of stable earnings history;
- experience of the acquired enterprise's management;
- the future viability of products and services, including the impact of technological changes and advances and the level of continued investment necessary to maintain the acquired enterprise's technological position;
- competition; and
- industry practice.

In addition, the Company periodically retains the services of an outside appraisal firm to assist in determining the value assigned to newly acquired identifiable intangible assets and the estimated useful lives. At December 31, 1999 and 1998, management of the Company believes such assets are recoverable and the estimated useful lives are reasonable.

Net Interest Expense

As a result of the debt incurred to finance acquisitions and their related transaction costs in 1998 and 1999, the Company recorded net interest expense of $4.6 million in 1999 compared to $1.8 million in 1998.

Income Tax Provision

In 1999, the Company had pre-tax income from continuing operations of $2.3 million and an income tax provision of $2.4 million, resulting in an effective tax rate of 103%. The comparable 1998 effective income tax rate was 64%. The high effective income tax rate is due to non-deductible items such as goodwill amortization as compared to the relative amount of pretax earnings.

Discontinued Operations

Forest City Divestiture

In December 1998, the Company entered into a letter of intent to sell its non-core automotive parts and supplies business, Forest City. Accordingly, this segment has been accounted for as a discontinued operation in compliance with Accounting Principles Board Opinion No. 30.

On March 26, 1999, the Company sold all of the outstanding common stock of Forest City to HalArt, L.L.C. for $24.5 million. Proceeds consisted of $12.0 million in cash, $3.8 million in a short-term secured promissory note, $3.2 million in senior secured subordinated notes and $5.5 million in preferred stock. The short-term secured promissory note was fully paid in July 1999. The senior secured subordinated notes carry interest rates ranging between 6% to 8%, become due in March 2002, and are secured by a second lien on Forest City inventory and real estate. The preferred stock will be mandatorily redeemable March 2006. Both the subordinated notes and the preferred stock will be subject to partial or whole redemption upon the occurrences of specified events.

In determining the loss on the disposal of the business, the subordinated notes were valued using present value techniques. As discussed in Note 2 in the Notes to Consolidated Financial Statements, the $3.2 million in senior secured subordinated notes were subsequently assigned without recourse to another party in connection with an acquisition. Because redemption of the preferred stock is highly dependent upon future successful operations of the buyer and due to the extended repayment terms, the Company is unable to estimate the degree of recoverability. Accordingly, the Company will record the value of the preferred stock as cash is received. The Company originally estimated the loss on the disposal of Forest City to be $8.9 million, which was recorded in the fourth quarter of 1998. The estimated loss included anticipated operating losses from the measurement date of December 1998 to the date of disposal and associated transaction costs. In 1999, the Company recorded additional losses of $907,000 (including taxes of $183,000) to reflect adjusted estimated transaction costs, funded operating losses which were higher than originally estimated, income tax benefit adjustment and a write down of a receivable in connection with a dispute.

Two of the Company's non-operating subsidiaries are involved in various claims for work related injuries and physical conditions and for environmental claims relating to a formerly owned subsidiary that was sold in 1995. During 1999, the Company

expensed approximately $1.9 million (net of taxes of $877,000) for trial costs and settlements in excess of the amounts accrued associated with these claims. See Note 17 in Notes to Consolidated Financial Statements.

IFS Divestiture

Effective October 15, 1997, the Company sold all of the capital stock of its subsidiary, IFS, which provided products for fund-raising programs, to I.F.S. Acquisition Corporation for $8.4 million. This sale resulted in a loss on disposal of $2.5 million. The estimated loss on disposal included estimates regarding the value of certain assets that were subject to change. In 1998, the Company made final adjustments to these assets, which resulted in a reduction of the previously estimated loss on disposal by $801,000. Management does not expect any further adjustments to the loss on disposal. Proceeds consisted of $5.8 million in cash received at closing and $2.6 million received in January 1998.

Investment Securities Available-For-Sale

Pursuant to an agreement with two major shareholders of H.T.E., Inc. ("HTE"), the Company acquired approximately 32% of HTE's common stock in two separate transactions in 1999. On August 17, 1999, the Company exchanged 2.3 million shares of its common stock for 4.7 million shares of HTE common stock. This initial investment was recorded at $14.0 million. The second transaction occurred on December 21, 1999, in which the Company exchanged 484,476 shares of its common stock for 968,952 shares of HTE common stock and this investment was recorded at $1.8 million.

Florida state corporation law restricts the voting rights of "control shares", as defined, acquired by a third party in certain types of acquisitions, which restrictions may be removed by a vote of the shareholders. The Florida "control share" statute has not been interpreted by the courts. HTE has taken the position that, under the Florida statute, all of the shares acquired by the Company constitute "control shares" and therefore do not have voting rights until such time as shareholders of HTE, other than the Company, restore voting rights to those shares. Management of the Company believes that only the shares acquired in excess of 20% of the outstanding shares of HTE constitute "control shares" and therefore believes it currently has the right to vote all HTE shares it owns up to at least 20% of the outstanding shares of HTE.

Because the Company currently does not have the ability to exercise significant influence, the Company accounts for its investment in HTE pursuant to the provisions of Statement of Financial Accounting Standards ("SFAS") No. 115, "Accounting for Certain Investments in Debt and Equity Securities". These securities are classified as available-for-sale and are recorded at fair value as determined by quoted market prices. Unrealized holding gains and losses, net of the related tax effect, on available-for-sale securities are excluded from earnings and are reported as a separate component of shareholders' equity until realized.

At December 31, 1999, the cost, fair value and gross unrealized holding gains of the investments available-for-sale amounted to $15.8 million, $33.7 million and $17.9 million, respectively, based on a quoted market price of $6.00 per share. Because of the Company's existing capital loss carryforwards, any tax expense related to the unrealized gain is offset by a reduction in the Company's valuation allowance. At March 31, 2000, the fair value was $18.1 million based on a quoted market price of $3.22 per share.

Net Income and Other Measures

Net loss was $2.8 million in 1999 compared to $8.4 million in 1998. Diluted loss per share was $0.07 and $0.24 for 1999 and 1998, respectively. Net loss from continuing operations was $64,000, or $0.00 per diluted share, in 1999 compared to net earnings of $1.2 million, or $0.03 per diluted share in 1998. Excluding the effect of the costs of certain acquisition opportunities in 1999 and 1998, income from continuing operations would have been $1.1 million and $3.2 million, respectively, and diluted earnings per share would have been $0.03 and $0.09 per dilutive share, respectively.

Earnings before interest, taxes, depreciation, amortization and costs of certain acquisition opportunities ("EBITDA") for the year ended December 31, 1999, was $20.0 million compared to $13.7 million in 1998. EBITDA consists of income from continuing operations before interest, costs of certain acquisition opportunities, income taxes, depreciation and amortization. Although EBITDA is not calculated in accordance with accounting principles generally accepted in the United States, the Company believes that EBITDA is widely used as a measure of operating performance. Nevertheless, the measure should not be considered in isolation or as a substitute for operating income, cash flows from operating activities, or any other measure for determining the Company's operating performance or liquidity that is calculated in accordance with generally accepted accounting principles. EBITDA is not necessarily indicative of amounts that may be available for reinvestment in the Company's business or other discretionary uses. In addition, because all companies do not calculate EBITDA in the same manner, this measure may not be comparable to similarly titled measures reported by other companies.

Because of the recent acquisitions in 1999 and 1998, the Company records a significant level of charges for its amortization of intangibles, a majority of which are not deductible for income tax purposes. The effect of these amortization charges and the related tax effect was to decrease income from continuing operations during the years ended December 31, 1999 and 1998 by $5.8 million and $2.7 million and related diluted earnings per share by $0.15 and $0.08, respectively.

1998 Compared to 1997

Revenues

For the year ended December 31, 1998, Tyler had revenues from continuing operations of $50.5 million, $22.1 million of which were attributable to the software systems and services segment and $28.4 million of which were derived from the information and property records and services segment. On a pro forma basis for acquired companies as of December 31, 1998 only, total revenues were $62.7 million compared to $48.1 million in 1997.

Software Systems and Services Segment

On a pro forma basis, total revenues from the software systems and services segment increased $8.5 million, or 43% to $28.4 million, for the twelve months ended December 31, 1998 compared to $19.9 million in the comparable prior year period. Results benefited from an overall movement by county and local governments to upgrade their current computer systems. The movement has been driven in part by customers' need to solve their Year 2000 issues. Maintenance revenue for this segment in 1998 was approximately 25% of total revenue for this segment. In 1998, the Company was awarded significant contracts with the counties of El Paso and Gregg, both located in Texas, and Multnomah County (Portland) in Oregon for combined expected revenues of approximately $8.0 million. Installation of these contracts began in the fall of 1998 and was expected to be significantly complete by the end of 1999. Revenues in 1998 include approximately $2.5 million associated with these three contracts. Additional revenue growth was derived from product upgrades and expansion into new markets in Georgia, Washington, Minnesota, Wisconsin and Illinois.

Information and Property Records Services Segment

On a pro forma basis, total revenues from the information and property records services segment increased $6.2 million or 22% to $34.4 million, for the twelve months ended December 31, 1998 compared to $28.2 million in the comparable prior year period. A large portion of this increase is the result of revenue earned from a contract for the Cook County Recorder of Deeds in Chicago, Illinois to design and install an electronic document management and imaging system. Implementation of the system began in the second quarter and was completed in the fourth quarter of 1998. Although the installation of the Cook County contract was completed in 1998, maintenance and support activities will continue through 2003. Other sources of revenue increases were optical imaging services, title plant update services, title company software, customized programming associated with document management software and royalty income. Royalty income is derived from the sale of property tax information for real estate transactions. These increases were somewhat offset by lower re-creation revenue compared to last year. Re-creation services provide image-enhanced, archival-quality reprints of old and deteriorating records, including photostatic prints, with microfilm backup copies for improved security in case of fire, theft, water damage or other catastrophe. Re-creation revenue is generally dependent on available county funds, which may result in uneven revenue streams from year to year.

Cost of Revenues

For the year ended December 31, 1998, Tyler had cost of revenues from continuing operations of $24.7 million, $10.2 million of which were attributable to the software systems and services segment and $14.5 million of which were derived from the information and property records services segment. On a pro forma basis, for acquired companies as of December 31, 1998 only, cost of revenues were $32.1 million compared to $24.6 million in 1997.

Software Systems and Services Segment

On a pro forma basis, total cost of revenues from the software systems and services segment increased $3.9 million, or 38%, for the twelve months ended December 31, 1998 compared to $10.1 million in the comparable prior year period. The gross margin for software systems and services in 1998 of 51% was up slightly from 49% for same period in the prior year, on a pro forma basis, primarily due to increased sales volume related to several large contracts in the fourth quarter of 1998. The gross margin increase was offset somewhat by a strong competitive market for computer professionals which resulted in increased salaries and other costs associated with attracting and retaining quality employees.

Information and Property Records Services Segment

On a pro forma basis, total cost of revenues from the information and property records services segment increased $3.6 million, or 25%, for the twelve months ended December 31, 1998 compared to $14.5 million in the comparable prior year period. The gross margin from information and property records services was slightly lower at 47%, compared to the prior year period amount of 49%, on a pro forma basis. This decline in margin is mainly attributable to changes in product mix, primarily re-creation revenue, which was unusually high in 1997 and has a higher gross margin than other services.

