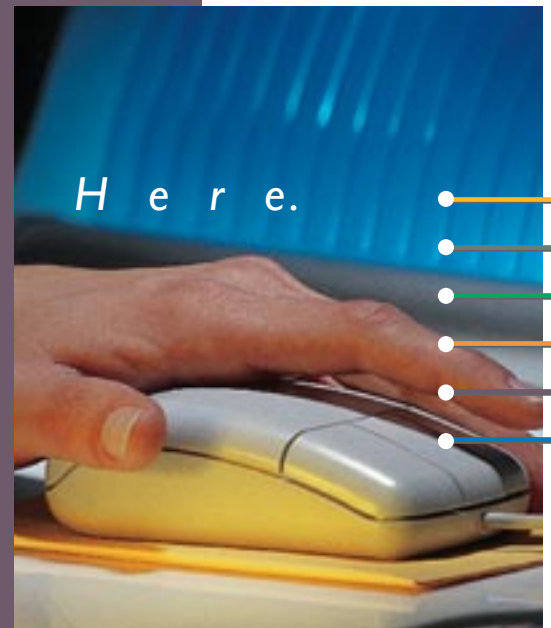
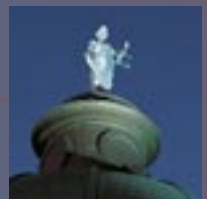





T h e F u t u r e I s H e r e .







In 1997, we charted a new course for the future of Tyler Technologies. It was a future that seemed far away then, with many challenges standing between what we were and what we wanted to be—a premier provider of end-to-end, integrated solutions and information technology services for the local government marketplace.

That future is here. We have achieved what we set out to do. We have built a company that has the people, the products and the resources to serve the wide-ranging technology needs of local governments nationwide. We have improved our financial position, strengthened our balance sheet and repaid our acquisition debt. And we have achieved profitability.

Increasingly, local governments are recognizing the need to make their services more accessible and more responsive to the public. That is where their future lies...and that future is here, in the innovative, single-source products and services we can provide for all their information technology needs.

We now have the infrastructure in place to build a great company. The future is here—in the experience and resourcefulness of our people. In the loyalty and long-standing trust of our customers. In the quality and breadth of our products and services. And in the vast opportunity of our marketplace.

LETTER TO SHAREHOLDERS

The year 2001 was a pivotal year for Tyler Technologies. It was a year of accomplishment, as we worked to reach critical goals that we had set for ourselves. In the midst of a difficult economic environment, we met or exceeded those goals and completed our transition into a position of strength. The future we have planned and worked toward is here.

Our goals were ambitious. On the heels of a year characterized by post-Y2K industry slowdowns and disappointing results, we targeted revenue growth of more than 20 percent in 2001. We aimed for quarter-by-quarter improvement in our EBITDA. We wanted to generate free cash flow for the year. And we said that we would attain profitability. These were high expectations from where we stood a year ago.

We are pleased to report that we not only met these specific goals, but also strengthened the company in many ways during 2001.

- Revenues increased 26 percent to \$117.9 million for the year—all from internal growth.
- We achieved profitability. Ending the year with three consecutive profitable quarters, we reported pretax income from continuing operations of \$1.8 million for 2001, compared with a pretax loss of \$10.3 million in 2000.
- EBITDA increased with each quarter in 2001. EBITDA totaled \$13.0 million for the year, or 27 cents per share, more than triple the EBITDA of \$4.3 million, or 9 cents per share recorded in 2000.
- We generated free cash flow after capital expenditures.
- SG&A expense was reduced from 35 percent of revenues in 2000 to 26 percent of our 2001 revenues.
- Tyler repaid all its bank debt in 2001. Recently we entered into an agreement for a new \$10 million bank revolving credit facility for working capital needs, although we do not anticipate borrowing against this credit line. We have a comfortable cash position and expect our cash flow from operations to be significantly greater than our planned capital expenditures.

Our revenue growth is the result of gains in each of our three major revenue categories during 2001. Software license revenues increased in every quarter. Revenue from professional services grew by more than 41 percent. Growth in recurring revenues was strong, with a 23 percent increase in maintenance and support revenues compared to 2000. At the end of 2001, our backlog of signed contracts and deferred revenue balance—both indicators of future revenues—remained strong. The total backlog of signed contracts was \$96.3 million at year-end, and we expect nearly 80 percent of that to be realized as revenue within 2002.



John M. Yeaman

Louis A. Waters



The result is a stronger company, an improved balance sheet and a growing cash position that paves the way for a promising future.

That brings us to one of the most important accomplishments of 2001. We believe that in the year 2001 we achieved a level of critical mass in our business that will make our future growth increasingly profitable. Over the past few years, we have successfully aligned our infrastructure to provide the kind of leverage that generates increasing profitability. We have assembled a complement of business units that represent the leading providers of products and services for a broad range of IT applications for local government, addressing customer needs in the areas of financials, justice and courts, property tax and appraisal, and recording systems. The company has a large and growing customer base, with nearly 6,000 local government installations across the U.S., Canada and Puerto Rico. In place are the administrative and support systems, coupled with the staff and management, to serve an expanding customer base. At the heart of the company is the financial foundation to fund continuing capital expenditure and development goals, with a nearly debt-free balance sheet and sustained cash flow prospects. Put simply, we have reached the point of critical mass—in our financial position, our customer base, our products and services and our operating infrastructure—where the rate of future revenue growth can significantly outstrip the corresponding increase in our basic costs and expenses. As we grow, adding new customers and migrating existing customers to new technology, we believe this new operating and financial leverage will have a tremendous impact on the bottom line.

Building on this foundation, we are looking forward to continued improvement in our results in 2002. We anticipate solid revenue growth that reflects our strong market position and our ability to continue to gain market share. Because of the tremendous leverage in our business model, we expect that future growth will be increasingly profitable, with EBITDA and earnings per share growing at a substantially greater rate than revenues.

Our performance in 2001 demonstrates that our plan is working and that our company has the ability to execute its strategies. The successful achievement of our goals can be attributed to several key factors. One is the ever-increasing demand for technology in the local government market, creating a robust and ready market for the expertise we offer. Tyler is meeting that market squarely, with the most extensive offering of products and services in the industry. We also have an exceptionally loyal base of customers who give us high marks for our products and services and work with us to build long-lasting relationships. Most significantly, we have a hard-working team of 1,200 employees whose expertise in the information technology industry is matched in full measure by their drive and dedication to building a great company.

Most certainly, the future we have envisioned is here at Tyler Technologies. We appreciate the confidence of our shareholders, customers and employees as we work together to make it a future of continuing achievement and increasing value.

Louis A. Waters
Chairman

John M. Yeaman
President

Tyler Technologies has a vast and receptive marketplace for its products and services. As a leading provider of information technology (IT) solutions and services for local governments, the company answers the need for advanced technology in virtually every area of operation for cities, counties, schools and other local government entities.

The state, local and municipal government market is one of the largest and most decentralized markets for information technology in the United States. In addition to the 50 states, it includes approximately 3,200 counties and more than 40,000 cities, towns and other local government agencies with specialized functions. According to industry estimates, these government agencies are expected to spend \$44.4 billion on IT products and services in 2002, growing to \$56.4 billion by 2005.

There are a number of reasons for the strong and steady growth in this market. Local governments are experiencing pressure from all sides for more advanced information management systems. A technology-savvy public increasingly demands better service from local governments, including improved access to information as well as interactive capability. Accustomed to the speed and

convenience of the Internet for many day-to-day activities, they want local governments to offer them the ability to obtain information, conduct transactions and even pay utility bills, fines and taxes online.

In addition to providing better service to constituents, local governments see internal needs for improved information technology. Local governments are responsible for a wide range of public services, from property taxes, public safety and utilities to courts, criminal justice and welfare services—each area generating huge numbers of transactions, records and data. Improving the speed and efficiency of processing these translates into improved revenue collection, faster access to information, and streamlined delivery of services. It also means that information can be shared between different agencies and government offices, shortening the time frame for obtaining data or documents from days to minutes.

Faced with budget constraints and increasing workloads, local governments are depending on technology to streamline and automate processes and to provide Internet access. Utilizing a provider of high quality IT products and services not only results in improved productivity and cost savings, but also reduces the need to compete with the private sector in attracting and retaining highly skilled IT personnel. All these factors come together to make the investment in information technology a cost-efficient solution with a solid return.

Against the backdrop of this large and growing market is a varied array of service providers. There are numerous small companies which compete in regional or niche markets, and there are large companies which serve the local government market as only one of many different markets. Tyler Technologies stands out as the largest company solely focused on providing software and IT services to the local government market. It has the broadest product line in the industry, a strong national presence and a large, loyal customer base. With a long-standing reputation for quality products and customer service, Tyler's business units have provided software and services to local governments for an average of well over 20 years.

This is a large market with growing needs. It is a market with tremendous opportunity for a company that can provide the products and services, the technological support, the customer service, the long-term commitment to working relationships, and continuing advances in information technology solutions that local governments need. Tyler Technologies is uniquely positioned to do just that.



“Going from manual document recording to an automated system was a huge undertaking for our department. Tyler made it a smooth and very successful transition, backing up a great product with exceptional customer service and training. With the new system, we were able to record more than 300 additional documents per day, reduce the staff needed to support the operations and cut the time required for document processing from months to days. As a result, we can provide better service to the business and financial community, and that is good for our city.”

Joan T. Decker
*Commissioner of Records
 City of Philadelphia, Pennsylvania*

With the broadest product line in the industry, Tyler Technologies is the premier provider of state-of-the-art information management solutions to local governments nationwide. Over the years, its business units have earned a reputation for bringing greater efficiency, productivity and cost-effectiveness to the counties, cities, schools and other local government agencies they serve.

Tyler's expertise at providing end-to-end solutions is rooted in a thorough understanding of the critical back-office functions of local governments. This knowledge, coupled with its singular focus on the local government market, enables Tyler to deliver exceptional expertise through a core of application software that meets the market with precision and focus. The company's comprehensive and flexible suite of professional services includes software and hardware installation, network design, management, installation, data conversion, training and support. Most of its customers purchase software solutions for use in-house, while others retain Tyler to maintain hardware and software on-site. Tyler also offers outsourced hosting of applications and data at its own data center. Additionally, the company is the leading provider of real property appraisal outsourcing services, which contributes substantially to its revenue base. In every instance, Tyler provides ongoing customer service and technological support to ensure optimum product performance.

Providing products and services to virtually every area of local government, Tyler's extensive offerings are grouped into four major areas.

Financial and City Solutions. As municipalities look for ways to enhance financial, payroll and administration operations with Web-enabled technology solutions, Tyler provides the answers with modular fund accounting systems tailored to meet the needs of cities, counties, school districts, public utilities and not-for-profit organizations of any size. Focused on automating all aspects of financial management, Tyler's systems include modules for general ledger, budget preparation, fixed assets, purchasing, accounts payable, investment management, tax collection, payroll and human resources.

Justice and Courts. Timely access to information and data is essential in today's justice and law enforcement processes. Tyler offers a complete, integrated suite of products that automate, track and manage the law enforcement and judicial processes from beginning to end. In law enforcement, it offers systems that automate police and sheriff functions, from computer-aided dispatch/emergency 911 call management and records management through booking and jail management. For efficient court administration, it offers Web-enabled systems to manage all information involved in criminal and civil court cases. These fully integrated systems allow Internet access to a wide range of information, including criminal and civil court records, jail booking and release information.

Property Appraisal and Tax. Bringing effective information management to the appraisal and assessment administration of real and personal property, Tyler provides software and professional appraisal services to help local governments nationwide fairly administer their major source of revenues—property taxes. Its tax collection systems are fully integrated with appraisal and assessment applications for seamless management of all processes. In addition, Tyler Technologies is the nation's largest provider of real property appraisal outsourcing services for taxing jurisdictions, performing physical inspection, data collection and processing, computer analysis and arbitration services.