Selling, General and Administrative Expenses

Selling, general and administrative expenses were $14.5 million in 1998, compared to $3.0 million in 1997. The increase is due to acquisition of the information management companies as the prior year consists only of corporate expense relating to the holding company's activities. On a pro forma basis, selling, general and administrative expenses as a percent of revenues has declined from approximately 29% in 1997 to approximately 27% in 1998, mainly due to increased sales volume. This decline was offset somewhat by increased costs associated with present and planned future growth.

Amortization of Intangibles

The Company accounted for all 1998 acquisitions using the purchase method of accounting for business combinations. Unallocated purchase price over the net identifiable assets of the acquired companies is amortized using the straight-line method of amortization over their respective useful lives.

Net Interest Expense

As a result of the debt incurred to finance acquisitions and their related transaction costs in 1998, the Company recorded net interest expense of $1.8 million compared to net interest income of $822,000 in 1997.

Income Tax Provision

The effective tax rate increased to 64% from a 43% benefit rate in the prior year mainly due to the non-deductibility of goodwill amortization relating to the 1998 acquisitions.

Net Income and Other Measures

Net loss was $8.4 million in 1998 compared to $3.3 million in 1997. Diluted loss per share was $0.24 and $0.16 for 1998 and 1997, respectively. Net earnings from continuing operations was $1.2 million, or $0.03 per diluted share, in 1998 compared to a net loss of $1.2 million, or $0.06 per diluted share in 1997. Excluding the effect of the costs of certain acquisition opportunities, income from continuing operations and diluted earnings per share in 1998 would have been $3.2 million and $0.09, respectively.

Accounting Pronouncements Not Yet Adopted

In June 1999, SFAS No. 137, "Accounting for Derivative Instruments and Hedging Activities–Deferral of Effective Date of FASB Statement No. 133" was issued by the Financial Accounting Standards Board ("FASB"). The Statement defers for one year the effective date of FASB Statement No. 133, "Accounting for Derivative Instruments and Hedging Activities". The rule now will apply to all fiscal years beginning after June 15, 2000. FASB Statement No. 133 will require the Company to recognize all derivatives on the balance sheet at fair value. Derivatives that are not hedges must be adjusted to fair value through income. If the derivative is a hedge, depending on the nature of the hedge, changes in the fair value of derivatives will either be offset against the change in fair value of the hedged assets, liabilities, or firm commitments through earnings or recognized in other comprehensive income until the hedged item is recognized in earnings. The ineffective portion of a derivative's change in fair value will be immediately recognized in earnings. The adoption of SFAS No. 133 is not expected to have a material impact on the Company's consolidated financial statements and related disclosures.

Liquidity

In October 1999, the Company entered into a three-year $80 million revolving credit agreement ("Senior Credit Facility") with a group of banks. Borrowings under the Senior Credit Facility, as amended, bear interest at either the lead bank's prime rate plus a margin of .25% to 1.50% or the London Interbank Offered Rate plus a margin of 2.25% to 3.50%, depending on the Company's ratio of indebtedness to earnings before interest, taxes, depreciation and amortization. The Senior Credit Facility replaced the Company's previous $50 million revolving credit facility. At December 31, 1999, the Company had outstanding borrowings and letters of credit of $61.0 million and available borrowing capacity of $19.0 million under the Senior Credit Facility. The effective average interest rate for the borrowings was approximately 7.7% and 7.5% in 1999 and 1998, respectively. The Senior Credit Facility is secured by substantially all of the Company's real and personal property and a pledge of the common stock of present and future significant operating subsidiaries. The Senior Credit Facility is also guaranteed by such subsidiaries. Under the terms of the Senior Credit Facility, the Company is required to maintain certain financial ratios and other financial conditions. The Senior Credit Facility also prohibits the Company from making certain investments, advances or loans and restricts substantial asset sales, capital expenditures and cash dividends. Under the terms of the Senior Credit Facility the Company has the ability to increase the facility to $100 million subject to the participation of additional new lenders.

In addition, at December 31, 1999, the Company had several promissory notes payable, capital lease obligations and other installment notes totaling $6.5 million (excluding current portion of $3.7 million). Fixed interest rates on the promissory and installment notes ranged from 6% to 10%. The Company made principal payments of $3.2 million on these notes and $668,000 on capital lease obligations in 1999.

In 1999, the Company made capital expenditures of $15.2 million for continuing operations, of which approximately $2.5 million were financed through capital lease obligations and a note payable. These expenditures included $6.7 million relating to the construction of the national data repository and development of software. The remaining expenditures were primarily for computer equipment and building expansions.

The Company entered into a tax-benefit transfer lease in 1983 pursuant to which it is obligated to make income tax payments totaling $2.2 million over the next two years beginning in 2000. This obligation is included in deferred taxes at December 31, 1999.

In 1999, the Company paid, in the aggregate, $25.6 million in cash and issued 6.0 million shares of Tyler common stock for acquisitions accounted for as purchases. Cash paid for acquisitions does not include transaction costs related to the execution of the acquisitions, such as legal, accounting and consulting fees, or acquired cash balances.

Excluding acquisitions, Tyler anticipates that 2000 capital spending will be approximately $10.0 million, which is expected to be funded from internal operations and/or bank financing. Included in these expenditures is approximately $4.0 million relating to construction of the Database. Such costs include certain payroll related programming costs as well as the costs to purchase data from external sources to initially populate the Database. Upon completion, the Database will include, among other items, a wide range of public information such as real property tax and assessment data, chain of title property records and images. The Company does not anticipate Database revenues to be significant in 2000. Additionally, further expenditures will be necessary subsequent to 2000 to update and expand the Database.

The Company is from time to time engaged in discussions with respect to selected acquisitions and expects to continue to assess these and other acquisition opportunities as they arise. The Company may also require additional financing if it decides to make additional acquisitions. There can be no assurance, however, that any such opportunities will arise, that any such acquisitions will be consummated or that any needed additional financing will be available when required on terms satisfactory to the Company. Absent any acquisitions, the Company anticipates that cash flows from operations, working capital and unused borrowing capacity under its Senior Credit Facility will provide sufficient funds to meet its needs for at least the next year.

The Company was a defendant in a lawsuit in which a favorable ruling was rendered in the first quarter of 2000. From late 1999 through the first quarter of 2000, the Company incurred legal fees in connection with the defense of this matter estimated to range from $800,000 to $1.0 million, a majority of which will be paid in the second quarter of 2000.

On January 3, 2000, the Company acquired the stock of Capital Commerce Reporter, Inc. ("CCR") for approximately $3.0 million in cash, $1.2 million in assumed debt and a $2.8 million five-year 10% subordinated note in a business combination accounted for as a purchase. CCR is based in Austin, Texas and provides public records research, document retrieval, filing and information services. CCR has an active client base of approximately 1,800 financial institutions, legal firms and title companies.

Capitalization

The Company's capitalization at December 31, 1999, consisted of $71.2 million in long-term obligations (including current portion) and $138.9 million in shareholders' equity. The total debt-to-capital ratio was 34% at December 31, 1999.

Year 2000

In the prior years, the Company discussed the nature and progress of its plans to become Year 2000 compliant. In late 1999, the Company completed its remediation and testing of systems. As a result of those planning and implementation efforts, the Company experienced no significant disruptions in mission critical information technology and non-information technology systems and believes those systems successfully responded to the Year 2000 date change. The Company is not aware of any significant Year 2000 issues that have affected its business. The number of Year 2000-related inquiries from customers into the Company's customer-care centers has been minimal. While the Company does not anticipate any future problems, it is possible that the Company's systems could be affected in the future by the Year 2000 issue. The Company's systems interface with many third parties, which, if they have not adequately addressed their Year 2000 issues, might result in system failures that could cause a significant disruption to the Company's operations.

Consolidated Statements of Operations

For the years ended December 31

In thousands, except per share amounts

	1999	1998	1997
Revenues:			
Software licenses	$ 23,576	$10,761	$ —
Professional services	46,629	24,311	—
Maintenance	25,579	6,139	—
Hardware and other	12,617	9,338	—
Total revenues	108,401	50,549	—
Cost of revenues:			
Software licenses	3,227	1,041	—
Professional services and maintenance	42,505	17,710	—
Hardware and other	8,681	5,998	—
Total cost of revenues	54,413	24,749	—
Gross margin	53,988	25,800	—
Selling, general and administrative expense	37,909	14,461	2,959
Costs of certain acquisition opportunities	1,851	3,146	—
Amortization of intangibles	7,315	3,173	—
Operating income (loss)	6,913	5,020	(2,959)
Interest expense	(4,893)	(2,009)	(85)
Interest income	320	178	907
Income (loss) from continuing operations before income taxes	2,340	3,189	(2,137)
Income tax provision (benefit)	2,404	2,033	(918)
Income (loss) from continuing operations	(64)	1,156	(1,219)
Discontinued operations:			
Income (loss) from operations, after income tax	—	(1,378)	339
Loss on disposal, after income taxes	(2,760)	(8,138)	(2,468)
Loss from discontinued operations	(2,760)	(9,516)	(2,129)
Net loss	$ (2,824)	$ (8,360)	$(3,348)
Basic earnings (loss) per common share:			
Continuing operations	$ (0.00)	$0.04	$ (0.06)
Discontinued operations	(0.07)	(0.30)	(0.10)
Net loss per common share	$ (0.07)	$ (0.26)	$ (0.16)
Diluted earnings (loss) per common share:			
Continuing operations	$ (0.00)	$ 0.03	$ (0.06)
Discontinued operations	(0.07)	(0.27)	(0.10)
Net loss per common share	$ (0.07)	$ (0.24)	$ (0.16)
Weighted average common shares outstanding:			
Basic	39,105	32,612	20,498
Diluted	39,105	34,400	20,498

See accompanying notes.

Consolidated Balance Sheets

December 31

In thousands, except par value and number of shares

	1999	1998
Assets		
Current assets:		
Cash and cash equivalents	$ 2,424	$ 1,558
Accounts receivable (less allowance for losses of $1,257 in 1999 and $531 in 1998)	39,464	14,429
Income tax receivable	3,392	1,308
Prepaid expenses and other current assets	3,301	1,445
Deferred income taxes	2,438	1,061
Net current assets of discontinued operations	—	12,752
Total current assets	51,019	32,553
Net assets of discontinued operations	—	2,848
Property and equipment, net	21,789	14,147
Other assets:		
Investment securities available-for-sale	33,713	—
Goodwill and other intangibles, net	160,665	95,996
Sundry	1,991	938
Other receivables	3,358	3,612
	$272,535	$150,094
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable	$ 5,163	$ 1,190
Accrued wages and commissions	7,262	1,903
Other accrued liabilities	6,524	3,249
Current portion of long-term obligations	3,747	1,876
Deferred revenue	24,303	10,148
Total current liabilities	46,999	18,366
Long-term obligations, less current portion	67,446	37,189
Deferred income taxes	13,869	10,920
Other liabilities	5,317	7,273
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; 44,709,169 and 35,913,313 shares issued in 1999 and 1998, respectively	447	359
Additional paid-in capital	151,298	103,985
Accumulated deficit	(24,615)	(21,791)
Accumulated other comprehensive income	17,931	—
Treasury stock, at cost; 1,418,482 shares in 1999 and 1,423,482 shares in 1998	(6,157)	(6,207)
Total shareholders' equity	138,904	76,346
	$272,535	$150,094

See accompanying notes.

Consolidated Statements of Shareholders' Equity

For the years ended December 31, 1999, 1998 and 1997

In thousands

	Common Stock		Additional Paid-In	Accumulated Other Comprehensive	Accumulated	Treasury Stock		Total Shareholders'
	Shares	Amount	Capital	Income	Deficit	Shares	Amount	Equity
Balance at December 31, 1996	21,309	$213	$ 48,520	$ —	$(10,083)	(1,429)	$(6,609)	$ 32,041
Net loss/Total comprehensive loss	—	—	—	—	(3,348)	—	—	(3,348)
Issuance of treasury shares upon exercise of stock options	—	—	(309)	—	—	198	682	373
Issuance of treasury shares for employee stock grants	—	—	(442)	—	—	150	942	500
Sale of common stock and warrant	2,000	20	3,480	—	—	—	—	3,500
Redemption of rights	—	—	(220)	—	—	—	—	(220)
Purchase of treasury shares	—	—	—	—	—	(472)	(1,630)	(1,630)
Federal income tax benefit related to exercise of stock options	—	—	187	—	—	—	—	187
Balance at December 31, 1997	23,309	233	51,216	—	(13,431)	(1,553)	(6,615)	31,403
Net loss/Total comprehensive loss	—	—	—	—	(8,360)	—	—	(8,360)
Issuance of treasury shares upon exercise of stock options	—	—	(259)	—	—	136	468	209
Shares issued for acquisitions	12,604	126	52,880	—	—	(6)	(60)	52,946
Federal income tax benefit related to exercise of stock options	—	—	148	—	—	—	—	148
Balance at December 31, 1998	35,913	359	103,985	—	(21,791)	(1,423)	(6,207)	76,346
Comprehensive income:								
Net loss	—	—	—	—	(2,824)	—	—	(2,824)
Unrealized gain on securities classified as available-for-sale, net of tax	—	—	—	17,931	—	—	—	17,931
Total comprehensive income								15,107
Issuance of treasury shares upon exercise of stock options	—	—	(31)	—	—	5	50	19
Investment securities available-for-sale	2,810	28	15,754	—	—	—	—	15,782
Shares issued for acquisitions	5,986	60	31,728	—	—	—	—	31,788
Revision of federal income tax benefit related to exercise of stock options	—	—	(138)	—	—	—	—	(138)
Balance at December 31, 1999	44,709	$447	$151,298	$17,931	$(24,615)	(1,418)	$(6,157)	$138,904

See accompanying notes.

Consolidated Statements of Cash Flows

For the years ended December 31

In thousands

	1999	1998	1997
Cash flows from operating activities:			
Net loss	$ (2,824)	$ (8,360)	$ (3,348)
Adjustments to reconcile net loss from operations to net cash provided (used) by operations:			
Depreciation and amortization	11,261	5,503	116
Impairment of notes receivable	1,851	—	—
Provision for doubtful accounts	702	179	—
Deferred income tax (benefit)	546	242	(2,477)
Discontinued operations–noncash charges and changes in operating assets and liabilities	(1,543)	9,266	2,794
Changes in operating assets and liabilities, exclusive of effects of acquired companies and discontinued operations:			
Accounts receivable	(13,674)	(7,683)	(15)
Income tax receivable	(2,214)	231	510
Prepaid expenses and other current assets	257	(189)	(150)
Other receivables	594	882	—
Accounts payable	1,097	(533)	(135)
Accrued liabilities	2,817	(463)	(3,071)
Deferred revenue	1,784	4,316	—
Other liabilities	—	(1,303)	(53)
Net cash provided (used) by operating activities	654	2,088	(5,829)
Cash flows from investing activities:			
Additions to property and equipment	(6,011)	(2,391)	(139)
Investment in database and other software development costs	(6,680)	(267)	—
Cost of acquisitions, net of cash acquired	(25,949)	(34,741)	—
Capital expenditures of discontinued operations	(534)	(2,070)	(1,290)
Proceeds from disposal of discontinued operations, net of transaction costs	15,114	2,628	5,847
Issuance of notes receivable	(1,335)	—	(5,700)
Proceeds from disposal of property and equipment	144	21	—
Other	508	33	(738)
Net cash used by investing activities	(24,743)	(36,787)	(2,020)
Cash flows from financing activities:			
Net borrowings on revolving credit facility	30,190	30,810	—
Payments on notes payable	(3,248)	(2,042)	—
Issuance of common stock	—	—	3,500
Net sale of treasury shares to employee benefit plans	19	209	645
Purchase of treasury shares	—	—	(1,630)
Payments of principal on capital lease obligations	(668)	(551)	—
Redemption of rights	—	(220)	—
Debt issuance costs	(1,338)	(313)	—
Net cash provided by financing activities	24,955	27,893	2,515
Net increase (decrease) in cash and cash equivalents	866	(6,806)	(5,334)
Cash and cash equivalents at beginning of year	1,558	8,364	13,698
Cash and cash equivalents at end of year	$ 2,424	$ 1,558	$ 8,364

See accompanying notes.

(1) Summary of Significant Accounting Policies

Description of Business

Tyler Technologies, Inc. (the "Company") provides information management services and products through two business segments: the software systems and services segment and the information and property records services segment.

The software systems and services segment provides county, local and municipal governments with software, systems and services to serve their information technology and automation needs, as well as real estate appraisal services. This segment integrates its software products with computer equipment from hardware vendors, third-party database management applications and office automation software. In addition, this segment also assists local and county governments with all aspects of software and hardware selection, network design and management, installation and training and on-going support and related services. This segment also provides mass appraisal services to taxing jurisdictions, including physical inspection of all properties in the assessing jurisdiction, data collection and processing, computer analysis for property valuation and preparation of tax rolls.

The information services and property records segment provides a wide range of information management outsourcing services, primarily to county governments as well as to some commercial users. These services currently include records management and micrographic reproduction, data warehousing, computerized indexing, and imaging of real property records maintained by county clerks and recorders, as well as information management outsourcing and professional services required by other county government units and agencies. This segment also provides title plant copies and title plant update services as well as property records database information.

The Company discontinued operations of Institutional Financing Services, Inc. ("IFS") and Forest City Auto Parts Company ("Forest City"). See Note 3 for discussion of discontinued businesses.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and all of its wholly-owned subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation. Prior years' financial statements have been restated to reflect discontinued businesses.

Cash and Cash Equivalents

The Company considers all highly liquid debt instruments purchased with original maturities of three months or less, which includes overnight repurchase agreements, to be cash equivalents.

Revenue Recognition

The Company's software systems and services segment derives revenue from software licenses, postcontract customer support ("PCS") and services. PCS includes telephone support, bug fixes and rights to upgrade on a when-and-if available basis. Services range from installation, training and basic consulting to software modification and customization to meet specific customer needs. In software arrangements that include rights to multiple software products, specified upgrades, PCS and/or other services, the Company allocates the total arrangement fee among each deliverable based on the relative fair value of each of the deliverables, determined based on vendor-specific objective evidence.

In October 1997, the American Institute of Certified Public Accountants ("AICPA") issued Statement of Position ("SOP") 97-2, "Software Revenue Recognition" which supersedes SOP 91-1. The Company was required to adopt SOP 97-2 for software transactions entered into beginning January 1, 1998.

The Company recognizes revenue in accordance with SOP 97-2 as amended, as follows:

Software Licenses - The Company recognizes the revenue allocable to software licenses and specified upgrades upon delivery and installation of the software product or upgrade to the end user, unless the fee is not fixed or determinable or collectibility is not probable. If the fee is not fixed or determinable, revenue is recognized as payments become due from the customer. If collectibility 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 functionality of other elements of the arrangement.

A majority of the Company's software arrangements involve "off-the-shelf" software and the other elements are not considered essential to the functionality of the software. For those software arrangements in which services are not considered essential, the software license fee is recognized as revenue after delivery and installation have occurred, training has commenced, customer acceptance is reasonably assured, the fee is billable and probable of collection and the remaining services other than training are considered nominal.

Software Services - When software services are considered essential, revenue under the entire arrangement is 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 the services are performed.

Computer Hardware Equipment - Revenue allocable to equipment based on vendor specific evidence of fair value is recognized when the equipment is delivered and collection is probable.

Postcontract Customer Support - PCS agreements are generally entered into in connection with initial license sales and subsequent renewals. 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.

Contract Accounting - For arrangements that include customization or modification of the software, or where software services are otherwise considered essential, or for real estate mass appraisal projects, revenue is recognized using contract accounting. Revenue from these arrangements is recognized on a percentage-of-completion method with progress-to-completion measured based primarily upon labor hours incurred or units completed.

Deferred revenue consists primarily of payments received in advance of revenue being earned under software licensing, software and hardware installation, support and maintenance contracts.

Through its information and property records services segment, the Company provides computerized indexing and imaging of real property records, records management and micrographic reproduction, as well as information management outsourcing and professional services required by county and local government units and agencies. The Company also provides title plant update services to title companies and sales of copies of title plants. The Company recognizes service revenue when services are performed and equipment sales when the products are shipped.

Title Plants - Sales of copies of title plants are usually made under long-term installment contracts. The contract with the customer is generally bundled with a long-term title plant update service arrangement. The bundled fees are payable on a monthly basis over the respective contract period and revenue is recognized on an as-billable basis over the terms of the arrangement.

The Company also receives royalty revenue relating to the current activities of two operating companies. Royalty revenue is recognized as earned upon receipt of royalty payments.

Use of Estimates

The preparation of the consolidated financial statements in conformity with generally accepted accounting principles requires management 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. Actual results could differ from those estimates.

Property and Equipment

Property, equipment and purchased software are recorded at cost. Depreciation and amortization are computed for financial reporting purposes primarily utilizing the straight-line method over the estimated useful lives of the related assets, or for leasehold improvements and capital leases, the shorter of the base lease term or estimated useful life. For income tax purposes accelerated depreciation methods are primarily used with the establishment of deferred income tax liabilities for the resulting temporary differences.

Maintenance and repairs are charged to expense as incurred. Costs of renewals and betterments are capitalized. The cost and accumulated depreciation and amortization applicable to assets sold or otherwise disposed of are removed from the asset accounts, and any net gain or loss is included in the statement of operations.

Impairment of Long-Lived Assets

The Company accounts for its long-lived assets in accordance with the provisions of Statement of Financial Accounting Standards ("SFAS") No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of". SFAS No. 121 requires that long-lived assets and certain identifiable intangibles be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets, including goodwill, to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceed the fair value of the assets.

Assets to be disposed of are reported at the lower of carrying amount or fair value less costs to sell.

Research and Development Costs

The Company expenses all research and development costs as incurred. In 1999, the Company expensed $1,765,000 of research and development costs. Research and development costs in 1998 and 1997 were insignificant.

Income Taxes

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

Stock Compensation

The Company has adopted the provisions of SFAS No. 123, "Accounting for Stock-Based Compensation", which permits entities to recognize as expense over the vesting period the fair value of all stock-based awards as of the date of grant. Alternatively, SFAS No. 123 also allows entities to continue to apply the provisions of APB Opinion No. 25, "Accounting for Stock Issued to Employees", and related interpretations and provide pro forma net income and pro forma earnings per share disclosures for employee stock option grants made in 1995 and future years as if the fair-value-based method defined in SFAS No. 123 had been applied. Under APB Opinion No. 25, compensation expense would be recorded on the date of grant only if the current market price of the underlying stock exceeded the exercise price.