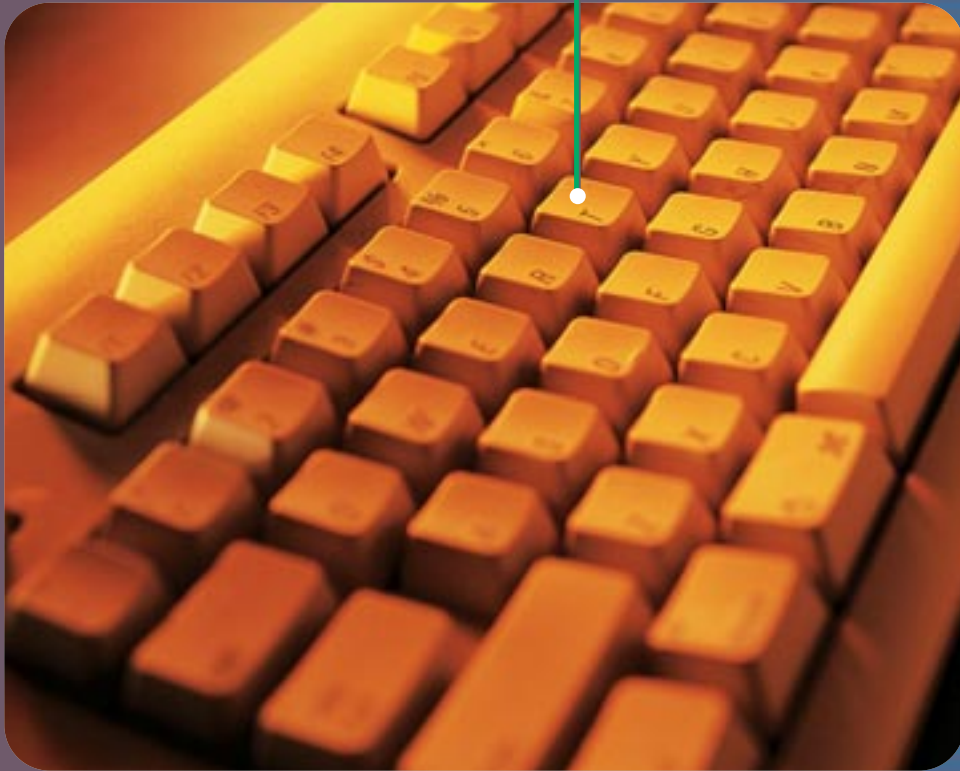
Recording. To help county governments streamline document recording and access, Tyler offers specialized applications to record and index information for public records. Its advanced indexing and retrieval software systems provide accurate recording of documents such as deeds, mortgages, liens, UCC financing statements and vital records, and also utilize the Internet to provide electronic recording and public access to records filed with the county.

In 2001, Tyler introduced a revolutionary unified court case management system that merges case management, calendaring, document imaging and financial management into a single package. The new product, called Odyssey, marks the beginning of a new generation of national Tyler-branded solutions that will leverage a common framework of n-tier, browser-based technology. Many of Odyssey's design concepts are unique to the court automation marketplace, and initial response to the product has been overwhelmingly positive.



Odyssey
Court Case Management System

P R O D U C T S



The future is here in the industry's broadest line of information technology products for local governments, with solutions and services that span nearly every aspect of local government operations. Innovation and excellence are the hallmarks of Tyler's product line, as it works to provide customers with technology that makes government processes more efficient, accessible and cost-effective.

Tyler Technologies is a company known for technology, but it is first and foremost a company built on people.

Serving the technology needs of local government requires far more than offering the right products in the right markets. In this marketplace, success hinges on a company's ability to build and nurture customer relationships, to understand customer needs and to provide the best technological solutions to those needs. Tyler has brought together a cadre of people with just those capabilities: people who possess deep domain expertise in the operations of local government, are highly skilled in information technology, and are committed to making the technology work for the customer. The strength of its people permeates the entire organization, and is evident in the present management of Tyler's business units, where the entrepreneurs who originally built the operating units are still managing those businesses.

Bringing together people of this caliber has given Tyler exceptional strength throughout its ranks of 1,200 people. At the helm is a strong corporate management team with successful experience in large and high-growth companies. Across all business units, there are people with decades of experience in specific technology solutions for local government. And there is a

shared vision for operating as a unified company with common goals for performance and achievement. The management and directors of Tyler collectively own more than 10 million shares of the company's common stock, excluding options and warrants, giving them an additional shared stake in growing the company and increasing shareholder value.

A strong financial foundation, a loyal customer base, a competitive contingent of products and services—all these are vital to a company's success. But the true measure of Tyler's strength can be found in the quality of the people who work day in and day out to contribute to the continuing growth and performance of the company.

“We have worked with Tyler since 1990, purchasing its software after a prior experience with poor service, support and maintenance from another company. We learned at that time how important support services are in relation to an overall software product. We chose Tyler not only because it has excellent products, but also because it has a staff and a system devoted to software support. Over the years, they have been very responsive to our needs.”



Bill Herzog, CPA
County Auditor
Hays County, Texas

P E O P L E



The future is here in the 1,200 employees of Tyler Technologies who possess an exceptional level of deep domain expertise and technological experience. Tyler's business units are managed by the entrepreneurs who built them into successful enterprises, bringing a legacy of strength to the management team.

It's a fact of business: Customers have a choice. They choose one product over another, one company over another, based on the value they receive for their investment. Tyler Technologies respects that choice and works hard to merit the confidence of its 6,000 customers by consistently delivering the highest quality products and services.

It is a philosophy that has served Tyler Technologies well. Doing business for an average of more than 20 years, Tyler's major operating units have maintained an annual customer retention rate of over 99 percent.

There are good reasons for that remarkable customer retention rate. Tyler provides its customers with real-world solutions that help make the business of running local government more efficient and effective. With products and services that are second to none, Tyler offers customers the assurance of quality and performance across a wide range of applications. It also offers a singular focus on the local government market, putting all its time and resources into understanding the way local government operates and developing solutions that work. That's value to the customer.

Tyler earns the trust of its customers by providing superior ongoing support and service, long after the installation is complete. As a result, close working relationships are

established which keep Tyler in tune with the changing needs of its customers. Over the course of time, Tyler's customers often migrate to new and improved products or make modifications that bring added functionality to existing systems. This, too, translates into added value for the customer.

Because of its extensive product line, Tyler offers customers a distinct advantage by serving as a single-source provider for multiple solutions. As the largest provider of technology solutions to local governments, the company offers focused solutions for virtually every area of operations, from justice and law enforcement to tax and appraisal, records and financial administration. This contributes to long-term relationships as customers come to depend on Tyler for continual improvement, technological updates and innovative solutions that span all aspects of local government.

There is no substitute for business relationships that are founded on proven trust and mutual benefit. When needs are met, promises are kept and exceptional value is realized, customers stay. For those reasons, they stay with Tyler Technologies.

“In the 12 years that we’ve used Tyler’s MUNIS® system, we have found the financial and payroll solutions to be outstanding at meeting our needs. We also find that working with a single provider for multiple applications offers many advantages. We know we can pick up the phone and call anyone from the technician to top management, any time. They are always there, with ideas, input and solutions that address our issues and demonstrate a true understanding of how we operate and what we need.”



Ruth Lewis
Comptroller
Town of Arlington, Massachusetts

CUSTOMERS



The future is here in Tyler's long-standing and loyal customer base. Tyler delivers exceptional value and quality to the 6,000 local government offices it serves nationwide, ensuring that customers are well-served and needs are met. The result is long-lasting customer relationships. Over an average of more than 20 years, Tyler's major business units have maintained an annual customer retention rate of more than 99 percent.

Tyler's mission has always been to make government more accessible to the public, more responsive to the needs of citizens and more efficient through the migration to an integrated technology environment. That remains the goal of the company, as it continues to bring products to the marketplace that generate increased productivity and budget savings for local governments.

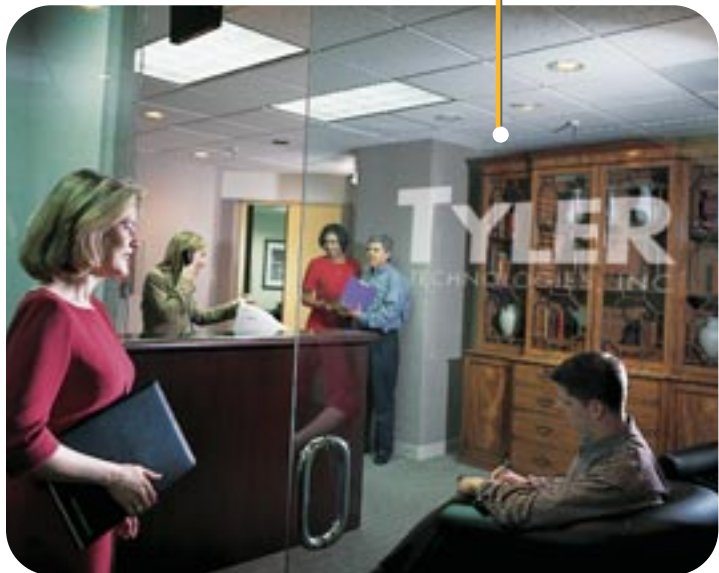
Never has the company been in a better position to capitalize on the opportunities of the future. The marketplace for its products and services is large and growing, as local governments increasingly turn to technology to help them manage present and future needs. Tyler has a solid national presence, serving 6,000 customers in 49 states, Canada and Puerto Rico. It has the most extensive line of IT products and services for local government in the industry, and a strategy to continually bring new, evolving solutions to the market. It has a strong financial foundation, with a nearly debt-free balance sheet, excellent cash

flow and solid prospects for increasing profitability in the years ahead. It has a large, growing base of longtime customers, providing the potential to generate high volume in recurring and additional revenues for the future. It has deep domain expertise in its management and staff, which will drive its continuing success as a company focused on being the premier provider of information technology solutions for local government.

The past few years have been a time of building for Tyler Technologies. The coming years will be a time of growth, as the company leverages its new position of financial and operational strength to drive increasingly greater profitability from future revenues.

The future is here at Tyler Technologies. And it is a future filled with opportunity.

T H E F U T U R E I S H E R E



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*Management's Discussion and Analysis of Financial
Condition and Results of Operations* 34



Consolidated Statements of Operations

For the years ended December 31

<i>In thousands, except per share amounts</i>	2001	2000	1999
Revenues:			
Software licenses	\$ 18,899	\$ 18,615	\$ 20,252
Professional services	52,858	37,412	21,679
Maintenance	39,915	32,537	19,721
Hardware and other	6,216	4,636	9,764
Total revenues	117,888	93,200	71,416
Cost of revenues:			
Software licenses	3,982	2,172	2,515
Professional services and maintenance	69,272	53,193	27,159
Hardware and other	4,615	3,560	7,353
Total cost of revenues	77,869	58,925	37,027
Gross margin	40,019	34,275	34,389
Selling, general and administrative expense	31,065	32,805	27,553
Costs (recovery) of certain acquisition opportunities	(235)	—	1,851
Amortization of acquisition intangibles	6,898	6,903	4,966
Operating income (loss)	2,291	(5,433)	19
Interest expense	(630)	(4,914)	(2,096)
Interest income	151	30	299
Income (loss) from continuing operations before income taxes	1,812	(10,317)	(1,778)
Income tax provision (benefit)	1,540	(2,810)	188
Income (loss) from continuing operations	272	(7,507)	(1,966)
Discontinued operations:			
Income (loss) from operations, after income taxes	—	(4,251)	1,902
Loss on disposal, after income taxes	(3)	(12,839)	(2,760)
Loss from discontinued operations	(3)	(17,090)	(858)
Net income (loss)	\$ 269	\$ (24,597)	\$ (2,824)
Basic and diluted income (loss) per common share:			
Continuing operations	\$ 0.01	\$ (0.17)	\$ (0.05)
Discontinued operations	(0.00)	(0.37)	(0.02)
Net income (loss) per common share	\$ 0.01	\$ (0.54)	\$ (0.07)
Basic weighted average common shares outstanding	47,181	45,380	39,105
Diluted weighted average common shares outstanding	47,984	45,380	39,105

See accompanying notes.

Consolidated Balance Sheets

December 31

In thousands, except share and per share amounts

	2001	2000
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 5,271	\$ 8,217
Accounts receivable (less allowance for losses of \$1,275 in 2001 and \$1,505 in 2000)	35,256	36,599
Income tax receivable	356	323
Prepaid expenses and other current assets	3,318	2,465
Deferred income taxes	1,329	1,469
Total current assets	45,530	49,073
Net assets of discontinued operations	1,000	5,095
Property and equipment, net	6,967	6,175
Other assets:		
Investment security available - for - sale	11,238	5,092
Goodwill and other intangibles, net	82,211	84,700
Sundry	234	577
	\$ 147,180	\$ 150,712
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 2,036	\$ 4,299
Accrued liabilities	9,651	11,745
Current portion of long-term obligations	123	353
Net current liabilities of discontinued operations	786	5,187
Deferred revenue	27,215	21,066
Total current liabilities	39,811	42,650
Long-term obligations, less current portion	2,910	7,747
Deferred income taxes	3,575	4,193
Commitments and contingencies		
Shareholders' equity:		
Preferred stock, \$10.00 par value; 1,000,000 shares authorized, none issued	—	—
Common stock, \$0.01 par value; 100,000,000 shares authorized; 48,147,969 and 48,042,969 shares issued in 2001 and 2000, respectively	481	480
Additional paid-in capital	157,242	158,776
Accumulated deficit	(48,943)	(49,212)
Accumulated other comprehensive loss	(4,545)	(10,691)
Treasury stock, at cost; 920,205 and 863,522 shares in 2001 and 2000, respectively	(3,351)	(3,231)
Total shareholders' equity	100,884	96,122
	\$ 147,180	\$ 150,712

See accompanying notes.