The Company has elected to continue to apply the provisions of APB Opinion No. 25 and provide the pro forma disclosure provisions of SFAS No. 123. See Note 12 for additional information.

Comprehensive Income (Loss)

SFAS No. 130, "Reporting Comprehensive Income", requires reporting and displaying comprehensive income and its components, the accumulated balance of other comprehensive income displayed separately from retained earnings and capital surplus in the equity section of the statement of financial position.

As of and for the year ended December 31, 1999, the Company had other comprehensive income and accumulated comprehensive income of $17,931,000 (no tax effect due to the change in the valuation allowance related to the existing capital loss carryforwards) associated with unrealized gains on securities classified as available-for-sale. Total comprehensive income (loss) for 1998 and 1997 was the same as the Company's reported net income (loss) for those periods and there was no accumulated balance of comprehensive income as of December 31, 1998 or 1997.

Goodwill and Other Intangible Assets

The cost of acquired companies is allocated first to identifiable assets based on estimated fair values. Costs allocated to identifiable intangible assets are amortized on a straight-line basis over the remaining estimated useful lives of the assets, as determined principally by underlying contract terms or independent appraisals. The excess of the purchase price over the fair value of identifiable assets acquired, net of liabilities assumed, is recorded as goodwill and amortized on a straight-line basis over the estimated useful life. The useful life is determined based on the individual characteristics of the acquired entity and ranges from five to forty years.

The Company periodically evaluates the carrying amounts of goodwill, as well as the related amortization periods, to determine whether adjustments to these amounts or useful lives are required based on current events and circumstances. The evaluation is based on the Company's projection of the undiscounted future operating cash flows of the acquired operation over the remaining useful lives of the related goodwill. To the extent such projections indicate that future undiscounted cash flows are not sufficient to recover the carrying amounts of related goodwill, the underlying assets are written down by charges to expense so that the carrying amount is equal to fair value, primarily determined based on future discounted cash flows. The assessment of recoverability of goodwill will be affected if estimated future operating cash flows are not achieved.

Title plants consist of title records relating to a particular region and are generally stated at cost. Expenses associated with current maintenance, such as salaries and supplies, are charged to expense in the year incurred. The costs of acquired title plants and costs of building new title plants, prior to the time that a plant is put into operation, are capitalized. In accordance with SFAS No. 61, "Accounting for Title Plant," properly maintained title plants are not amortized because there is no indication of diminution in their value.

Costs incurred after a title plant is operational to convert the information from one storage and retrieval system to another have not been capitalized as title plant. Those costs have been capitalized separately and are being amortized over an estimated useful life of twenty years.

Costs of Computer Software

SFAS No. 86, "Accounting for the Costs of Computer Software to be Sold, Leased, or Otherwise Marketed", requires capitalization of software development costs incurred subsequent to establishment of technological feasibility and prior to the availability of the product for general release to customers. In 1999, the Company capitalized approximately $2,312,000 of software development costs, which primarily include personnel costs. No such costs were capitalized in 1998. Systematic amortization of capitalized costs begins when a product is available for general release to customers and is computed on a product-by-product basis at a rate not less than straight-line basis over the product's remaining estimated economic life. Amortization of software development costs in 1999 was approximately $122,000.

In accordance with the AICPA SOP 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use", certain external direct costs of materials and services, internal payroll and payroll related costs and other qualifying costs incurred in connection with developing or obtaining internal use software are capitalized. The Company capitalizes qualifying costs to internally construct a national data repository ("Database"). Such capitalized costs include certain payroll-related and contracted programming costs as well as the costs to purchase data from external sources to initially populate the Database. Costs to subsequently update the Database are expensed as incurred. Upon its completion, the Database will include, among other items, a wide range of public information for delivery via the Internet, such as real property tax and assessment data, and a chain of title property records and images. During 1999 and 1998, $4,368,000 and $266,000, respectively, of such costs were capitalized as Database software and related costs. As of December 31, 1999, there has been no amortization of these costs since the Database is not yet ready for its intended use. Additionally at December 31, 1999, $3,426,000 of related equipment has been capitalized in connection with construction of the Database. To date, there have been no significant customer contracts signed since the Database is not yet ready for its intended use. Although management currently believes these costs are fully recoverable based on its projections of future sales, it is reasonably possible that those estimates of anticipated future gross revenues could be reduced in the near term due to the uncertainty inherent in such an investment, and the carrying amount may be correspondingly reduced in the near term.

Fair Value of Financial Instruments

The following methods and assumptions were used to estimate the fair value of each class of financial instruments:

Cash and cash equivalents, trade accounts receivables, other current assets, other assets, notes payable to banks, trade accounts payables, and accrued expenses (nonderivatives): The carrying amounts approximate fair value because of the short maturity of these instruments. The Company's available-for-sale investments are carried at fair value.

Long-term obligations: The fair value of the Company's long-term obligations is estimated by discounting the future cash flows of each instrument at rates currently offered to the Company for similar debt instruments of comparable maturities by the Company's banks. Based upon the borrowing rates available to the Company for bank loans with similar terms and average maturities, the estimated fair value of the notes payable approximates carrying value at December 31, 1999 and 1998.

The Company has no involvement with derivative financial instruments, including those for speculative or trading purposes.

Concentrations of Credit Risk and Unbilled Receivables

Concentrations of credit risk with respect to receivables are limited due to the wide variety of customers and markets into which the Company's products and services are provided, as well as their dispersion across many different geographic areas. As a result, as of December 31, 1999, the Company does not consider itself to have any significant concentrations of credit risk.

The Company's real estate mass appraisal service contracts can range up to three years in duration. In connection with these percentage of completion contracts and for certain software service contracts, the Company may perform the work prior to when the services are billable pursuant to the contract. The Company has recorded unbilled receivables (costs and estimated profit in excess of billings) which amounted to approximately $6,931,000 at December 31, 1999 in connection with such contracts. Retentions included in trade accounts receivable and current assets that are expected to be collected in excess of one year amounted to approximately $669,000 at December 31, 1999.

Commitments and Contingencies

The Company accounts for certain environmental matters in accordance with SOP 96-1, "Environment Remediation Liabilities". The Company accrues for losses associated with environmental remediation obligations when such losses are probable and reasonably estimatable.

Accruals for estimated losses from environmental remediation obligations generally are recognized no later than completion of the remedial feasibility study. Such accruals are adjusted as further information develops or circumstances change. Such costs include the incremental direct costs of the remediation effort, including fees estimated to be paid to outside law firms and certain internal employee compensation and benefits directly related to the remediation effort. Costs of future expenditures for environmental remediation obligations are not discounted to their present value. Recoveries of environmental remediation costs from other parties are recorded as assets when their receipt is deemed probable and have been included in noncurrent other receivables at December 31, 1999 and 1998.

Legal costs to defend nonenvironmental litigation matters are expensed as incurred.

Reclassifications

Certain amounts for previous years have been reclassified to conform to the 1999 presentation.

(2) Acquisitions

On February 19, 1998, the Company completed the purchases of Business Resources Corporation ("Resources"), The Software Group, Inc. ("TSG") and Interactive Computer Designs, Inc. ("INCODE"). Resources provides a wide range of information management outsourcing services, primarily to county governments as well as to some commercial users. TSG and INCODE provide

county, local and municipal governments with software, systems and services to serve their information technology and automation needs.

On June 5, 1998, the Company acquired a line of document management software and related customer installations and service contracts from the Business Imaging Systems division of Eastman Kodak Company. Kofile, Inc. ("Kofile"), a newly formed subsidiary in the Company's Resources unit, consists of the development, support and marketing of the document management software and related maintenance and support services to governmental and commercial users.

Effective August 1, 1998, the Company completed the purchase of Computer Management Services, Inc. ("CMS"). CMS provides integrated information management systems and services to county and municipal governmental agencies throughout Iowa, Minnesota, Missouri, South Dakota, Illinois, Wisconsin and other states, primarily in the upper Midwest.

Effective March 1, 1999, the Company acquired Eagle Computer Systems, Inc. ("Eagle"). Eagle is a leading supplier of networked computing solutions for county governments, primarily in the western United States. In addition, Eagle provides hardware, data conversion, site planning, training and ongoing support to its customers.

Effective April 1, 1999, the Company completed its acquisition of Micro Arizala Systems, Inc. d/b/a FundBalance ("FundBalance"), a company which develops and markets fund accounting software and other applications for state and local governments, not-for-profit organizations and cemeteries.

On April 21, 1999, the Company acquired Process Incorporated d/b/a Computer Center Software ("MUNIS") which designs and develops integrated financial and land management information systems for counties, cities, schools and not-for-profit organizations. MUNIS provides software solutions to customers primarily located throughout the northeastern and southeastern United States.

Effective May 1, 1999, the Company acquired Gemini Systems, Inc. ("Gemini"). Gemini develops and markets software products for municipal governments and utilities which are primarily installed in the New England area.

On July 16, 1999, the Company acquired Pacific Data Technologies, Inc. ("Pacific Data"). Pacific Data is the primary developer of the Company's Database which consists of software and systems that automate and manage public information records for Internet delivery.

On November 4, 1999, the Company acquired selected assets and assumed selected liabilities of Cole Layer Trumble Company ("CLT"), a division of a privately held company ("Seller"), in an asset purchase agreement with an effective date of October 29, 1999. CLT provides appraisal software and services to governments. At closing, consideration consisted of cash, restricted shares of Tyler common stock, and certain senior subordinated secured promissory notes due March 26, 2002 of Forest City Auto Parts Company with an aggregate face amount of $3,155,000, assigned without recourse, and included a price protection on the sale of the Company's common stock which expires no later than November 4, 2001. The price protection is equal to the difference between the actual sale proceeds of the Tyler common stock and $6.25 on a per share basis, but is limited to $2,750,000. The subsequent payment, if any, of the contingent consideration will not change the recorded cost of the acquisition. In addition, at December 31, 1999, the Company has recorded a receivable from the Seller of approximately $1,200,000, resulting from post closing adjustments primarily related to the balance of net assets at closing. Also, the Company is obligated to purchase any billed receivables not collected within 90 days of closing.

During 1999 and 1998, the Company also made other acquisitions which were immaterial.

The Company accounted for all of the aforementioned acquisitions using the purchase method of accounting for business combinations. Results of operations of the acquired entities are included in the Company's consolidated financial statements from their respective dates of acquisition. The excess purchase price over the fair value of the net identifiable assets of the acquired companies (goodwill) is amortized using the straight-line method of amortization over their respective estimated useful lives.

Following is a summary of the Company's 1999 and 1998 acquisitions:

Company	Cash	Shares of Common Stock	Value of Common Stock	Assumed Non-Current Debt	Goodwill	Goodwill Useful Life (Years)
1999						
Eagle	$ 5,000	1,053	$ 6,211	$ —	$ 8,150	20
MUNIS	16,250	2,703	14,561	—	17,623	20
CLT	3,000	1,000	4,275	—	9,185	20
Pacific Data	—	175	1,034	—	521	5
Other	1,364	1,055	5,707	—	4,617	20
TOTAL	$25,614	5,986	$31,788	$ —	$40,096	
1998						
Resources	$15,250	10,000	$40,125	$12,790	$45,921	40
TSG	12,000	2,000	8,025	—	14,066	20
INCODE	1,250	225	1,220	—	2,509	20
Kofile	3,600	—	—	1,900	5,550	20
CMS	1,205	228	2,099	—	1,059	20
Other	1,526	145	1,477	240	2,843	10-20
TOTAL	$34,831	12,598	$52,946	$14,930	$71,948	

In addition to consideration paid in cash and common stock for the 1999 acquisitions, the Company provided other consideration which totaled approximately $3,900,000. The other consideration consisted of the issuance of a series of notes to the sellers and the assignment of notes obtained in conjunction with the Forest City disposition (see Note 3).

Cash paid for acquisitions does not reflect cash paid for transaction costs related to the execution of the acquisitions, such as legal, accounting and consulting fees, of approximately $673,000 and $2,488,000 in 1999 and 1998, respectively and excludes acquired cash balances of approximately $338,000 and $2,578,000 in 1999 and 1998, respectively.

The following unaudited pro forma information presents the consolidated results of operations as if all of the Company's acquisitions and dispositions of Forest City and IFS (Note 3) occurred as of the beginning of 1999 and 1998, after giving effect to certain adjustments, including amortization of intangibles, interest and income tax effects and reflecting only the loss on the respective disposals of the discontinued operations in the year reflected in the historical consolidated financial statements. The pro forma information does not purport to represent what the Company's results of operations actually would have been had such transactions or events occurred on the dates specified, or to project the Company's results of operations for any future period.

	Years ended December 31, 1999	1998
	Unaudited	
Revenues	$144,381	$114,611
Income from continuing operations, net	3,397	1,377
Net income (loss)	637	(8,139)
Net income (loss) per diluted share	$ 0.02	$ (0.19)

(3) Discontinued Operations

In December 1998, the Company entered into a letter of intent to sell its non-core automotive parts retailer, Forest City. Accordingly, this segment has been accounted for as a discontinued operation with prior years' financial statements restated to report separately their operations in compliance with APB Opinion No. 30.

On March 26, 1999, the Company sold all of the outstanding common stock of Forest City to HalArt, L.L.C. ("HalArt") for approximately $24,500,000. Proceeds consisted of $12,020,000 in cash, $3,825,000 in a short-term secured promissory note, $3,155,000 in senior secured subordinated notes and $5,500,000 in preferred stock. The short-term secured promissory note was fully paid in July 1999. The senior secured subordinated notes carry interest rates ranging between 6% to 8%, become due in March 2002 and are secured by a second lien on Forest City inventory and real estate. The preferred stock will be mandatorily redeemable in March 2006. Both the subordinated notes and the preferred stock are subject to partial or whole redemption upon the occurrences of specified events.

In determining the loss on the disposal of the business, the subordinated notes were valued using present value techniques. As discussed in Note 2, the $3,155,000 in senior secured subordinated notes were subsequently assigned without recourse to the seller on November 4, 1999 in connection with an acquisition.

Because the redemption of the preferred stock is highly dependent upon future operations of the buyer and due to its extended repayment terms, the Company is unable to estimate the degree of recoverability. Accordingly, the Company will record the value of the preferred stock as cash is received. The Company originally estimated the loss on the disposal of Forest City to be $8,939,000, which was recorded in the fourth quarter of 1998. The estimated loss included anticipated operating losses from the measurement date of December 1998 to the date of disposal and associated transaction costs. In 1999, the Company recorded additional losses of $907,000 (including taxes of $183,000) to reflect adjusted estimated transaction costs, funded operating losses which were higher than originally estimated, and adjustments to amounts previously provided for income taxes in connection with the sale and to write down to estimated net realizable value a post-closing receivable in connection with a dispute with the purchaser.

The net assets of discontinued operations at December 31, 1998 consisted principally of working capital (including accounts receivable, inventories, accounts payable and accrued liabilities), property and equipment of Forest City.

The Company has determined a capital loss of $12,720,000 for tax purposes on the sale of Forest City. No tax benefit has been recorded for this capital loss since realization of the capital loss is not assured.

The condensed components of net assets of discontinued Forest City operations included in the consolidated balance sheets as of December 31, 1998 are as follows:

Merchandise inventory	$24,289
Other assets	7,657
Liabilities	(7,866)
	24,080
Less reserve for estimated loss on disposition, including post balance sheet operating losses and transaction costs, net of income taxes	(8,480)
Net assets	15,600
Reclassification of long-term assets on disposition	(2,848)
Net current assets	$12,752

Two of the Company's non-operating subsidiaries are involved in various claims for work related injuries and physical conditions and for environmental claims relating to a formerly owned subsidiary that was sold in 1995. During 1999, the Company expensed approximately $1,853,000 (net of taxes of $877,000) for trial costs and settlements in excess of the amounts accrued associated with these claims (see Note 17).

Effective October 15, 1997, the Company sold all of the capital stock of its subsidiary IFS, which provided products for fund-raising programs, to I.F.S. Acquisition Corporation for approximately $8,400,000, resulting in a loss on disposal of approximately $2,500,000. Proceeds consisted of approximately $5,800,000 in cash received at closing and $2,628,000 received in January 1998. This estimated loss on disposal included estimates regarding the value of certain assets that were subject to change. In 1998, the Company made final adjustments to those assets, which resulted in a reduction of the previously estimated loss on disposal of $801,000.

Operating results of all discontinued operations are as follows for the years ended December 31, prior to their disposition:

	1998	1997
Revenues	$76,484	$98,342
Income (loss) before income tax (benefit)	(2,231)	374
Income tax (benefit) provision	(853)	35
Net income (loss) from discontinued operations	$ (1,378)	$ 339

Interest has been charged to discontinued operations based on the net assets of Forest City. External interest expense of $374,000 was allocated to discontinued operations in 1998 only. Income tax (benefit) has been charged (credited) to discontinued operations based on the income tax (benefit) resulting from inclusion of the discontinued segments in the Company's consolidated federal income tax return.

The income tax provision (benefit) differs from the amount which would be provided by applying the statutory income tax rate to income (loss) before income tax (benefit) due to permanent difference items consisting primarily of non-deductible goodwill and state income taxes.

(4) Related Party Transactions

From time to time, the Company charters aircraft from businesses in which either a director and/or member of management of the Company is an owner or part owner. For the year ended December 31, 1999, the Company recorded charter rental expense of approximately $249,000, in connection with this activity.

The Company has several notes receivable from employees totaling $443,000 and $335,000 at December 31, 1999 and 1998, respectively. All of the notes are non-interest bearing and are due between 2000 and 2004. There is no significant difference between the face value and the present value of the notes.

On October 8, 1997, the Company entered into an agreement to acquire Resources and received shareholder approval for the transaction on February 19, 1998 (see Note 2). In connection with this transaction, the Company loaned Resources $5,700,000 on December 29, 1997 for working capital purposes. The unsecured loan bore interest at a rate of 8.5% and had an original maturity date of September 30, 1999. Subsequent to the acquisition, the loan is eliminated in consolidation.

The Company has five office building lease agreements with various shareholders of the Company. Total rental expense related to such leases for the years ended December 31, 1999 and 1998 was $525,000 and $83,000, respectively.

Total future minimum rental under noncancelable related party operating leases as of December 31, 1999, are as follows:

2000	$ 831
2001	1,025
2002	1,091
2003	1,065
2004	1,084
Thereafter	6,038

(5) Property and Equipment

Property and equipment consists of the following at December 31:

	Useful Lives (years)	1999	1998
Land	—	$ 2,556	$ 2,450
Transportation equipment	5	484	334
Computer equipment and purchased software	3-7	11,433	5,650
Furniture and fixtures	3-10	4,198	2,842
Building and leasehold improvements	3-35	4,518	3,529
Computer equipment under capital lease	3	4,622	1,874
		27,811	16,679
Accumulated depreciation and amortization		(6,022)	(2,532)
Property and equipment, net		$21,789	$14,147

Depreciation expense and capital lease related amortization expense totaled $3,820,000, $2,146,000 and $29,000 during the years ended December 31, 1999, 1998 and 1997, respectively. The Company entered into capital leases for equipment of approximately $2,040,000 and $338,000 during 1999 and 1998, respectively. Additionally the Company acquired a building for $652,000, of which $476,000 was financed through a term note with a bank.

(6) Investment Securities Available-For-Sale

Pursuant to an agreement with two major shareholders of H.T.E., Inc. ("HTE"), the Company acquired approximately 32% of HTE's common stock in two separate transactions in 1999. On August 17, 1999, the Company exchanged 2,325,000 shares of its common stock for 4,650,000 shares of HTE common stock. This initial investment was recorded at $14,008,000. The second transaction occurred on December 21, 1999, in which the Company exchanged 484,476 shares of its common stock for 968,952 shares of HTE common stock and this investment was recorded at $1,774,000. This investment is classified as a non-current asset since it was made for a continuing business purpose.

Florida state corporation law restricts the voting rights of "control shares", as defined, acquired by a third party in certain types of acquisitions, which restrictions may be removed by a vote of the shareholders. The Florida "control share" statute has not been interpreted by the courts. HTE has taken the position that, under the Florida statute, all of the shares acquired by the Company constitute "control shares" and therefore do not have voting rights until such time as shareholders of HTE, other than the Company, restore voting rights to those shares. Management of the Company believes that only the shares acquired in excess of 20% of the outstanding shares of HTE constitute "control shares" and therefore believes it currently has the right to vote all HTE shares it owns up to at least 20% of the outstanding shares of HTE.

Under generally accepted accounting principles, an investment of 20% or more of the voting stock of an investee should lead to presumption that in absence of evidence to the contrary, an investor has the ability to exercise significant influence over the operating and financial policies of an investee. Management of the Company has concluded that it currently does not have such

influence as evidenced by the following key factors:

- Inability to resolve the different interpretations regarding the ability to vote the shares
- Inability to obtain additional financial information not otherwise available to other shareholders
- Inability to obtain certain confirmations and consents from the investee's independent auditors

Accordingly, the Company accounts for its investment in HTE pursuant to the provisions of SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities". These securities are classified as available-for-sale and are recorded at fair value as determined by quoted market prices. Unrealized holding gains and losses, net of the related tax effect, on available-for-sale securities are excluded from earnings and are reported as a separate component of shareholders' equity until realized. Realized gains and losses from the sale of available-for-sale securities (none in each of the three years ended December 31, 1999) are determined on a specific identification basis. A decline in the market value of any available-for-sale security below cost that is deemed to be other than temporary results in a reduction in carrying amount to fair value. The impairment is charged to earnings and a new cost basis for the security is established.

At December 31, 1999, the cost, fair value and gross unrealized holding gains of the investment securities available-for-sale amounted to $15,782,000, $33,713,000 and $17,931,000, respectively, based on a quoted market price of $6.00 per share. Because of the Company's existing capital loss carryforwards (see Note 10), any tax expense related to the unrealized gain is offset by a reduction in the Company's valuation allowance. At March 31, 2000, the fair value of the investment securities available-for-sale was $18,093,000 based on a quoted market price of $3.22 per share.

If the uncertainty regarding the voting shares is resolved in the Company's favor, the Company will retroactively adopt the equity method of accounting for this investment. Therefore, the Company's results of operations and retained earnings for periods beginning with the 1999 acquisition will be retroactively restated to reflect the Company's investment in HTE for all periods in which it held an investment in the voting stock of HTE. Under the equity method, the original investment is recorded at cost and is adjusted periodically to recognize the investor's share of earnings or losses after the respective dates of acquisition. The Company's investment in HTE would include the unamortized excess of the Company's investment over its equity in the net assets of HTE. This excess would be amortized on a straight-line basis over the estimated economic useful life of ten years. In addition, any loss in value of an investment which is other than a temporary decline would also be charged to earnings.