Consolidated Statements of Shareholders' Equity

For the years ended December 31, 2001, 2000 and 1999

In thousands	Common Stock		Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Accumulated Deficit	Treasury Stock		Total Shareholders' Equity
	Shares	Amount				Shares	Amount	
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 investment security	—	—	—	17,931	—	—	—	17,931
Total comprehensive income								15,107
Issuance of treasury shares pursuant to stock compensation plans	—	—	(31)	—	—	5	50	19
Investment security 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
Comprehensive loss:								
Net loss	—	—	—	—	(24,597)	—	—	(24,597)
Unrealized loss on investment security	—	—	—	(28,622)	—	—	—	(28,622)
Total comprehensive loss								(53,219)
Issuance of treasury shares pursuant to stock compensation plans	—	—	(1,759)	—	—	555	2,926	1,167
Shares issued for private investment	3,334	33	9,237	—	—	—	—	9,270
Balance at December 31, 2000	48,043	480	158,776	(10,691)	(49,212)	(863)	(3,231)	96,122
Comprehensive income:								
Net income	—	—	—	—	269	—	—	269
Unrealized gain on investment security	—	—	—	6,146	—	—	—	6,146
Total comprehensive income								6,415
Issuance of common stock pursuant to stock compensation plans	105	1	221	—	—	3	8	230
Federal income tax benefit related to exercise of stock options	—	—	33	—	—	—	—	33
Shares received from sale of discontinued business	—	—	—	—	—	(60)	(128)	(128)
Adjustment in connection with previous acquisition	—	—	(1,788)	—	—	—	—	(1,788)
Balance at December 31, 2001	48,148	\$ 481	\$ 157,242	\$ (4,545)	\$ (48,943)	(920)	\$ (3,351)	\$ 100,884

See accompanying notes.

Consolidated Statements of Cash Flows

For the years ended December 31

<i>In thousands</i>	2001	2000	1999
Cash flows from operating activities:			
Net income (loss)	\$ 269	\$ (24,597)	\$ (2,824)
Adjustments to reconcile net income (loss) to net cash provided (used) by operations:			
Depreciation and amortization	10,910	9,686	6,111
Non-cash interest charges	361	2,069	468
Impairment of notes receivable	—	—	1,851
Provision for doubtful accounts receivable	1,681	1,438	388
Deferred income tax provision (benefit)	1,258	(2,890)	(753)
Discontinued operations - noncash charges and changes in operating assets and liabilities	(2,385)	8,215	5,614
Changes in operating assets and liabilities, exclusive of effects of acquired companies and discontinued operations:			
Accounts receivable	(258)	(7,052)	(12,934)
Income tax receivable	(33)	2,571	(2,673)
Prepaid expenses and other current assets	(853)	48	629
Other receivables	—	85	1,477
Accounts payable	(2,263)	697	(67)
Accrued liabilities	(2,092)	1,370	1,304
Deferred revenue	6,149	1,234	2,124
Net cash provided (used) by operating activities	12,744	(7,126)	715
Cash flows from investing activities:			
Additions to property and equipment	(3,101)	(2,645)	(2,244)
Software development costs	(6,225)	(6,714)	(1,368)
Cost of acquisitions, net of cash acquired	(2,750)	—	(25,087)
Cost of acquisitions subsequently discontinued	—	(3,073)	(862)
Capital expenditures of discontinued operations	(1,353)	(2,201)	(9,613)
Proceeds from disposal of discontinued operations, net of transaction costs	3,675	79,821	15,114
Issuance of notes receivable	—	—	(1,335)
Other	48	213	652
Net cash (used) provided by investing activities	(9,706)	65,401	(24,743)
Cash flows from financing activities:			
Net (payments) borrowings on revolving credit facility	(4,750)	(56,250)	30,190
Payments on notes payable	(354)	(836)	(3,916)
Payment of debt of discontinued operations	(992)	(2,925)	—
Issuance of common stock	—	9,270	—
Net sale of common shares to employee benefit plans	230	19	19
Debt issuance costs	(118)	(1,300)	(1,338)
Net cash (used) provided by financing activities	(5,984)	(52,022)	24,955
Net (decrease) increase in cash and cash equivalents	(2,946)	6,253	927
Cash and cash equivalents at beginning of year	8,217	1,964	1,037
Cash and cash equivalents at end of year	\$ 5,271	\$ 8,217	\$ 1,964

See accompanying notes.

Notes to Consolidated Financial Statements

December 31, 2001 and 2000

(Tables in thousands, except per share data)

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

DESCRIPTION OF BUSINESS

Tyler Technologies, Inc. ("Tyler" or the "Company") provides integrated software systems and related services for local governments. Tyler develops and markets a broad line of software products and services to address the information technology ("IT") needs of cities, counties, schools and other local government entities. Tyler also provides professional IT services to its customers, including software and hardware installation, data conversion, training and product modifications, along with continuing maintenance and support for customers using its systems. The Company also provides property appraisal outsourcing services for taxing jurisdictions.

The Company discontinued the operations of its information and property records services segment in 2000. See Note 3 for discussion of discontinued businesses.

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of the Company and its subsidiaries, all of which are wholly-owned. All significant intercompany balances and transactions have been eliminated in consolidation.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents of \$5.3 million and \$8.2 million at December 31, 2001 and 2000, respectively, consist of money market investments with an initial term of less than three months. For purposes of the statements of cash flows, the Company considers all investments with original maturities of three months or less to be cash equivalents.

REVENUE RECOGNITION

The Company derives revenue from software licenses, postcontract customer support/maintenance ("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.

The Company recognizes revenue in accordance with Statement of Position ("SOP") 97-2, "Software Revenue Recognition," as amended, as follows:

Software Licenses - The Company recognizes the revenue allocable to software licenses and specified upgrades upon delivery 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 has occurred, customer acceptance is reasonably assured, the fee represents an enforceable claim and is probable of collection and the remaining services such as 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 appraisal projects, revenue is recognized using contract accounting. Revenue from these arrangements is recognized using the percentage-of-completion method with progress-to-completion measures based primarily upon labor hours incurred or units completed. Revenue earned is based on the progress-to-completion percentage after giving effect to the most recent estimates of total cost. Changes to total estimated contract costs, if any, are recognized in the period they are determined. Provisions for estimated losses on uncompleted contracts are made in the period in which such losses are determined.

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

USE OF ESTIMATES

The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States 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.

INTEREST COST

The Company capitalizes interest cost as a component of capitalized software development costs. During the years ended December 31, 2001 and 2000, the Company capitalized \$578,000 and \$586,000, respectively, of interest cost. No interest cost was capitalized in 1999.

RESEARCH AND DEVELOPMENT COSTS

The Company expenses all research and development costs as incurred. The Company expensed \$412,000, \$973,000 and \$1.6 million of research and development costs in 2001, 2000 and 1999, respectively.

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

As permitted by Statement of Financial Accounting Standards ("SFAS") No. 123, "Accounting for Stock-Based Compensation," the Company continues to apply the provisions of Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees," as amended. Under APB Opinion No. 25, compensation expense is recorded on the date of grant only if the current market price of the underlying common stock exceeds the exercise price.

COMPREHENSIVE INCOME (LOSS)

The following table sets forth the components of total comprehensive income (loss) for the periods presented:

<u>Years ended December 31,</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>
Net income (loss)	\$ 269	\$ (24,597)	\$ (2,824)
Other comprehensive income (loss):			
Unrealized gain (loss) on investment securities available-for-sale	6,146	(28,622)	17,931
Total comprehensive income (loss)	\$ 6,415	\$ (53,219)	\$ 15,107

There was no tax effect in connection with the change in the unrealized gain (loss) for each of the years presented since management could not conclude it was more likely than not that the tax benefit would be realized on the cumulative unrealized holding loss.

SEGMENT AND RELATED INFORMATION

Although the Company has a number of operating subsidiaries, separate segment data has not been presented as they meet the criteria for aggregation set forth in SFAS No. 131, "Disclosures About Segments of an Enterprise and Related Information."

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 twenty to twenty-five years.

Notes to Consolidated Financial Statements

(Continued)

In June 2001, the Financial Accounting Standards Board (the "FASB") issued SFAS No. 142, "Goodwill and Other Intangible Assets." SFAS No. 142 addresses the accounting and reporting of acquired goodwill and other intangibles assets. SFAS No. 142 discontinues amortization of acquired goodwill and instead requires annual impairment testing of acquired goodwill. Intangible assets will be amortized over their useful economic life and tested for impairment in accordance with SFAS No. 142. Intangible assets with an indefinite useful economic life should not be amortized until their life is determined to be finite.

The provisions of SFAS No. 142 will be effective for fiscal years beginning after December 31, 2001 and will be adopted effective January 1, 2002. SFAS No. 142 will have a significant impact on the Company's financial results based on the historical amortization of goodwill (including workforce). During 2001, 2000 and 1999, the Company reported after-tax goodwill amortization expense of approximately \$3.0 million, \$2.9 million, and \$2.2 million, respectively, which, beginning January 1, 2002, will no longer be expensed under SFAS No. 142. The Company does not anticipate the adoption of SFAS No. 142 to generate an impairment charge in 2002.

IMPAIRMENT OF LONG-LIVED ASSETS

The Company accounts for its long-lived assets in accordance with the provisions of 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.

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 2001, 2000 and 1999, the Company capitalized approximately \$6.2 million, \$6.7 million and \$1.4 million, respectively, of software development costs, which primarily include personnel costs. 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

2001, 2000 and 1999 was approximately \$1.7 million, \$622,000 and \$75,000, respectively.

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, accounts receivables, trade accounts payables and certain other assets: 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 based on quoted market prices.

Long-term obligations: The carrying amount of long-term obligations approximates fair value either due to the variable nature of their stated interest rates or the stated interest rates approximate market rates. These estimated fair value amounts have been determined using available market information or other appropriate valuation methodologies.

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, 2001, the Company does not consider itself to have any significant concentrations of credit risk.

The Company's property appraisal outsourcing 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 and/or payable pursuant to the contract. The Company has recorded retentions and unbilled receivables (costs and estimated profit in excess of billings) of approximately \$7.5 million and \$4.7 million at December 31, 2001 and 2000, respectively, in connection with such contracts. Retentions are included in trade accounts receivable and current assets and amounted to \$4.5 million at December 31, 2001, of which \$3.1 million is expected to be collected in excess of one year.

For the year ended December 31, 2001, the Company had one customer that accounted for approximately 13% of the Company's total consolidated revenues. For the years ended December 31, 2000 and 1999, the Company did not have a single customer that accounted for greater than 10% of total consolidated revenues.

RECLASSIFICATIONS

The Company reclassified certain prior year accounts of discontinued operations as of December 31, 2000 to conform to the current year presentation.

2. ACQUISITIONS

Effective March 1, 1999, the Company acquired Eagle Computer Systems, Inc. ("Eagle"). Eagle is a leading supplier of networked computing solutions for county governments.

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

On April 21, 1999, the Company acquired Process Incorporated d/b/a Computer Center Software, which designs and develops integrated financial and land management information systems for counties, cities, schools and not-for-profit organizations.

Effective May 1, 1999, the Company acquired Gemini Systems, Inc., which develops and markets software products for municipal governments and utilities.

On July 16, 1999, the Company acquired Pacific Data Technologies, Inc., which was included in the information and property records services segment which has been discontinued.

On November 4, 1999, the Company acquired selected assets and assumed selected liabilities of Cole Layer Trumble Company ("CLT") from a privately held company ("Seller"). A portion of the consideration consisted of the issuance of 1.0 million restricted shares of Tyler common stock and included a price protection on the sale of the stock. The price protection, which expired November 4, 2001, was equal to the difference between the actual sale proceeds of the Tyler common stock and \$6.25 on a per share basis, but was limited to \$2.75 million. During the year ended December 31, 2001, the Seller submitted to Tyler a claim under the price protection provision which qualified for the maximum amount of the price protection. Contingent consideration of this nature does not change the recorded costs of the acquisition and the claim is first recorded when submitted. Accordingly, the claim submitted during the year of \$2.75 million net of the deferred tax benefit of \$963,000, has been charged to paid-in capital during the year. The purchase agreement contained a number of post-closing adjustments which resulted in a receivable of approximately \$1.4 million due Tyler from the Seller. During the year ended December 31, 2001 and concurrent with the settlement of the price protection provision, Tyler paid the Seller \$1.35 million in cash on a net basis and eliminated the aforementioned receivable. The two parties entered into a mutual release agreement to fully settle the price protection and related purchase agreement provisions.

On January 3, 2000, the Company acquired Capitol Commerce Reporter, Inc. ("CCR"). CCR was included in the information and property records services segment which has been discontinued. CCR provided public records research, document retrieval, filing and information services. The Company paid cash of \$3.0 million; assumed notes with a fair value of \$4.0 million; and paid transaction costs of \$90,000 in connection with this acquisition.

The Company accounted for all of the aforementioned acquisitions using the purchase method of accounting for business combinations. Under this method of accounting, the aggregate purchase price is allocated to assets acquired and liabilities assumed based on their estimated fair values. Results of operations of the acquired entities are included in the Company's consolidated financial statements from the 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.

During the year ended December 31, 1999, the Company paid cash of \$25.6 million; issued 6.0 million shares of Tyler common stock with a fair value of \$31.8 million and assumed debt of \$2.3 million in connection with its 1999 acquisitions. In addition to consideration paid in cash and common stock for the 1999 acquisitions, the Company provided other consideration which totaled approximately \$3.2 million and consisted of assignment of certain notes. 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 in 1999 and excludes acquired cash balances of approximately \$338,000 in 1999.

3. DISCONTINUED OPERATIONS

Information and Property Records Services Segment

On September 29, 2000, the Company sold for a cash sale price of \$14.4 million certain net assets of Kofile, Inc. and another subsidiary, the Company's interest in a certain intangible work product, and a building and related building improvements ("Kofile Sale"). Effective December 29, 2000, the Company sold for cash its land records business unit, consisting of Business Resources Corporation ("Resources"), to an affiliate of Affiliated Computer Services, Inc. ("ACS") (the "Resources Sale"). The Resources Sale was valued at approximately \$71.0 million. Concurrent with the Resources Sale, management of the Company with the Board of Directors' approval adopted a formal plan of disposal for the remaining businesses and assets of the information and property records services segment. This restructuring program was designed to focus the Company's resources on its software systems and services segment and to reduce debt. The businesses and assets divested or identified for divestiture were classified as discontinued operations in the accompanying consolidated financial statements in 2000 and the prior periods' financial statements were restated to report separately their operations in compliance with APB Opinion No. 30. The net gain on the Kofile Sale and the Resources Sale amounted to approximately \$1.5 million (net of an income tax benefit of \$2.4 million).

Notes to Consolidated Financial Statements

(Continued)

The Company's formal plan of disposal provided for the remaining businesses and assets of the information and property records services segment to be disposed of by December 29, 2001. At the time management elected to discontinue the remaining businesses in this segment, its remaining assets included a start-up company engaged in constructing a Web-enabled national repository of public records data, and Capitol Commerce Reporter, Inc. ("CCR"), which provided public records research, principally in Texas. The interdependency of these operations with those of Resources resulted in the Company's decision to discontinue the development of the repository and other related products and exit the land records business following the Resources Sale.

The estimated loss on the disposal of these remaining businesses and assets at December 29, 2000 amounted to \$13.6 million (after an income tax benefit of \$3.8 million), consisting of an estimated loss on disposal of the businesses of \$11.5 million (net of an income tax benefit of \$2.7 million) and a provision of \$2.1 million (after an income tax benefit of \$1.1 million) for anticipated operating losses from the measurement date of December 29, 2000 to the estimated disposal dates. Although the actual proceeds on the subsequent sales of businesses and assets and the related income tax treatment of the various disposals differed from the individual components of each as originally estimated at December 29, 2000, no adjustment to the net loss reserve is considered appropriate at this time. The anticipated operating losses to the disposal dates include the effects of the settlement of certain employment contracts, losses on real property leases, severance costs and similar closing related costs. The provision for anticipated operating costs which was provided in 2000 approximates actual operating costs incurred since the measurement date of December 29, 2000.

On May 16, 2001, the Company sold all of the common stock of another business which had previously been designated as a discontinued operation. In connection with the sale, the Company received cash proceeds of \$575,000, approximately 60,000 shares of Company common stock, a promissory note of \$750,000 payable in 58 monthly installments at an interest rate of 9%, and other contingent consideration. Because the note receivable is highly dependent upon future operations of the buyer, the Company is recording its value as cash is received. On September 21, 2001, the Company sold all of the common stock of CCR which also had been previously designated as a discontinued operation. The sale price of the common stock consisted of \$3.1 million in cash and future payments contingent

on the retention of certain customers subsequent to the sale. Since the gains or losses on these sales were estimated as of the measurement date of December 29, 2000, no additional adjustments to the estimated loss on the disposals of the discontinued businesses are considered appropriate at this time.

The income tax expense or benefit associated with the gains or losses on the respective sales of the businesses in the information and property records services segment and the planned dispositions of the remaining assets and businesses differs from the statutory income tax rate of 35% due to the elimination of deferred taxes related to the basis difference between amounts reported for income taxes and financial reporting purposes and the utilization of available capital loss carryforwards which were fully reserved in the valuation account prior to the respective sales.

The condensed components of net assets of discontinued operations of the information and property records services segment and one of the Company's non-operating subsidiaries included in the consolidated balance sheets as of December 31, 2001 and 2000 are as follows:

	2001	2000
Restricted cash	\$ 2,310	\$ —
Accounts receivable	100	588
Other current assets	—	369
Deferred taxes	2,192	(898)
Other current liabilities	(5,268)	(1,995)
Less reserve for estimated loss on disposition including post balance sheet operating losses and transactions costs	(120)	(3,251)
Net current liabilities	(786)	(5,187)
Property and equipment	1,000	2,873
Goodwill and other intangibles	—	4,129
Other liabilities	—	(1,907)
Net noncurrent assets	1,000	5,095
Net assets (liability)	\$ 214	\$ (92)

The condensed statements of operations relating to the information and property records services segment for the years ended December 31, 2000 and 1999 are presented below:

	2000	1999
Revenues	\$ 39,680	\$ 36,914
Costs and expenses	44,635	32,796
(Loss) income before income tax (benefit) provision	(4,955)	4,118
Income tax (benefit) provision	(704)	2,216
Net (loss) income	\$ (4,251)	\$ 1,902

Other

In December 1998, the Company entered into a letter of intent to sell its non-core automotive parts segment. Accordingly, this segment has been accounted for as a discontinued operation in 1998 with prior years' financial statements restated to report separately their operations in compliance with APB Opinion No. 30. The Company originally estimated the net loss on disposal 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. On March 26, 1999, the Company sold all of the outstanding common stock of the company comprising the automotive parts segment and received \$15.8 million in cash during 1999 prior to transactions costs. In 1999, the Company recorded additional losses of \$907,000 (including income taxes of \$183,000) to reflect adjusted estimated transaction costs, funded operating losses which were higher than originally estimated, 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.

One of the Company's non-operating subsidiaries is involved in various claims for work-related injuries and physical conditions relating to a formerly owned subsidiary that was sold in 1995. During 2001, 2000 and 1999, the Company recorded net losses, net of related tax effect, of \$3,000, \$748,000 and \$1.9 million, respectively (see Note 17 in Notes to Consolidated Financial Statements).

4. RELATED PARTY TRANSACTIONS

On September 29, 2000, the Company sold for cash certain net assets of Kofile and another subsidiary, the Company's interest in a certain intangible work product, and a building and related building improvements to investment entities beneficially owned by a principal shareholder of the Company, who was also a director at the time.

From time to time, the Company charters aircraft from businesses in which either a former director and/or member of management of the Company is an owner or part owner. For the years ended December 31, 2001, 2000 and 1999 the Company incurred rental expense related to such arrangements to a non-corporate officer management member of \$83,000, \$81,000 and \$116,000 respectively.

During 1999 through mid-2000, the Company chartered an aircraft from a former director. The Company incurred rental expense related to these charters of \$325,000 and \$133,000 in 2000 and 1999, respectively.

The Company has three office building lease agreements with various shareholders and a non-corporate officer management member of the Company. Total rental expense related to such leases for the years ended December 31, 2001, 2000 and 1999 was \$1.1 million, \$679,000 and \$525,000, respectively.

Total future minimum rental under noncancelable related party operating leases as of December 31, 2001, are as follows:

2002	\$ 1,244
2003	1,215
2004	1,217
2005	1,147
2006	1,160
Thereafter	3,994

Notes to Consolidated Financial Statements

(Continued)

5. PROPERTY AND EQUIPMENT

Property and equipment consists of the following at December 31:

	Useful Lives (years)	2001	2000
Land	—	\$ 115	\$ 115
Transportation equipment	5	390	414
Computer equipment and purchased software	3-7	7,542	5,428
Furniture and fixtures	3-7	3,515	2,612
Building and leasehold improvements	3-35	1,338	1,315
		12,900	9,884
Accumulated depreciation and amortization		(5,933)	(3,709)
Property and equipment, net		\$ 6,967	\$ 6,175

Depreciation expense totaled \$2.3 million, \$2.0 million and \$1.1 million during the years ended December 31, 2001, 2000 and 1999, respectively.

6. INVESTMENT SECURITY 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 484,000 shares of its common stock for 969,000 shares of HTE common stock. The additional investment was recorded at \$1.8 million. The investment in HTE common stock 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 courts have not interpreted the Florida "control share" statute. 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 has the right to vote all HTE shares it owns up to at least 20% of the outstanding shares of HTE. On November 16, 2000, the shareholders of HTE, other than Tyler, voted to deny the Company its right to vote the "control shares" of HTE.

On October 29, 2001, HTE notified the Company that it had attempted a cash redemption of all of the 5.6 million shares of HTE common stock currently owned by the Company at a price of \$1.30 per share. Management of the Company believes that the attempted redemption of the Company-owned HTE shares was invalid and takes exception to the manner in which fair value was calculated. Management of HTE contends that its ability to redeem the shares of common stock owned by the Company and the manner of calculation of fair value by HTE is in accordance with Florida state statutes for "control shares." On October 29, 2001, the Company notified HTE that its purported redemption of the shares owned by the Company was invalid and contrary to Florida law, and in any event, the calculation by HTE of fair value for such shares was incorrect. On October 30, 2001, HTE filed a complaint in a civil court in Seminole County, Florida requesting the court to enter a declaratory judgment declaring that HTE's purported redemption of all of the Company-owned shares at a redemption price of \$1.30 per share was lawful and to effect the redemption and cancel the Company-owned shares. The Company removed the case to the United States District Court, Middle District of Florida, Orlando Division and requested a declaratory judgment from the court declaring, among other things, (a) that HTE's purported redemption of any or all of the shares held by the Company was illegal under Florida law, (b) in the alternative, that HTE's right of redemption, if any, under Florida law only applies to the "control shares" owned by the Company (i.e., those shares in excess of 20% of the issued and outstanding shares of common stock of HTE as of the date that the Company acquired such shares), (c) in the alternative, that HTE's calculation of fair value for the redemption of any or all of the shares owned by the Company was grossly understated, and (d) that the Company maintains the ability to vote up to 20% of the issued and outstanding shares of HTE common stock owned by the Company. Although the Company believes that the attempted stock redemption by HTE is invalid there can be no assurance that the court will rule in favor of the positions asserted by the Company.

Under accounting principles generally accepted in the United States, an investment of 20% or more of the voting stock of an investee should lead to a 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; and
- 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." Although these shares are held for a continuing business purpose, these

securities are classified as “available-for-sale” and are recorded at fair value as determined by quoted market prices as required pursuant to SFAS No. 115. 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 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 the carrying amount to fair value. The impairment is charged to earnings and a new cost basis for the security is established. Management of Tyler continues to conclude it has both the intent and the ability to hold the investment for a period of time sufficient to allow for the anticipated recovery in fair value. At this time, management of the Company does not believe the decline in the market value is other than temporary. In making this determination, management considered, among other items, the conditions in the local government software industry, the financial condition of the issuer, and recent public statements by the issuer concerning its future prospects. In addition, for a period of time during 2001 and February 2002, the quoted market value price per share of HTE was above Tyler’s average per share cost basis of \$2.81 per share.