Because of the effects of such a future change, the following information has been provided or derived from publicly filed financial information which has not been independently confirmed to the Company and is considered unaudited. HTE reported a net loss of $14,866,000 for the year ended December 31, 1999. Subsequent to the Company's initial acquisition of HTE's shares in August 1999, HTE recorded charges of approximately $7,900,000, net of tax, related to write-offs of software development costs, certain accounts receivables and employee-termination benefits that were recorded by HTE as a result of changes in management and charges for litigation settlements. These costs would be considered pre-acquisition costs by the Company in determining its share of HTE's loss from the respective dates of acquisition. Had the Company's investment in HTE been accounted for under the equity method, the Company would have recorded equity in losses of HTE of $1,352,000 for the year ended December 31, 1999. Also, during the three months ended September 30, 1999, the Company recorded equity in loss of HTE of $378,000 ($0.01 per diluted share). This charge has been retroactively restated and eliminated in the accompanying consolidated financial statements for the year ended December 31, 1999 to reflect the aforementioned factors.

(7) Costs of Certain Acquisition Opportunities

CPS Systems Notes Receivable

In March 1999, the Company entered into a merger agreement pursuant to which the Company contemplated the acquisition of all of the outstanding common stock of CPS Systems, Inc. ("CPS"). In connection with that agreement, the Company provided CPS with bridge financing of $1,000,000 in the form of a note secured by a second lien on substantially all of the assets of CPS, including accounts receivable, inventory, intangibles, equipment and intellectual property. The note bears interest at 2% over the prime rate and was initially due on October 30, 1999. In June 1999, Tyler provided notice to CPS that it was exercising its right to terminate the merger agreement. Although the original agreement was terminated, the Company and CPS continued to negotiate to find an alternative structure for the transaction. In August 1999, Tyler provided an additional $200,000 of bridge financing, on terms similar to the original note and continued to provide additional bridge financings on terms similar to the other notes.

In January 2000, CPS filed a voluntary petition for relief under Chapter 11 of the United States Bankruptcy Code. On March 24, 2000, the bankruptcy court conducted a public auction of the assets and the Company submitted a cash only bid of $100,000 for the California Visual Basic/Oracle Tax and CAMA software assets of CPS.

The Company closed on the transaction on March 30, 2000, and anticipates minimal to no recovery of amounts due under its secured notes. Accordingly, the aggregate bridge financings and related accrued interest receivable and other costs amounting to $1,851,000 were charged to 1999 operations.

Other

On July 31, 1998, the Company entered into a letter of intent with a Fortune 500 company to acquire certain businesses of the company in a transaction to be accounted for as a purchase business combination. These businesses had estimated annual

revenues of over $500 million and represented a business opportunity which was aligned with the Company's strategy in the information management business. Direct and incremental costs associated with the proposed combination, primarily consisting of fees paid to outside legal and accounting advisors for due diligence, were incurred by the Company and would have been considered as a cost of the acquisition upon the successful closing of the transaction. Subsequent to September 30, 1998, the potential seller elected not to sell any of the businesses. Accordingly, all costs associated with this opportunity have been expensed in the accompanying 1998 consolidated financial statements and included in "costs of certain acquisition opportunities."

(8) Goodwill and Other Intangible Assets

Goodwill, other intangible assets and related accumulated amortization are as follows:

	Useful Lives (years)	1999	1998
Goodwill	5-40	$108,009	$71,948
Title plants	—	13,100	13,100
Title plant modification	20	547	357
Customer lists	20-35	16,832	5,035
Software acquired	5	14,715	5,020
Software development costs	3	6,995	142
Workforce	5-10	6,970	3,301
Database under development	10	4,634	266
		171,802	99,169
Accumulated amortization		(11,137)	(3,173)
Goodwill and other intangibles, net		$160,665	$95,996

(9) Long-Term Obligations

Long-term obligations consist of the following as of December 31:

	1999	1998
Revolving senior credit facility	$61,000	$30,810
8.75% promissory note payable, payable in quarterly installments through October 2004, collateralized by a building	476	—
8% promissory note payable, payable in quarterly installments through September 2005, collateralized by certain assets	885	1,002
7% promissory notes payable due May 2000	500	—
6.1% unsecured installment notes payable, payable in annual installments through August 2002	134	173
10% unsecured installment notes payable, payable in monthly installments through May 2004	214	250
9% promissory note payable, payable in monthly installments through February 2001, collateralized by certain assets and the capital stock of Title Records Corporation and Government Records Services, Inc., wholly-owned subsidiaries of Resources	3,649	4,632
Long-term obligations under various capital leases	3,730	1,826
Other	605	372
Total obligations	71,193	39,065
Less current portion	3,747	1,876
Total long-term obligations	$67,446	$37,189

The aggregate maturities of long-term obligations for each of the years subsequent to December 31, 1999, assuming the revolving credit facility is not renewed, are as follows: 2000 - $3,747,000; 2001 - $4,049,000; 2002 - $62,410,000; 2003 - $247,000; 2004 - $600,000; thereafter - $140,000.

Interest paid in 1999, 1998 and 1997 was $4,053,000, $1,818,000 and $5,000, respectively.

In October 1999, the Company entered into a three-year revolving credit agreement with a group of banks ("Senior Credit Facility") in an amount not to exceed $80,000,000. Borrowings under the Senior Credit Facility, as amended, bear interest at either the lead bank's prime rate plus a margin of .25% to 1.50% or the London Interbank Offered Rate plus a margin of 2.25% to 3.50%, depending on the Company's ratio of indebtedness to earnings before interest, taxes, depreciation and amortization. The Senior Credit Facility replaced the Company's previous $50,000,000 revolving credit facility. At December 31, 1999, the Company had outstanding borrowings and letters of credit of $61,000,000 and available borrowing capacity of $19,000,000 under the Senior Credit Facility. The interest rate at December 31, 1999 was 8.2%.

The effective average interest rates for borrowings during 1999 and 1998 were 7.7% and 7.5%, respectively. The Senior Credit Facility is secured by substantially all of the Company's real and personal property and a pledge of the common stock of present and future significant operating subsidiaries. The Senior Credit Facility is also guaranteed by such subsidiaries. Under the terms of the Senior Credit Facility, the Company is required to maintain certain financial ratios and other financial conditions. The Senior Credit Facility also prohibits the Company from making certain investments, advances or loans and restricts substantial asset sales, capital expenditures and cash dividends. The Company is in compliance with its various covenants under the Senior Credit Facility, as amended. Under the terms of the Senior Credit Facility, the Company has the ability to increase the facility to $100,000,000 subject to the participation of additional new lenders.

(10) Income Tax

The provision (benefit) included in continuing operations for income tax consists of the following:

	Years ended December 31,		
	1999	1998	1997
Current:			
Federal	$1,775	$1,483	$1,280
State	742	354	—
	2,517	1,837	1,280
Deferred	(113)	196	(2,198)
	$2,404	$2,033	$ (918)

The income tax provision (benefit) differs from amounts computed by applying the federal statutory tax rate of 35% to income (loss) from continuing operations as follows:

	Years ended December 31,		
	1999	1998	1997
Income tax (benefit) at statutory rate	$ 819	$1,116	$ (748)
State income tax, net of federal income tax benefit	483	230	—
Non-deductible amortization	1,054	652	13
Utilization of capital loss	—	—	(188)
Other, net	48	35	5
	$2,404	$2,033	$ (918)

Significant components of deferred tax assets and liabilities as of December 31 are as follows:

	1999	1998
Deferred income tax assets:		
Insurance reserves	$ 98	$ 98
Operating expenses not currently deductible	1,582	1,611
Employee benefit plans	260	149
Net operating loss	34	—
Capital loss carryforward	17,139	12,514
Research tax credits	78	—
Other	1,166	408
Total deferred income tax assets	$ 20,357	$14,780
Deferred income tax liabilities:		
Basis difference on investments available-for-sale	$ (6,276)	$ —
Tax-benefit transfer lease	(2,224)	(3,475)
Property and equipment	(719)	(2,174)
Intangible assets	(11,689)	(6,346)
Other	(17)	(130)
Total deferred income tax liabilities	(20,925)	(12,125)
Net deferred income tax assets before valuation allowance	(568)	2,655
Less valuation allowance	10,863	12,514
Net deferred income tax liabilities	$(11,431)	$ (9,859)

The Company has research tax credit carryforwards of $78,000 at December 31, 1999. The Company has net operating loss carryforwards of $98,000 which are subject to an annual IRC Section 382 limitation. The research tax credit and net operating carryforwards will expire between 2016 and 2017.

Income taxes paid, net of refunds received, in 1999 and 1998 were $2,841,000 and $1,478,000, respectively. In 1997, the Company received a refund of prior year income taxes of $95,000.

Although realization is not assured, management believes it is more likely than not that all the deferred tax assets will be realized except for those relating to the capital loss carryforwards other than those offset by the basis difference on investments available-for-sale. Accordingly, the Company believes that no valuation allowance is required for the remaining deferred tax assets. The Company's capital loss carryforwards expire beginning in 2003.

(11) Shareholders' Equity

The Company has authorized 1,000,000 shares of $10 par value voting preferred stock. The board of directors had designated 250,000 shares as Series A Junior Participating Preferred Stock which were reserved for issuance upon exercise of the Company's stock purchase rights. In December 1997, the board of directors authorized the redemption of the preferred stock purchase rights in connection with the contemplated acquisitions of Resources, TSG and INCODE. The rights were redeemed in January 1998 at $.01 per share. Prior to this redemption, each share of the Company's common stock included a stock purchase right. These rights, which did not have voting rights, could be exercised only after public announcement that a person or group had acquired 20% or more of the Company's common stock or public announcement of an offer for 30% or more of the Company's common stock. The Company had the right to redeem the rights at a price of $.01 per right at any time prior to 15 days (or such longer period as the board of directors may have determined) after the acquisition of 20% of the Company's common stock. Upon exercise each right could have been used to purchase 1/100 of a share of Series A Junior Participating Preferred Stock for $21. Each share of Series A Junior Participating Preferred Stock would have had a minimum preferential quarterly dividend of 100 times the dividend declared on common stock, minimum liquidation preference of $100 per share and other preferential common stock conversion features in connection with mergers or other business combinations.

As of December 31, 1999, the Company had a warrant outstanding to purchase 2,000,000 shares of the Company's common stock at $2.50 per share. The warrant expires in September 2007.

(12) Stock Option Plan

The Company's stock option plan provides for the granting of non-qualified and incentive stock options, as defined by the Internal Revenue Code, to key employees of the Company and its subsidiaries of up to 4,300,000 shares of the Company's common stock at prices which represent fair market value at dates of grant. All options granted have ten year terms and generally vest over, and become fully exercisable at the end of, three to five years of continued employment.