The cost, fair value and gross unrealized holding gains (losses) of the investment securities available-for-sale, based on the quoted market price for HTE common stock (amounts in millions, except per share amounts) are presented below. In accordance with SFAS No. 115, the Company used quoted market price per share in calculating fair value to be used for financial reporting purposes. SFAS No. 115 does not permit the adjustment of quoted market prices in the determination of fair value and, accordingly, the ultimate value the Company could realize because of its significant investment could vary materially from the amount presented.

	Quoted Market Price Per Share	Cost	Fair Value	Gross Unrealized Holding Gains (Losses)
December 31, 2001	\$ 2.00	\$ 15.8	\$ 11.2	\$ (4.6)
December 31, 2000	0.91	15.8	5.1	(10.7)
February 21, 2002	4.36	15.8	24.5	8.7

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.

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 net income of \$865,000 and net losses of \$3.4 million and \$14.9 million for the years ended December 31, 2001, 2000 and 1999, respectively. Subsequent to the Company’s initial acquisition of HTE’s shares in August 1999, HTE recorded charges of approximately \$7.9 million, 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. During 2000, HTE recovered a portion of these costs, which totaled \$1.1 million. 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 \$548,000, \$2.3 million and \$1.4 million for the years ended December 31, 2001, 2000 and 1999, respectively.

7. COSTS (RECOVERY) 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.

Accordingly, the aggregate bridge financings and related accrued interest receivable and costs amounting to \$1.9 million were expensed in the 1999 consolidated financial statements. In 2001, the Company received cash of approximately \$235,000 through CPS bankruptcy proceedings in connection with the notes. The Company anticipates no further recovery of amounts due under its secured notes.

Notes to Consolidated Financial Statements

(Continued)

8. GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill, other intangible assets and related accumulated amortization consists of the following at December 31:

	Useful Lives (years)	2001	2000
Goodwill	20-25	\$ 51,063	\$ 51,145
Customer base	20-25	17,997	17,997
Software acquired	5	12,158	12,158
Software development costs	3-5	17,369	11,144
Workforce	5-10	6,191	6,191
Non-compete agreements	4	163	101
		104,941	98,736
Accumulated amortization		(22,730)	(14,036)
Goodwill and other intangibles, net		\$ 82,211	\$ 84,700

Amortization expense totaled \$8.6 million, \$7.5 million and \$5.0 million for the years ended December 31, 2001, 2000 and 1999, respectively.

9. ACCRUED LIABILITIES

Accrued liabilities consists of the following at December 31:

	2001	2000
Accrued wages and commissions	\$ 7,071	\$ 5,564
Other accrued liabilities	2,580	6,181
Total accrued liabilities	\$ 9,651	\$ 11,745

10. LONG-TERM OBLIGATIONS

Long-term obligations consists of the following at December 31:

	2001	2000
Revolving senior credit facility	\$ —	\$ 4,750
10% promissory notes payable due January 2005	2,800	2,800
Other	233	550
Total obligations	3,033	8,100
Less current portion	123	353
Total long-term obligations	\$ 2,910	\$ 7,747

The aggregate maturities of long-term obligations for each of the years subsequent to December 31, 2001, are as follows: 2002 - \$123,000; 2003 - \$74,000; 2004 - \$36,000; 2005 - \$2.8 million; 2006 - \$0.

Interest paid in 2001, 2000 and 1999 was \$814,000, \$8.8 million and \$4.1 million, respectively.

During the year ended December 31, 2001, the Company had a revolving credit agreement with a group of banks (the "Senior Credit Facility"), which initially provided for borrowings up to \$15.0 million and had a maturity date of July 1, 2002. After amendments to the Senior Credit Facility in May and September related to the sale of certain assets, the available borrowings were reduced to \$7.0 million. Borrowings under the Senior Credit Facility bore interest at the lead bank's prime rate plus a margin of 3%. The borrowings were limited to 80% of eligible receivables. In December 2001, the Company terminated the Senior Credit Facility. The effective average interest rates for borrowings under the Senior Credit Facility during 2001 and 2000 were 10.3% and 10.2%, respectively.

On March 5, 2002, the Company entered into a new revolving credit agreement with a bank (the "2002 Credit Facility") which has a maturity date of January 1, 2005 and provides for total availability of up to \$10.0 million. Borrowings under the 2002 Credit Facility bear interest at either prime rate or at the London Interbank Offered Rate plus a margin of 3% and are limited to 80% of eligible accounts receivable. The 2002 Credit Facility is secured by substantially all of the Company's personal property, by a pledge of the common stock of the Company's operating subsidiaries, and is also guaranteed by such subsidiaries. Under the terms of the 2002 Credit Facility, the Company is required to maintain certain financial ratios and other financial conditions and is prohibited from making certain investments, advances, cash dividends or loans.

11. INCOME TAX

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

Years ended December 31,	2001	2000	1999
Current:			
Federal	\$ —	\$ —	\$ 565
State	282	80	376
	282	80	941
Deferred	1,258	(2,890)	(753)
Income tax provision (benefit)	\$ 1,540	\$ (2,810)	\$ 188

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

Years ended December 31,	2001	2000	1999
Income tax expense (benefit)			
at statutory rate	\$ 634	\$ (3,611)	\$ (622)
State income tax, net of			
federal income tax benefit	183	52	245
Non-deductible amortization	635	640	559
Non-deductible business			
expenses	83	110	80
Other, net	5	(1)	(74)
Income tax			
expense (benefit)	\$ 1,540	\$ (2,810)	\$ 188

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

	2001	2000
Deferred income tax assets:		
Net operating loss carryforward	\$ 3,667	\$ 4,054
Basis difference on investment security	1,591	3,557
Operating expenses not currently deductible	967	999
Employee benefit plans	299	391
Minimum tax credits	268	268
Research tax credits	78	78
Other	100	100
Net deferred income tax assets before valuation allowance	6,970	9,447
Less valuation allowance	(1,690)	(3,657)
Net deferred income tax assets	5,280	5,790
Deferred income tax liabilities:		
Tax-benefit transfer lease	—	(713)
Property and equipment	(1,069)	(1,107)
Intangible assets	(6,442)	(6,681)
Other	(15)	(13)
Total deferred income tax liabilities	(7,526)	(8,514)
Net deferred income tax liabilities	\$ (2,246)	\$ (2,724)

At December 31, 2001, the Company had available approximately \$10.5 million of net tax operating loss carryforwards for federal

income tax purposes. These carryforwards, which may provide future tax benefits, expire from 2012 through 2021. Based upon the periods in which taxable temporary differences are anticipated to reverse, management believes it is more likely than not that the Company will realize the benefits of these deductible differences, including the net operating loss carryforwards, at December 31, 2001. However, the amount of the deferred tax asset considered realizable could be adjusted in the future if estimates of reversing taxable temporary differences are revised.

Although realization is not assured, management believes it is more likely than not that all the deferred tax assets will be realized except for the asset relating to the basis difference on investment security available-for-sale and other minor temporary differences. Accordingly, the Company believes that no valuation allowance is required for the remaining deferred tax assets.

During the year ended December 31, 2000, the Company sold Resources, Kofile and certain other businesses (see Note 3). In connection with these respective sales, the Company utilized approximately \$45.9 million of available capital loss carryforwards which were fully reserved in the valuation allowance account at December 31, 1999.

The Company paid income taxes, net of refunds received, of \$273,000 in 2001 and \$2.8 million in 1999, and received a refund of prior years' income taxes of \$2.7 million in 2000.

12. SHAREHOLDERS' EQUITY

In May 2000, the Company sold 3.3 million shares of common stock and 333,380 warrants pursuant to a private placement agreement with Sanders Morris Harris for approximately \$10.0 million in gross cash proceeds, before deducting commissions and offering expenses of approximately \$730,000. Each warrant is convertible into one share of common stock at an exercise price of \$3.60 per share. The warrants expire in May 2005. The common stock sold in this transaction is not registered and may only be sold pursuant to Rule 144 under the Securities Act of 1933, generally after being held for at least one year.

As of December 31, 2001, the Company had an additional warrant outstanding to purchase 2.0 million shares of the Company's common stock at \$2.50 per share that expires in September 2007. The warrant was issued in September 1997 to Richmond Partners, Ltd. for which the Chairman of the Board of the Company is deemed to have beneficial ownership.

13. 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 and directors of the Company and its subsidiaries of up to 5.5 million shares of the Company's common stock at prices which represent fair market

Notes to Consolidated Financial Statements

(Continued)

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 eight 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, 2001:

	Number of Shares	Weighted- Average Exercise Prices
Options outstanding at December 31, 1998	1,918	\$ 6.03
Granted	1,583	4.87
Forfeited	(78)	3.67
Exercised	(5)	4.29
Options outstanding at December 31, 1999	3,418	5.55
Granted	498	2.76
Forfeited	(417)	6.16
Exercised	(5)	3.88
Options outstanding at December 31, 2000	3,494	5.08
Granted	2,185	1.70
Forfeited	(933)	5.18
Exercised	(108)	2.13
Options outstanding at December 31, 2001	4,638	\$ 3.54
Reserved for future grants at December 31, 2001	207	
Exercisable options:		
December 31, 1999	706	\$ 4.94
December 31, 2000	1,385	5.04
December 31, 2001	1,504	5.20

As allowed by SFAS No. 123, the Company has continued 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 2001, 2000 and 1999, respectively: risk-free interest rates of 5.1%, 6.1% and 5.6%; dividend yield of 0%; expected common stock market price volatility factor of .78, .73 and .70; and a weighted-average expected life of the options of seven years. The weighted-average fair value of options granted in 2001, 2000 and 1999 was \$1.28, \$2.02 and \$3.47 per share, respectively.

Had compensation expense been recorded based on the fair values of the stock option grants, the Company's 2001, 2000 and 1999 pro forma net loss would have been \$919,000, \$26.0 million and \$4.6 million, or \$0.02, \$0.57 and \$0.12 per diluted share, respectively.

During the year ended December 31, 2000, the Company granted to an employee 50,000 shares of restricted common stock with a fair value of \$303,000 at the grant date. The Company recorded annual compensation expense of \$151,500 during each of the years ended December 31, 2000 and 1999, based on the service period provided for in the agreement and the vesting period over which the restrictions lapse.

The following table summarizes information concerning outstanding and exercisable options at December 31, 2001:

Range of Exercise Prices	Weighted Average Remaining Contractual Life	Number of Outstanding Options	Average Price of Outstanding Options	Number of Exercisable Options	Weighted Average Price of Exercisable Options
\$ 0.00 - \$ 2.19	9.3 years	2,163	\$ 1.64	61	\$ 1.58
2.19 - 3.28	9.4	160	2.62	2	2.75
3.28 - 4.38	6.8	835	3.86	573	3.81
4.38 - 5.47	6.9	593	5.24	315	5.27
5.47 - 6.56	7.1	575	6.12	349	6.13
6.56 - 7.66	6.2	236	7.63	142	7.63
7.66 - 8.75	6.8	6	7.75	4	7.75
9.84 - 10.94	6.3	70	10.62	58	10.70

14. EARNINGS (LOSS) PER SHARE

Basic earnings per common share data is computed using the weighted-average number of common shares outstanding for the relevant period. Diluted earnings per common share data is computed using the weighted-average number of common shares outstanding plus common share equivalents represented by stock options and stock warrants, if such stock options and stock warrants have a dilutive effect in the aggregate.

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

Years Ended December 31,	2001	2000	1999
Numerator:			
Income (loss) from continuing operations for basic and diluted earnings per share	\$ 272	\$ (7,507)	\$ (1,966)
Denominator:			
Denominator for basic earnings per share – Weighted-average shares	47,181	45,380	39,105
Effect of dilutive securities:			
Employee stock options	593	—	—
Warrants	210	—	—
Potentially dilutive common shares	803	—	—
Denominator for diluted earnings per share – Adjusted weighted average share	47,984	45,380	39,105
Basic and diluted earnings (loss) per common share from continuing operations	\$ 0.01	\$ (0.17)	\$ (0.05)

For the years ended December 31, 2001, 2000 and 1999, 2.3 million, 3.5 million and 3.4 million options, respectively, were not included in the computation of diluted earnings per share because the effect would have been antidilutive. Additionally, warrants to purchase 333,380, 2.3 million and 2.0 million shares of the Company's common stock for 2001, 2000, and 1999, respectively, were not included in the computation of diluted earnings per share because the effect would have been antidilutive.

15. LEASES

The Company leases certain offices, and transportation, computer and other equipment used in its operations under noncancelable operating lease agreements expiring at various dates through 2011. 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 \$2.8 million in 2001, \$2.1 million in 2000 and \$1.1 million in 1999.