The following table summarizes the transactions of the Company's stock option plan for the three-year period ended December 31, 1999:

	Number of Shares	Weighted-Average Exercise Prices
Options outstanding at December 31, 1996	330	$1.88
Granted	1,517	2.36
Canceled	(953)	1.80
Exercised	(198)	1.87
Options outstanding at December 31, 1997	696	3.04
Granted	1,371	7.10
Canceled	(14)	5.92
Exercised	(135)	1.53
Options outstanding at December 31, 1998	1,918	6.03
Granted	1,583	4.87
Canceled	(78)	3.67
Exercised	(5)	4.29
Options outstanding at December 31, 1999	3,418	$5.55
Reserved for future options at December 31, 1999	340	
Exercisable options:		
December 31, 1997	145	$2.71
December 31, 1998	239	$3.03
December 31, 1999	706	$4.94

The following table summarizes information concerning outstanding and exercisable options at December 31, 1999:

Range of Exercise Prices	Weighted Average Remaining Contractual Life	Number of Outstanding Options	Weighted Average Price of Outstanding Options	Number of Exercisable Options	Weighted Average Price of Exercisable Options
$ 0.00 - $ 2.13	7.0 years	100	$ 2.12	100	$ 2.12
$ 2.75 - $ 4.38	8.9 years	1,052	$ 3.87	281	$ 3.74
$ 5.00 - $ 7.88	8.8 years	2,156	$ 6.27	303	$ 6.58
$ 9.62 - $10.94	8.4 years	110	$10.42	22	$10.42

SFAS No. 123, "Accounting for Stock-Based Compensation," became effective for the Company in 1996. As allowed by SFAS No. 123, the Company has elected to continue to follow APB Opinion No. 25, Accounting for Stock Issued to Employees, which does not recognize compensation expense on the issuance of its stock options because the option terms are fixed and the exercise price equals the market price of the underlying stock on the grant date.

As required by SFAS No. 123, the Company has determined the pro forma information as if the Company had accounted for stock options granted since January 1, 1995, under the fair value method of SFAS No. 123. The Black-Scholes option pricing model was used with the following weighted-average assumptions for 1999, 1998 and 1997, respectively: risk-free interest rates of 5.56%, 5.16% and 6.49%; dividend yield of 0%; expected common stock market price volatility factor of .70, .68 and .39; and a weighted-average expected life of the options of seven years. The weighted-average fair value of options granted in 1999, 1998 and 1997 was $3.47, $4.93 and $1.24 per share, respectively.

Had compensation expense been recorded based on the fair values of the stock option grants, the Company's 1999, 1998 and 1997 pro forma income (loss) from continuing operations would have been $(1,868,000), $162,000 and $(1,639,000), or $(0.05), $0.00, and $(0.08) per diluted share, respectively. These pro forma calculations only include the effects of grants since 1995. Accordingly, the impacts are not necessarily indicative of the effects on reported net income of future years.

(13) Earnings (Loss) Per Common Share - Basic and Diluted

In accordance with SFAS No. 128, "Earnings per Share", the Company has presented basic income (loss) per share, computed on the basis of the weighted average number of common shares outstanding during the year, and diluted income (loss) per share, computed on the basis of the weighted average number of common shares and all dilutive potential common shares outstanding during the year.

The Company incurred a loss from continuing operations in 1999 and 1997. As a result, the denominator was not adjusted for dilutive securities in 1999 or 1997 as the effect would have been antidilutive.

For the years ended December 31, the following options were not included in the computation of diluted earnings per share because the effect would have been antidilutive:

	Options	Price Range
1999	3,418	$2.13 - $10.94
1998	110	$9.63 - $10.94
1997	696	$1.50 - $ 5.25

Additionally, the warrant to purchase 2,000,000 shares of the Company's common stock was not included in the computation of diluted earnings per share for the years ended December 31, 1999 and 1997 because the effect would have been antidilutive.

The following table sets forth the computation of basic and diluted earnings per share:

	Years ended December 31, 1999	1998	1997
Numerator for basic and diluted earnings per share			
Income (loss) from continuing operations	$ (64)	$ 1,156	$(1,219)
Denominator:			
Denominator for basic earnings per share–			
Weighted average shares	39,105	32,612	20,498
Effect of dilutive securities:			
Employee stock options	—	340	—
Employee stock grant	—	67	—
Warrant	—	1,381	—
Dilutive potential common shares	—	1,788	—
Denominator for diluted earnings per share–			
Adjusted weighted-average shares and assumed conversion	39,105	34,400	20,498
Basic earnings (loss) per share from continuing operations	$ (0.00)	$ 0.04	$ (0.06)
Diluted earnings (loss) per share from continuing operations	$ (0.00)	$ 0.03	$ (0.06)

(14) Leases

The Company leases certain offices, transportation, computer and other equipment used in its operations under noncancellable operating lease agreements expiring at various dates through 2010. Most leases contain renewal options and some contain purchase options. The leases generally provide that the Company pay taxes, maintenance, insurance and certain other operating expenses.

Rent expense was approximately $1,515,000 in 1999, $903,000 in 1998 and $191,000 in 1997.

The Company has capital leases for certain equipment, which is included in “Property and equipment, net.” The present value of future minimum lease payments relating to these assets is capitalized based on contract provisions. Capitalized amounts are depreciated over the lesser of the term of the lease or the normal depreciable lives of the assets.

Future minimum lease payments under noncancellable leases at December 31, 1999 are as follows:

Fiscal Year	Operating Leases	Capital Leases
2000	$ 2,146	$1,628
2001	2,087	1,482
2002	1,977	1,184
2003	1,663	—
2004	1,483	—
2005 and thereafter	6,425	—
Total future minimum lease payments	$15,781	4,294
Less interest		564
Present value of future minimum lease payments		3,730
Current portion of obligations under capital leases		(1,302)
Long-term obligations under capital leases		$2,428

(15) Employee Benefit Plans

The Company maintains various defined contribution profit sharing plans, primarily 401(k) retirement plans (the “Plans”), at each of its operating subsidiaries. The Plans cover substantially all eligible employees of the Company that meet age and length of service requirements. Employee contributions are by salary reduction and are at the employees’ discretion within the limits imposed by the Plans’ provisions and the Internal Revenue Code. Employer contributions are determined by each operating company’s board of directors. In 1999 and 1998, total employer contributions to the Plans were approximately $400,000 and $106,000, respectively.

(16) Fourth Quarter Changes

During the nine months ended September 30, 1999, the Company previously reported and recognized $5,723,000 of revenue and $180,000 of interest income in connection with its sales of copies of title plants. In connection with each sale, the Company contractually agreed to provide maintenance services for periods ranging from 5 to 10 years to update the title plants on a monthly basis with the same customers. The bundled fees are payable on a monthly basis over the respective contract period pursuant to a non-cancellable agreement, and the contract contains significant financial and legal exposure for either party who terminates the arrangement prior to its early buy out expiration date. The Company priced the arrangements based upon respective published price lists for the sale of the copies of the title plants and the monthly updates. Prior to ownership privileges being transferred, the Company sold the monthly updates to these same customers, but at the request of certain of its customers and due to competitive conditions, the Company elected to also sell ownership privileges. Also, the Company continues to sell the updates separately to customers who have not purchased the copies of the title plants. Therefore, the Company concluded that it had vendor specific objective evidence of fair value and that the incremental billing amount could be ascribed to the sale of the ownership privilege. The title plants were fully functional upon delivery at which time the fee allocated to the sale of the delivered title plant copies was recognized in accordance with FASB No. 61 “Accounting for Title Plants”. Such accounting is permitted for certain software licenses arrangements which contain a bundled post-contract customer support maintenance arrangement if the maintenance is sold separately even though the vendor does not sell the software licenses separately.

On December 3, 1999, Staff Accounting Bulletin No. 101 entitled “Revenue Recognition in Financial Statements” (“SAB 101”) was issued by the Securities and Exchange Commission (“SEC”). Such bulletins represent interpretations and practices followed by certain offices and divisions of the SEC. Pursuant to the interpretations, the SEC staff believes that the terms, conditions and amounts of certain arrangements are typically negotiated in conjunction with the pricing of all of the elements. The bulletin continues by stating that the customer would ascribe a significantly lower, and perhaps no, value to elements ostensibly associated with the initial product delivery in the absence of the registrant’s performance of the other contract elements, especially in those situations in which the initial product delivery is not sold separately without the registrant’s continuing involvement. The bulletin concludes that those arrangements that contain product delivery and continuing performance obligations related to future services to be provided be assessed as an integrated package and for the bundled revenue to be recognized over the term of the arrangement.

In the fourth quarter of 1999, the Company elected to adopt the provisions of SAB 101 and to change its accounting principles to more closely conform to the SEC interpretation. The election was made since the Company historically has not separately entered into arrangements to sell copies of the title plants without future monthly update services. Accordingly, the Company has changed its accounting such that sales of the copies of the title plants are no longer recognized upon delivery but are bundled with the update fee and recognized ratably over the service period. The implementation of this change was accounted for as a change in accounting principle which is applied cumulatively as if the change occurred at the beginning of this fiscal year and as if it was recorded in the first quarter of 1999. The implementation of SAB 101 had no effect on 1998 and prior periods as no sales of copies of title plants occurred in those periods. However, the Company will restate its previously reported 1999 quarterly results as required for such changes. The approximate effect of the accounting change for each quarter of 1999 was to reduce net income and diluted earnings per share as follows:

	Effect on Net Income	
	Total	Per Share
First Quarter	$1,061	$0.03
Second Quarter	1,191	0.03
Third Quarter	1,333	0.03

A summary of the impact of these changes and the change in accounting for the Company's investment in HTE in the third quarter (see Note 6) is as follows.

	Quarter Ended March 31, 1999		Quarter Ended June 30, 1999		Quarter Ended September 30, 1999	
	Previously Reported	As Restated	Previously Reported	As Restated	Previously Reported	As Restated
Revenue	$20,433	$18,813	$28,674	$26,927	$29,502	$27,533
Income (loss) from continuing operations	1,674	613	1,893	702	1,152	197
Net income (loss)	1,109	48	1,113	(78)	550	(405)
Diluted earnings (loss) per share	0.03	0.00	0.03	0.00	0.01	(0.01)

(17) Commitments and Contingencies

Two of the Company's non-operating subsidiaries are involved in various claims for work related injuries and physical conditions and for environmental claims relating to a formerly owned subsidiary that was sold in 1995.

Between 1968 and 1995, TPI of Texas, Inc. ("TPI") owned and operated a foundry in Swan, Texas. Since 1997, more than 300 former employees of TPI have filed a series of lawsuits against TPI, Swan Transportation Company, the parent corporation of TPI ("Swan") and in some instances, the Company, alleging various personal injuries resulting from exposure to silica, asbestos and/or other related industrial dusts during their employment at TPI. As non-operating subsidiaries, Swan and TPI's assets consist primarily of various insurance policies issued during the relevant time periods. In December 1999, the Company instituted litigation against Swan and TPI's former insurance carriers in Harris County, Texas, demanding that such carriers undertake the defense of these claims, fulfill all indemnity obligations with respect to these claims and reimburse the Company for past defense and settlement costs paid by the Company.