Future minimum lease payments under noncancelable leases at December 31, 2001 are as follows:

Fiscal Year	Operating Leases
2002	\$ 3,111
2003	2,614
2004	2,328
2005	1,892
2006	1,617
2007 and thereafter	5,357
Total future minimum lease payments	\$ 16,919

16. EMPLOYEE BENEFIT PLANS

The Company has a retirement savings plan structured under Section 401(k) of the Internal Revenue Code (the "Code"). The plan covers substantially all employees meeting minimum service requirements. Under the plan, employees may elect to reduce their current compensation by up to 15%, subject to certain maximum dollar limitations prescribed by the Code, and have the amount contributed to the plan as salary deferral contributions. The Company contributes up to a maximum of 2% of an employee's compensation to the plan. The Company made contributions to the plan and charged continuing operations \$868,000, \$761,000 and \$396,000 in 2001, 2000 and 1999, respectively.

17. COMMITMENTS AND CONTINGENCIES

One of the Company's non-operating subsidiaries, Swan Transportation Company ("Swan"), has been and is currently involved in various claims raised by hundreds of former employees of a foundry that was once owned by an affiliate of Swan and the Company for alleged work related injuries and physical conditions resulting from alleged exposure to silica, asbestos, and/or related industrial dusts during their employment at the foundry. The operating assets of the foundry were sold by the Company on December 1, 1995. As a non-operating subsidiary of the Company, the current assets of

Notes to Consolidated Financial Statements

(Continued)

Swan consist primarily of various insurance policies issued to Swan during the relevant time periods and restricted cash of \$2.3 million at December 31, 2001. Swan has tendered the defense and indemnity obligations arising from these claims to its insurance carriers, who have entered into settlement agreements with approximately 275 of the plaintiffs, each of whom agreed to release Swan, the Company, and its subsidiaries and affiliates from all such claims in exchange for payments made by the insurance carriers.

On December 20, 2001, Swan filed a petition under Chapter 11 of the U.S. Bankruptcy Code in the United States Bankruptcy Court for the District of Delaware. The bankruptcy filing by Swan was the result of extensive negotiations between the Company, Swan, their respective insurance carriers, and an ad hoc committee of plaintiff attorneys representing substantially all of the then known plaintiffs. Swan filed its plan of reorganization in February 2002. The principal features of the plan of reorganization include: (a) the creation of a trust, which is to be funded principally by fifteen insurance carriers pursuant to certain settlement agreements executed pre-petition between Swan, the Company, and such carriers; (b) the implementation of a claims resolution procedure pursuant to which all present and future claimants may assert claims against such trust for alleged injuries; (c) the issuance of certain injunctions under the federal bankruptcy laws requiring any such claims to be asserted against the trust and barring such claims from being asserted, either now or in the future, against Swan, the Company, all of its affected affiliates, and the insurers participating in the funding of the trust; and (d) the full and final release of each of Swan, the Company, all of its affected affiliates, and the insurers participating in the funding of the trust from any and all claims associated with the once-owned foundry by all claimants that assert a claim against, and receive compensation from, the trust. In order to receive the foregoing benefits, the Company has agreed, among other things, to make certain cash contributions to the trust, the amount of which is not expected to be in excess of the settlement liability previously recorded by the Company in its consolidated financial statements.

The Company anticipates that Swan's plan of reorganization will be voted on by the creditors of Swan during the second quarter of 2002. Because the material terms of the plan of

reorganization have been pre-negotiated between the various affected parties, the Company anticipates that the plan, as currently contemplated, will be approved by Swan's creditors, at which time it will then be presented to the bankruptcy court for final approval. If the plan of reorganization as currently contemplated is approved, the Company anticipates that all of the liabilities associated with the foundry formerly owned by affiliates of the Company will be eliminated at an amount no greater than the liability reflected in the consolidated financial statements. There can be no assurance that the plan of reorganization as currently contemplated will be approved by the creditors of Swan, and if approved by such creditors, will be approved in such form by the bankruptcy court, if at all.

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, a reserve for the minimum amount of \$2.0 million 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 the years ended December 31, 2001, 2000, and 1999, the Company charged discontinued operations \$3,000, \$748,000, and \$1.9 million, respectively, in connection with settlement, legal and related professional costs, and the remaining liability was approximately \$1.9 million at December 31, 2001. Because of the inherent uncertainty discussed above, it is reasonably possible that the amounts recorded as liabilities for Swan related matters could change in the near term by amounts that would be material to the consolidated financial statements.

See Note 6 for discussion of litigation in connection with HTE's attempted cash redemption of all shares of HTE common stock currently owned by the Company.

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. QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

The following tables contain selected financial information from unaudited consolidated statements of operations for each quarter of 2001 and 2000.

Quarter Ended	2001				2000			
	Dec. 31	Sept. 30	June 30	Mar. 31	Dec. 31	Sept. 30	June 30	Mar. 31
Revenues	\$ 31,204	\$ 28,435	\$ 30,977	\$ 27,272	\$ 26,018	\$ 23,724	\$ 21,661	\$ 21,797
Gross margin	11,346	9,920	10,132	8,621	9,335	9,327	7,583	8,030
Income (loss) from continuing operations before income taxes	1,310	614	745	(857)	(1,759)	(1,538)	(3,741)	(3,279)
Income (loss) from continuing operations	163	251	372	(514)	(1,326)	(1,206)	(2,638)	(2,337)
Income (loss) from discontinued operations	35	(23)	(1)	(14)	(13,015)	(1,352)	(1,341)	(1,382)
Net income (loss)	\$ 198	\$ 228	\$ 371	\$ (528)	\$ (14,341)	\$ (2,558)	\$ (3,979)	\$ (3,719)
Diluted earnings (loss) from continuing operations	\$ 0.00	\$ 0.01	\$ 0.01	\$ (0.01)	\$ (0.03)	\$ (0.02)	\$ (0.06)	\$ (0.06)
Diluted earnings (loss) from discontinued operations	0.00	(0.01)	(0.00)	(0.00)	(0.28)	(0.03)	(0.03)	(0.03)
Net earnings (loss) per diluted share	\$ 0.00	\$ 0.00	\$ 0.01	\$ (0.01)	\$ (0.31)	\$ (0.05)	\$ (0.09)	\$ (0.09)
Shares used in computing diluted earnings (loss) per share	48,915	48,396	47,425	47,179	46,665	46,654	44,894	43,291

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. as of December 31, 2001 and 2000, and the related consolidated statements of operations, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2001. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with 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 financial statements referred to above present fairly, in all material respects, the consolidated financial position of Tyler Technologies, Inc. at December 31, 2001 and 2000, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2001, in conformity with accounting principles generally accepted in the United States.

Ernst & Young LLP

Dallas, Texas
February 22, 2002,
except for the last
paragraph in Note 10
as to which the date
is March 5, 2002

Selected Financial Data

(In thousands, except per share data)

FOR THE YEARS ENDED DECEMBER 31,	2001	2000	1999	1998	1997
STATEMENT OF OPERATIONS DATA: ⁽¹⁾					
Revenues	\$ 117,888	\$ 93,200	\$ 71,416	\$ 23,440	\$ —
Costs and expenses:					
Cost of revenues ⁽²⁾	77,869	58,925	37,027	13,143	—
Selling, general and administrative expense ⁽²⁾	31,065	32,805	27,553	8,534	2,959
Costs (recovery) of certain acquisition opportunities	(235)	—	1,851	3,146	—
Amortization of acquisition intangibles	6,898	6,903	4,966	1,499	—
Interest expense (income), net	479	4,884	1,797	234	(822)
Income (loss) from continuing operations before income taxes	1,812	(10,317)	(1,778)	(3,116)	(2,137)
Income tax provision (benefit)	1,540	(2,810)	188	(652)	(918)
Income (loss) from continuing operations	\$ 272	\$ (7,507)	\$ (1,966)	\$ (2,464)	\$ (1,219)
Income (loss) from continuing operations per diluted share	\$ 0.01	\$ (0.17)	\$ (0.05)	\$ (0.08)	\$ (0.06)
Weighted average number of diluted shares	47,984	45,380	39,105	32,612	20,498
OTHER DATA:					
EBITDA ⁽³⁾	\$ 12,968	\$ 4,253	\$ 7,981	\$ 2,256	\$ (2,843)

AS OF AND FOR THE YEARS ENDED DECEMBER 31,	2001	2000	1999	1998	1997
BALANCE SHEET DATA: ⁽¹⁾					
Total assets	\$ 147,180	\$ 150,712	\$ 243,260	\$ 124,328	\$ 39,543
Long-term obligations, excluding current portion	2,910	7,747	61,530	37,189	—
Shareholders' equity	100,884	96,122	138,904	76,346	31,403
STATEMENT OF CASH FLOWS DATA:					
Cash flows from operating activities	\$ 12,744	\$ (7,126)	\$ 715	\$ 1,758	\$ (5,829)
Cash flows from investing activities	(9,706)	65,401	(24,743)	(36,787)	(2,020)
Cash flows from financing activities	(5,984)	(52,022)	24,955	27,893	2,515

⁽¹⁾ 2001, 2000, 1999 and 1998 include the results of operations of continuing companies formerly comprising the software systems and services segment from the acquired companies' respective dates of acquisition and excludes the results of operations of the discontinued information and property records services segment, automotive parts segment and the fund-raising segment. Prior years' selected financial data has been restated to reflect discontinuation of the information and property records services segment in 2000, the automotive parts segment in 1998 and the fund-raising segment in 1997. For years prior to 1998, selling, general and administrative expense includes only amounts 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 expense for 2001, 2000, 1999, 1998 and 1997 was \$4,014, \$2,783, \$1,145, \$493 and \$116, respectively.

⁽³⁾ EBITDA consists of income or loss from continuing operations before interest, costs (recovery) 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 accounting principles generally accepted in the United States. 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 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 acceptance of the Company's products by its customers, development of new products and the enhancement of existing products, changes in the budgets and regulatory 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, 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

On September 29, 2000, the Company sold for cash certain net assets of Kofile, Inc. ("Kofile") and another subsidiary, the Company's interest in a certain intangible work product, and a building and related building improvements. Effective December 29, 2000, the Company sold for cash its land records business unit, Business Resources Corporation ("Resources"), including among others, Resources wholly-owned subsidiaries Government Records Services, Inc. and Title Records Corporation, to an affiliate of Affiliated Computer Services, Inc. ("ACS"). Concurrent with the sale to ACS, management of the Company with the Board of Director's approval adopted a formal plan of disposal for the remaining businesses and assets of the information and property records services segment. This restructuring program was designed to focus the Company's resources on its software systems and services segment and to substantially reduce debt. In March 1999, the Company sold its automotive parts segment. The business and assets divested or

identified for divestiture have been classified as discontinued operations in 2001, 2000 and 1999. All prior year financial information included herein has been restated to reflect these dispositions as discontinued operations. Continuing operations in 2001, 2000, and 1999 are comprised of the results of operations of the companies formerly comprising the software systems and services segment.

The following is a summary of significant acquisitions consummated in prior years that remain in continuing operations:

On February 19, 1998, the Company acquired The Software Group and Interactive Computer Designs, Inc., which provide county, local and municipal governments with software, systems and services to serve their information technology and automation needs.

Effective August 1, 1998, the Company completed the purchase of Computer Management Services, which provides integrated information management systems and services to county and municipal governments.

Effective March 1, 1999, the Company acquired Eagle Computer Systems, Inc., which supplies networked computing solutions and services for county governments.

Effective April 1, 1999, the Company completed its acquisition of Micro Arizala Systems, Inc. d/b/a 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, which designs and develops integrated financial and land management information systems for counties, cities, schools and not-for-profit organizations.

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 property appraisal software and services to governments.

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.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The discussion and analysis of its financial condition and results of operations are based upon the Company's consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires the Company to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses,

and related disclosure of contingent assets and liabilities. On an on-going basis, the Company evaluates its estimates, including those related to investments, intangible assets, bad debts and long-term service contracts, deferred income tax assets, reserve for discontinued operations and contingencies and litigation. The Company bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. The Company believes the following critical accounting policies affect its more significant judgments and estimates used in the preparation of its consolidated financial statements.

The Company derives revenue from software licenses, hardware, postcontract customer support/maintenance and services which typically range from installation, training and basic consulting to software modification and customization to meet specific customer needs. For multiple element software arrangements which do not entail the performance of services which are considered essential to the functionality of the software, the Company records revenue when the delivered products or performed services result in a legally enforceable claim. The Company maintains allowances for doubtful accounts, sales adjustments and estimated cost of product warranties which are provided at the time the revenue is recognized. Because of the nature of its customers being governmental entities, the Company rarely incurs a loss resulting from the inability of its customers to make required payments. Alternatively, customers may become dissatisfied with the functionality of the software products and/or the quality of the services and request a reduction of the aggregate contract price or similar concession. While the Company engages in extensive product and service quality programs and processes, the Company's allowances for such contract price reductions may need to be revised in the future. In connection with its customer contracts and the related adequacy of its reserves and measures of progress towards completion, the Company's project managers are charged with the responsibility to continually review the status of each customer on a specific contract basis. Also, corporate as well as operating company management review on a quarterly basis significant past due account receivables and the related adequacy of the Company's reserves.

For software arrangements that include customization of the software which is considered essential to its functionality and for real estate appraisal outsourcing projects, the Company recognizes revenue and profit as the work progresses using the percentage-of-completion method. This method relies on estimates of total expected contract revenue, billings and collections and expected contract costs. The Company follows this method since reasonably dependable estimates of the revenue and costs applicable to various stages of a contract can be made. At times, the Company performs additional and/or non-contractual services for little to no incremental fee, to satisfy the customer expectations.

Recognized revenues and profit are subject to revisions such as the type just described as the contract progresses to completion. Revisions to future profit estimates are charged to income in the period in which the facts that give rise to the revision first become known.

The Company accounts for all of its acquisitions using the purchase method of accounting for business combinations. The cost of acquired companies is allocated to identifiable assets based on estimated fair value, with the excess allocated to goodwill. Accordingly, the Company has a significant balance of acquisition intangible assets, including software, customer base, workforce and goodwill. In addition, the Company capitalizes software development costs incurred subsequent to the establishment of technological feasibility. These intangible assets are amortized over their estimated useful lives and are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of the asset is generally measured by a comparison of the carrying amount of an asset to estimated future net cash flows expected to be generated by the asset. The assessment of recoverability or of the estimated useful life for amortization purposes will be affected if the timing or the amount of estimated future operating cash flows are not achieved.

With an original cost basis of \$15.8 million, the Company acquired a 32% interest in HTE, a publicly held company in which the Company is unable to exert significant influence. Accordingly, the investment is classified as an available-for-sale security and is recorded at fair value as determined by quoted market prices, which have been reasonably volatile. The Company's accounting policy is to record an investment impairment charge when it believes an investment has experienced a decline in value other than temporary. To date, the unrealized holding loss in this investment has been excluded from earnings and has been reported in a separate component of shareholders' equity. During 2001, HTE attempted a cash redemption for all of the shares held by the Company for an aggregate redemption price of \$7.3 million, which is materially less than the carrying value recorded at December 31, 2001 and the Company's original cost basis, and litigation between the two parties has been initiated. Future adverse changes in market conditions affecting HTE, poor operating results, or an adverse court ruling regarding the attempted redemption or a negotiated settlement could result in a reduction in the original cost basis to the then current fair value being charged to operations in the future.

The Company records a valuation allowance to reduce its deferred tax assets to the amount that is more likely than not to be realized. While the Company has considered future taxable income and ongoing prudent and feasible tax planning strategies in assessing the need for the valuation allowance, in the event the Company were to determine that it would be able to realize its deferred tax assets in the future in excess of its net recorded amount, an adjustment to the deferred tax asset would increase income in the period such determination was made. Likewise, should the Company determine that it would not be able to

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

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realize all or part of its net deferred tax asset in the future, an adjustment to the deferred tax asset would be charged to income in the period such determination was made.

The Company has a reserve for discontinued operations which includes, among other things, a reserve for estimated claim settlement costs associated with work related injuries and physical conditions of former employees resulting from alleged injuries from silica, asbestos, and/or related industrial dusts during their employment. In late 2001, a non-operating subsidiary of the Company filed a bankruptcy petition, and this subsidiary was the parent of a company which was the former owner of a cast iron pipe and fittings foundry where the alleged injuries occurred. Because the material terms of the plan of reorganization have been pre-negotiated between the various affected parties, the Company anticipates that the plan, as currently contemplated, will be approved by the subsidiary's creditors, at which time it will then be presented to the bankruptcy court for final approval. If the plan of reorganization as currently contemplated is approved, the Company anticipates that all of the liabilities associated with the foundry formerly owned by affiliates of the Company will be eliminated at an amount no greater than the liability reflected in the consolidated financial statements. In the event the proposal plan does not materialize, it is reasonably possible that the amounts recorded as liabilities for this matter could change by material amounts. There can be no assurance that the plan of reorganization as currently contemplated will be approved by the creditors and if approved by such creditors, will be approved in such form by the bankruptcy court, if at all.

2001 COMPARED TO 2000

REVENUES

Revenues from continuing operations were \$117.9 million for the year ended December 31, 2001, a 26% increase from revenues of \$93.2 million for the prior year.

Software license revenues increased each quarter during 2001 from \$3.6 million in the first quarter to \$5.8 million in the fourth quarter. For the year ended December 31, 2001, software license revenue was \$18.9 million, compared to \$18.6 million for the year ended December 31, 2000. The increase was due mainly to sales of third-party software that provided additional functionality to certain of the Company's proprietary software, sales of proprietary software to new customers and in new geographic areas, primarily the midwestern United States, and sales of upgraded financial and utility software modules to existing customers. The increase was somewhat offset by lower tax and appraisal software sales.

Professional services revenues grew 41% to \$52.9 million for the year ended December 31, 2001, from \$37.4 million for the year ended December 31, 2000. Included in professional services revenues for the year ended December 31, 2001, was appraisal outsourcing services revenue of \$34.3 million, compared to

\$20.8 million in the prior year. The 65% increase for the year in appraisal outsourcing services revenue was primarily due to the Company's continued progress on its contract with Nassau County, New York Board of Assessors ("Nassau County"). The contract to provide outsourced assessment services for Nassau County, together with tax assessment administration software and training, is valued at a total of approximately \$34.0 million. Implementation of the Nassau County contract began in September 2000 and is expected to be completed by the Spring of 2003. For the year ended December 31, 2001, the Company recorded \$14.4 million of professional services revenue related to Nassau County.

For the year ended December 31, 2001, maintenance revenue increased 23%, to \$39.9 million, from \$32.5 million for 2000. Higher maintenance revenue was due to an increase in the Company's base of installed software and systems products and maintenance rate increases for several product lines. Maintenance and support services are provided for the Company's software and related products.

Hardware and other revenues increased \$1.6 million for the year ended December 31, 2001 from \$4.6 million for the same period of 2000. Approximately \$700,000 of the increase relates to the Nassau County contract. Other increases are due to timing of installations of equipment on customer contracts and are dependent on the contract size and on varying customer hardware needs.

COST OF REVENUES

For the year ended December 31, 2001, cost of revenues was \$77.9 million compared to \$58.9 million for the year ended December 31, 2000. The increase in cost of revenues was primarily due to the increase in revenues.

Gross margin was 34% for the year ended December 31, 2001, compared to 37% for the year ended December 31, 2000. Overall gross margins were lower because the Company's 2001 revenue mix included more professional services compared to 2000. Historically, gross margins are higher for software licenses than for professional services due to personnel costs associated with professional services. In addition, software license costs increased during 2001 compared to 2000, due to increased amortization of software development costs. The Company released several new products during the second and third quarters of 2001, at which time amortization of the related software development costs commenced.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSE

Selling, general and administrative expense for the year ended December 31, 2001 was \$31.1 million compared to \$32.8 million in the prior year. Selling, general and administrative expense as a percentage of revenues declined to 26% in 2001 from 35% in 2000 because such expenses are primarily fixed and therefore did not increase in proportion to the Company's revenue growth. The decline in selling, general and administrative expense

was due to a reduction in corporate costs following the sale of the information and property records services segment, lower acquisition-related costs such as legal and travel expenses and lower research and development costs which are expensed.

AMORTIZATION OF ACQUISITION AND OTHER INTANGIBLES

The Company has accounted for all of its past acquisitions using the purchase method of accounting for business combinations. The excess of the 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. See "Accounting Pronouncements Not Yet Adopted."

At December 31, 2001 and 2000, the Company had \$82.2 million and \$84.7 million, respectively, of goodwill, post-acquisition software development costs and other intangible assets, net of accumulated amortization. Such intangibles amounted to 56% of total assets at December 31, 2001 and 2000; and 81% and 88% of shareholders' equity at December 31, 2001 and 2000, respectively. Goodwill excluding accumulated amortization at December 31, 2001 and 2000 was \$51.1 million. Amortization expense of acquisition intangibles was \$6.9 million in 2001 and 2000.

The Company considers a variety of factors in estimating the useful lives and recoverability of goodwill and other intangible assets. 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;
- estimated future cash flows of the respective assets;
- competition; and
- industry practice.

In addition, the Company periodically retains the services of an outside appraisal firm to assist in determining the initial value assigned to newly acquired identifiable intangible assets and the estimated useful lives. At December 31, 2001 and 2000, management of the Company believes such assets are recoverable and the estimated useful lives are reasonable.

NET INTEREST EXPENSE

Net interest expense was \$479,000 for the year ended December 31, 2001 compared to \$4.9 million for the year ended December 31, 2000. Interest expense declined due to a significant reduction in bank debt with the proceeds from the disposal of the Company's former information and property records services segment (see Note 2 in Notes to Consolidated Financial Statements). In addition, in connection with certain internally developed software projects, the Company capitalized \$578,000 of interest costs during 2001, compared to \$586,000 for 2000.

INCOME TAX PROVISION

For the year ended December 31, 2001, the Company had income from continuing operations before income taxes of \$1.8 million and an income tax provision of \$1.5 million, resulting in an effective tax rate of 85%. For 2000, the Company had a loss from continuing operations before income tax benefit of \$10.3 million and an income tax benefit of \$2.8 million, resulting in an effective benefit rate of 27%. The effective income tax rate for the year ended December 31, 2001 was different from the statutory United States federal income tax rate of 35% primarily due to non-deductible items such as goodwill amortization as compared to the relative amount of pretax earnings or loss.

DISCONTINUED OPERATIONS

On September 29, 2000, the Company sold for a cash sale price of \$14.4 million certain net assets of Kofile, Inc. and another subsidiary, the Company's interest in a certain intangible work product, and a building and related building improvements. Effective December 29, 2000, the Company sold for cash its land records business unit, Business Resources Corporation, to an affiliate of ACS (the "Resources Sale"). The Resources Sale was valued at approximately \$71.0 million. Concurrent with the Resources Sale, management of the Company with the Board of Directors' approval adopted a formal plan of disposal for the remaining businesses and assets of the information and property records services segment. This restructuring program was designed to focus the Company's resources on its software systems and services segment and to reduce debt. The business and assets divested or identified for divestiture have been classified as discontinued operations in the accompanying consolidated financial statements with prior periods' financial statements restated to report separately their operations in compliance with Accounting Principles Board ("APB") Opinion No. 30.

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

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The Company's formal plan of disposal provided for the remaining businesses and assets of the information and property records services segment to be disposed of by December 29, 2001. At the time management elected to discontinue the remaining businesses in this segment, its remaining assets included a start-up company engaged in constructing a Web-enabled national repository of public records data, and Capitol Commerce Reporter, Inc. ("CCR"), which provides public records research, principally in Texas. The interdependency of these operations with those of Resources resulted in the Company's decision to discontinue the development of the repository and other related products and exit the land records business following the Resources Sale.

The estimated loss on the disposal of these remaining businesses and assets at December 29, 2000, amounted to \$13.6 million (after an income tax benefit of \$3.8 million), consisting of an estimated loss on disposal of the businesses of \$11.5 million (net of an income tax benefit of \$2.7 million) and a provision of \$2.1 million (after an income tax benefit of \$1.1 million) for anticipated operating losses from the measurement date of December 29, 2000 to the estimated disposal dates. Although the actual proceeds on the subsequent sales of businesses and assets and the related income tax treatment of the various disposals differed from the individual components of each as originally estimated at the time the reserve for losses for discontinued operations was first established, no adjustment to the net loss reserve is considered appropriate at this time. The anticipated operating losses to the disposal dates include the effects of the settlement of certain employment contracts, losses on real property leases, severance costs and similar closing related costs. The provision for anticipated operating costs which was provided in 2000 approximates actual operating costs incurred since the measurement date of December 29, 2000.

On May 16, 2001, the Company sold all of the common stock of another business that had previously been designated as a discontinued operation. In connection with the sale, the Company received cash proceeds of \$575,000, approximately 60,000 shares of Company common stock, a promissory note of \$750,000 payable in 58 monthly installments at an interest rate of 9%, and other contingent consideration. Because the note receivable is highly dependent upon future operations of the buyer, the Company is recording its value as cash is received. On September 21, 2001, the Company sold all of the common stock of CCR for \$3.1 million in cash and future payments contingent on the retention of certain customers subsequent to the sale. Since the gains or losses on these sales were estimated as of the measurement date of December 29, 2000, no additional adjustments were recorded to the estimated loss on the disposals of the discontinued businesses.