In March 2000, the Company entered into a Standstill Agreement with all known plaintiffs asserting injuries described above, including all known plaintiffs who have alleged injury but have not yet filed suit against Swan and/or TPI (collectively, the "Plaintiffs"). Under the Standstill Agreement, the Plaintiffs agreed to dismiss all pending claims against the Company and agreed to not sue the Company for a minimum period of at least two years and thereafter only in certain circumstances. Under the Standstill Agreement, the Company agreed to seek to withdraw its outside counsel as counsel of record in the pending lawsuits, re-tender the defense and indemnity obligations related to these claims to the insurance carriers of Swan and TPI and continue to prosecute its insurance coverage suit in Harris County, Texas, in which the plaintiffs if and when they receive a judgment may intervene in such litigation and prosecute their claims directly against the insurance carriers. Further, the Standstill Agreement provides that any Plaintiff that settles or receives a judgment on any of its claims, and such settlement or judgment is fully paid or compromised by the insurance carriers, then such Plaintiff will execute a release in favor of the Company, its subsidiaries and affiliates from such claims. In March 2000, The Hartford, one of Swan and TPI's primary and excess coverage insurance carriers, has agreed to assume the ongoing and future defense of these claims, subject to a reservation of rights.

The Company initially provides for estimated claim settlement costs when minimum levels can be reasonably estimated. If the best estimate of claim costs can only be identified within a range and no specific amount within that range can be determined more likely than any other amount within the range, the minimum of the range is accrued. Based on an initial assessment of claims and contingent claims that may result in future litigation involving TPI, a reserve for the minimum amount of $2,000,000 for claim settlements was recorded in 1996. Legal and related professional services costs to defend litigation of this nature have been expensed as incurred. During 1999, the Company has paid a total of approximately $2,500,000 in claim settlements and in legal and related defense costs on these cases. The remaining liability was approximately $1,000,000 at December 31, 1999. Because of the inherent uncertainty regarding litigation of this nature, it is reasonably possible that the amounts recorded as liabilities for TPI related matters could change in the near term by amounts that would be material to the consolidated financial statements.

The New Jersey Department of Environmental Protection and Energy ("NJDEPE") has alleged that a site where a former affiliate of TPI, Jersey-Tyler Foundry Company ("Jersey-Tyler"), once operated a foundry contains lead and possible other priority pollutant metals and may need on-site and off-site remediation. The site was used for foundry operations from the early part of this century to 1969 when it was acquired by Jersey-Tyler. Jersey-Tyler operated the foundry from 1969 to 1976, at which time the foundry was closed. In 1976, Jersey-Tyler sold the property to other persons who have operated a salvage yard on the site. In 1995, NJDEPE and TPI agreed for TPI to conduct a feasibility study to assess remediation options and propose a remedy for the site and the impacted areas. This study was completed and submitted to the NJDEPE in the first quarter of 1999. TPI continues to negotiate with the NJDEPE regarding the results of this study. TPI has not agreed to commit to further action at this time. TPI never held title to the site and denies liability.

In connection with the sale of the assets of TPI to Ransom Industries, Inc. (formerly known as Union Acquisition Corporation) (the "Buyer"), an affiliate of McWane, Inc., on December 1, 1995, pursuant to an acquisition agreement among the Company, TPI

and the Buyer (the “Acquisition Agreement”), the Buyer agreed to manage and direct the prosecution or defense of these environmental related matters on behalf of TPI. In addition, the Buyer agreed to reimburse TPI the first $3,000,000 of certain costs and expenses incurred in connection with the investigation or remediation of the site, and one-half of such expenses in excess of $3,000,000 with a maximum reimbursement to TPI of $6,500,000. As of December 31, 1996, management estimated total cost to investigate or remediate the New Jersey site to be $7,000,000. In accordance with the above-mentioned provisions of the Acquisition Agreement, the Company recorded a $5,000,000 receivable due from the Buyer for its portion of the estimated costs as of December 31, 1996. As of December 31, 1999, approximately $2,500,000 of expenses in connection with the investigation of the New Jersey site have been paid by TPI and as provided for in the Acquisition Agreement, the Buyer has reimbursed this amount to TPI. Accordingly, management currently estimates the cost remaining in connection with the investigation or remediation of the New Jersey site to be approximately $4,300,000 and the related receivable from the Buyer to be approximately $2,500,000 which is included as other receivables in the accompanying December 31, 1999 consolidated balance sheet. The Buyer, on behalf of TPI, is proceeding against predecessor owners and operators of the site, as well as others, to bear their share of the cost of the investigation and any other costs, including any remediation costs incurred by TPI. Some costs may also be covered by insurance. TPI is currently in negotiations with the major insurance carrier and predecessor owners and operators of the site. Recoveries from predecessor companies and insurance companies are shared by TPI and the Buyer. Although it is impossible to predict the outcome of legal or regulatory proceedings, the Company believes that substantially all of the costs, expenses and damages, if any, resulting from the legal proceedings and environmental matters described above will be reimbursed by the Buyer pursuant to the Acquisition Agreement or have been adequately provided for in the financial statements.

Other than ordinary course, routine litigation incidental to the business of the Company and except as described herein, there are no material legal proceedings pending to which the Company or its subsidiaries are parties or to which any of its properties are subject.

(18) Segment and Related Information

As of January 1, 1998, the Company has adopted SFAS No. 131, “Disclosures About Segments of an Enterprise and Related Information”, which requires segment information to be reported using a management approach. This management approach is based on reporting segment information the way management organizes segments within the enterprise for making operating decisions and assessing performance.

The Company has two reportable segments: software systems and services segment and information and property records services segment. The software systems and services segment provides municipal and county governments with software systems and services to meet their information technology and automation needs including real estate appraisal services. The largest component of the information and property records services business is the computerized indexing and imaging of real property records maintained by county clerks and recorders, in addition to providing other information management outsourcing services, records management, micrographic reproduction and title plant update services and sales of copies of title plants to title companies.

Divested activities include the historical operating results and assets of the automotive parts and supplies segment, which was discontinued in 1998 and the products for fund raising segment, which was discontinued in 1997. See Note 3 for further discussion. In addition, corporate activities are included as “Other”.

The Company evaluates performance based on several factors, of which the primary financial measure is business segment operating profit. The Company defines segment operating income as income before noncash amortization of intangible assets associated with their acquisition by the Company, interest expense, non-recurring items and income taxes. The accounting policies of the reportable segments are the same as those described in Note 1.

There were no intersegment transactions, thus no eliminations are necessary.

The Company’s reportable segments are strategic business units that offer different products and services. They are separately managed as each business requires different marketing and distribution strategies.

The Company derives a majority of its revenue from external domestic customers. The information and property records services segment conducts minor operations in Germany, which are not significant and are not disclosed.

Summarized financial information concerning the Company's reportable segments is set forth below based on the nature of the products and services offered:

As of and year ended December 31, 1999

	Software Systems & Services	Information & Property Records Services	Other	Continuing Operations	Divested Activities	Totals
Revenues	$ 69,991	$ 38,410	$ —	$108,401	$ —	$108,401
Other amortization expense	47	79	—	126	—	126
Depreciation expense	808	2,826	186	3,820	178	3,998
Segment operating profit (loss)	13,545	10,191	(7,657)	16,079	—	16,079
Capital expenditures, including software development costs	2,597	12,030	581	15,208	534	15,742
Segment assets	122,065	103,376	47,094	272,535	—	272,535

As of and year ended December 31, 1998

	Software Systems & Services	Information & Property Records Services	Other	Continuing Operations	Divested Activities	Totals
Revenues	$ 22,108	$ 28,441	$ —	$50,549	$76,484	$127,033
Other amortization expense	—	—	184	184	822	1,006
Depreciation expense	217	1,880	49	2,146	1,066	3,212
Segment operating profit (loss)	4,863	9,249	(2,773)	11,339	(845)	10,494
Capital expenditures, including software development costs	432	2,076	150	2,658	2,070	4,728
Segment assets	33,432	93,698	7,364	134,494	15,600	150,094

As of and year ended December 31, 1997

	Software Systems & Services	Information & Property Records Services	Other	Continuing Operations	Divested Activities	Totals
Revenues	$—	$—	$ —	$—	$98,342	$98,342
Other amortization expense	—	—	87	87	749	836
Depreciation expense	—	—	29	29	1,817	1,846
Segment operating profit (loss)	—	—	(2,959)	(2,959)	1,106	(1,853)
Capital expenditures	—	—	139	139	1,290	1,429
Segment assets	—	—	24,354	24,354	22,796	47,150

Reconciliation of reportable segment operating profit (loss) to the Company's consolidated totals:	Years ended December 31, 1999	1998	1997
Total profit or loss for continuing reportable segments	$16,079	$11,339	$(2,959)
Interest expense	(4,893)	(2,009)	(85)
Interest income	320	178	907
Costs of certain acquisition opportunities	(1,851)	(3,146)	—
Goodwill and intangibles amortization associated with acquisitions	(7,315)	(3,173)	—
Income (loss) from continuing operations before income tax	$ 2,340	$ 3,189	$(2,137)

(19) Subsequent Event

On January 3, 2000, the Company acquired the stock of Capitol Commerce Reporter, Inc. ("CCR") of Austin, Texas for approximately $3,000,000 in cash, $1,200,000 in assumed debt and a $2,800,000 five-year, 10% subordinated note. CCR provides public records research, document retrieval, filing and information services.

Report of Ernst & Young LLP, Independent Auditors

The Board of Directors and Shareholders
Tyler Technologies, Inc.

We have audited the accompanying consolidated balance sheets of Tyler Technologies, Inc. and subsidiaries as of December 31, 1999 and 1998, and the related consolidated statements of operations, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 1999. These 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 auditing standards generally accepted in the 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 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Tyler Technologies, Inc. and subsidiaries at December 31, 1999 and 1998, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 1999, in conformity with accounting principles generally accepted in the United States.

Ernst & Young LLP

Dallas, Texas
March 30, 2000

Corporate Information

Executive Officers
Louis A. Waters
Chairman and Co-Chief Executive Officer

John M. Yeaman
President and Co-Chief Executive Officer

William D. Oates
Chairman of the Executive Committee

John D. Woolf
Senior Vice President - Administration

Theodore L. Bathurst
Vice President and Chief Financial Officer

Brian B. Berry
Vice President - Corporate Development

Brian K. Miller
Vice President - Finance & Treasurer

Board of Directors
Louis A. Waters

William D. Oates

John M. Yeaman

Ernest H. Lorch
Of Counsel
Whitman Breed Abbott & Morgan LLP

Frederick R. Meyer
Chairman, President and Chief Executive Officer
Aladdin Industries, Inc.

C.A. Rundell, Jr.
Chairman of the Board
NCI Building Systems, Inc.

Corporate Headquarters
2800 West Mockingbird Lane
Dallas, Texas 75235
(214) 902-5086
www.tylertechnologies.com

Transfer Agent and Registrar
Fleet National Bank
c/o EquiServe, Limited Partnership
P.O. Box 8040
Boston, Massachusetts 02266-8040
(781) 575-3120
www.equiserve.com

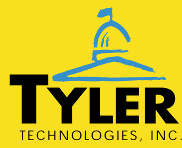
Independent Auditors
Ernst & Young LLP
Dallas, Texas

Legal Counsel
Gardere & Wynne, L.L.P.
Dallas, Texas

Common Stock
Listed on the New York Stock Exchange under the symbol "TYL".

Form 10-K
Copies of the Company's Annual Report on Form 10-K or other shareholder communications may be obtained from the Company's website at www.tylertechnologies.com or by contacting:

Investor Relations
Tyler Technologies, Inc.
2800 West Mockingbird Lane
Dallas, Texas 75235
(888) 777-0817
Email: info@tylertechnologies.com



2800 West Mockingbird Lane
Dallas, Texas 75235
www.tylertechnologies.com

2170-AR-00