Revenues from the information and property records services segment amounted to \$39.7 million for the year ended December 31, 2000.

One of the Company's non-operating subsidiaries is involved in various claims for work-related injuries and physical conditions relating to a formerly owned subsidiary that was sold in 1995. During 2001 and 2000, the Company recorded net losses, net of related tax effect, of \$3,000 and \$748,000, respectively (See Note 17 in Notes to Consolidated Financial Statements).

INVESTMENT SECURITY AVAILABLE-FOR-SALE

Pursuant to an agreement with two major shareholders of 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 484,000 shares of its common stock for 969,000 shares of HTE common stock. This additional investment was recorded at \$1.8 million. The investment in HTE common stock 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 the Company currently has the right to vote all HTE shares it owns up to at least 20% of the outstanding shares of HTE. On November 16, 2000, the shareholders of HTE, other than Tyler, voted to deny the Company its right to vote the "control shares" of HTE.

On October 29, 2001, HTE notified the Company that it had attempted a cash redemption of all of the 5.6 million shares of HTE common stock currently owned by the Company at a price of \$1.30 per share. Management of the Company believes that the attempted redemption of the Company-owned HTE shares was invalid and takes exception to the manner in which fair value was calculated. Management of HTE contends that its ability to redeem the shares of common stock owned by the Company and the manner of calculation of fair value by HTE is in accordance with Florida state statutes for "control shares." On October 29, 2001, the Company notified HTE that its purported redemption of the shares owned by the Company was invalid and contrary to Florida law, and in any event, the calculation by HTE of fair value for such shares was incorrect. On October 30, 2001, HTE filed a complaint in a civil court in Seminole County, Florida requesting the court to enter a declaratory judgment declaring that HTE's purported redemption

of all of the Company-owned shares at a redemption price of \$1.30 per share was lawful and to effect the redemption and cancel the Company-owned shares. The Company removed the case to the United States District Court, Middle District of Florida, Orlando Division and requested a declaratory judgment from the court declaring, among other things, (a) that HTE's purported redemption of any or all of the shares held by the Company was illegal under Florida law, (b) in the alternative, that HTE's right of redemption, if any, under Florida law only applies to the "control shares" owned by the Company (i.e., those shares in excess of 20% of the issued and outstanding shares of common stock of HTE as of the date that the Company acquired such shares), (c) in the alternative, that HTE's calculation of fair value for the redemption of any or all of the shares owned by the Company was grossly understated, and (d) that the Company maintains the ability to vote up to 20% of the issued and outstanding shares of HTE common stock owned by the Company. Although the Company believes that the attempted stock redemption by HTE is invalid there can be no assurance that the court will rule in favor of the positions asserted by the Company.

Under accounting principles generally accepted in the United States, an investment of 20% or more of the voting stock of an investee should lead to a 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; and
- 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 Statement of Financial Accounting Standards ("SFAS") No. 115, "Accounting for Certain Investments in Debt and Equity Securities." In accordance with SFAS No. 115, the Company used quoted market price per share in calculating fair value to be used for financial reporting purposes. SFAS No. 115 does not permit the adjustment of quoted market prices in the determination of fair value and, accordingly, the ultimate value the Company could realize because of its significant investment could vary materially from the amount presented. 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, 2001) 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. Management of Tyler continues to conclude it has both the intent and the ability to hold the investment for a period of time sufficient to allow for the anticipated recovery in fair value. At this time, management of the Company does not believe the decline in the market value is other than temporary. In making this determination, management considered, among other items, the conditions in the local government software industry, the financial condition of the issuer, and recent public statements by the issuer concerning its future prospects. In addition, for a period of time during 2001 and in February 2002, the quoted market value price per share of HTE was above Tyler's average per share cost basis of \$2.81 per share. The cost, fair value and gross unrealized holding gains (losses) of the investment securities available-for-sale, based on the quoted market price for HTE common stock (amounts in millions, except per share amounts) are presented below:

	Quoted Market Price Per Share	Cost	Fair Value	Gross Unrealized Holding Gains (Losses)
December 31, 2001	\$ 2.00	\$ 15.8	\$ 11.2	\$ (4.6)
December 31, 2000	0.91	15.8	5.1	(10.7)
February 21, 2002	4.36	15.8	24.5	8.7

NET INCOME AND OTHER MEASURES

Net income was \$269,000 in 2001 compared to a net loss of \$24.6 million in 2000. For 2001, diluted earnings per share was \$0.01 and, for 2000, diluted loss per share was \$0.54. Income from continuing operations was \$272,000, or \$0.01 per diluted share in 2001, compared to a loss from continuing operations of \$7.5 million, or \$0.17 per diluted share in 2000.

Earnings before interest, taxes, depreciation and amortization ("EBITDA") from continuing operations for the year ended December 31, 2001, was \$13.0 million, compared to EBITDA of \$4.3 million in 2000. EBITDA consists of income or loss from continuing operations before interest, income taxes, depreciation, amortization and costs (recovery) of acquisition costs previously expensed. 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 accounting principles generally accepted in the United States. 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

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

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comparable to similarly titled measures reported by other companies. Cash provided by operating activities for the year ended December 31, 2001 was \$12.7 million compared to cash used by operating activities of \$7.1 million for the year ended December 31, 2000.

2000 COMPARED TO 1999

Because of the significance of certain of the Company's acquisitions in 1999, in the following analysis of results of operations, the Company has provided pro forma amounts as if all of the Company's acquisitions and dispositions previously discussed had occurred as of the beginning of 1999. There were no acquisitions since 1999 that remain in continuing operations.

REVENUES

On a pro forma basis, revenues were \$93.2 million for the year ended December 31, 2000, compared to \$107.4 million in the comparable prior year period. The decline in revenues on a pro forma basis was primarily because of post-Year 2000 ("Y2K") related factors. Local governments reduced spending for software applications and systems in 2000 for a variety of reasons, including the acceleration of some projects into 1999 in anticipation of Y2K problems and the delay of some new systems projects in 2000 as they recovered from intensive efforts to become Y2K compliant in the prior year. Many customers and potential customers appeared to have instituted Y2K "lockdowns" and did not install new systems during 2000. Additionally, the 1999 pro forma revenues benefited somewhat from accelerated Y2K compliance related sales.

Pro forma software license revenue in 2000 decreased approximately 25% to \$18.6 million from \$24.9 million in 1999. Pro forma software license revenue comparisons were negatively impacted by the post-Y2K factors described above.

Professional service revenue on a pro forma basis decreased approximately \$6.5 million to \$37.4 million in 2000 from \$43.9 million in 1999. Professional services such as data conversion and training are often contracted for in conjunction with software license sales. Thus, the decline in software license sales volume in 2000 negatively impacted related professional services revenues. Pro forma professional services revenue declined despite the inclusion of approximately \$4.7 million of appraisal services and software revenue in 2000 from the Company's contract with Nassau County.

Pro forma maintenance revenue was \$32.5 million for 2000 and \$28.3 million for the comparable prior year period. The 15% increase is due to an increase in the Company's base of installed software and systems products. Maintenance revenue was approximately 35% of total revenue in 2000 compared to approximately 26% in 1999, on a pro forma basis. Maintenance and support services are provided for the Company's software

products, including property appraisal products, and third party software and hardware. The renewal rates for property appraisal system maintenance agreements are not as high as other software and hardware maintenance agreements and will vary somewhat from period to period. Excluding property appraisal maintenance agreements, pro forma maintenance revenue increased approximately 20% for the year ended December 31, 2000 compared to the comparable prior year period.

Hardware revenue on a pro forma basis decreased \$5.7 million in 2000 compared to 1999 as a result of the Company focusing its sales effort on higher margin products and services.

COST OF REVENUES

For the year ended December 31, 2000, on a pro forma basis, cost of revenues was \$58.9 million compared to \$60.9 million in 1999. Gross margin, on a pro forma basis, decreased to 37% in 2000 from 43% for the same period in the prior year. Gross margin decreased because software license revenue was a lower percentage of the overall product mix in 2000 compared to 1999. Software license revenue carries higher margins than other revenue categories. Another factor contributing to a lower gross margin in 2000 was higher personnel costs. Personnel costs, which are the primary component of cost of service and maintenance revenue, increased due to higher costs of contract labor, salary adjustments and higher head count as a result of staffing increases associated with record high revenues in 1999.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSE

For the year ended December 31, 2000, selling, general and administrative expense was \$32.8 million, or 35% of revenues. For the same period in the prior year, selling, general and administrative expense was \$35.1 million, or 33% of revenues, on a pro forma basis. Selling, general and administrative expense include sales commission costs, which declined as a result of lower sales volume. This decline was offset somewhat by costs associated with consolidating certain finance and administrative functions and higher personnel costs.

COSTS (RECOVERY) 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.

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. In 2001 the Company received cash of approximately \$235,000 through CPS bankruptcy proceedings in connection with the notes. The Company anticipates no further recovery of amounts due under its secured notes.

AMORTIZATION OF ACQUISITION INTANGIBLES

The Company has accounted for all acquisitions using the purchase method of accounting for business combinations. Unallocated purchase price over the fair value of net identifiable assets of the acquired companies ("goodwill") and intangibles associated with acquisition are amortized using the straight-line method of amortization over their respective useful lives, commencing at the acquisition date. Amortization expense of acquisition intangibles increased \$1.9 million from 1999 to \$6.9 million in 2000 as the result of several acquisitions which occurred mid-year 1999.

NET INTEREST EXPENSE

Interest expense increased substantially for the year ended December 31, 2000 compared to the same period in 1999. The senior credit facility was amended in August 2000 and December 2000 to, among other things, accelerate repayment of borrowings under the facility. Accordingly, a cumulative \$1.4 million charge was recorded in 2000 to accelerate the amortization of previously capitalized loan costs. Borrowings under the senior credit facility were used to finance acquisitions, as well as capital expenditures, including proprietary software development costs, resulting in higher interest expense. Capitalized software development costs were \$6.7 million for 2000, as compared to \$1.4 million for 1999. In addition to higher debt levels, the average effective interest rate for 2000 was 10.2% compared to 7.7% for 1999.

INCOME TAX PROVISION

In 2000, the Company had a pre-tax loss from continuing operations of \$10.3 million and an income tax benefit of \$2.8 million, resulting in an effective benefit rate of 27%. In 1999, the Company had a pretax loss from continuing operations of \$1.8 million and an income tax provision of \$188,000. The lower effective income tax benefit is due to non-deductible items such as goodwill amortization as compared to the relative amount of pretax loss.

DISCONTINUED OPERATIONS

The income (loss) from operations (net of income taxes) amounted to a loss of \$4.3 million for the year ended December 31, 2000 and income of \$1.9 million for the year ended December 31, 1999 and represents the operating income or loss of the information and property records services segment until their disposal measurement date of December 29, 2000. The loss on disposal (net of income taxes) amounting to \$12.8 million for the year ended December 31, 2000 represents the gain or loss on the disposal of Kofile and of Resources, as

well as the estimated loss on the anticipated disposals of the remaining businesses in this segment. In addition to the loss on disposal of information and property records services in 2000, the Company also recorded loss on disposal in 2000 and 1999 of \$748,000 (net an income tax benefit of \$403,000) and \$1.9 million (net of an income tax benefit of \$877,000), respectively, in connection with non-operating subsidiaries 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. Also, the 1999 loss on disposal includes an additional loss of \$907,000 (net of income taxes of \$183,000) in connection with the automotive parts segment disposal.

NET LOSS AND OTHER MEASURES

Net loss was \$24.6 million in 2000 compared to \$2.8 million in 1999. Diluted loss per share was \$0.54 and \$0.07 for 2000 and 1999, respectively. Net loss from continuing operations was \$7.5 million, or \$0.17 per diluted share, in 2000 compared to net loss of \$2.0 million, or \$0.05 per diluted share, in 1999.

ACCOUNTING PRONOUNCEMENTS NOT YET ADOPTED

In June 2001, the Financial Accounting Standards Board (the "FASB") issued SFAS No. 142, "Goodwill and Other Intangible Assets." SFAS No. 142 addresses the accounting and reporting of acquired goodwill and other intangible assets. SFAS No. 142 discontinues amortization of acquired goodwill and instead requires annual impairment testing of acquired goodwill. Intangible assets will be amortized over their useful economic life and tested for impairment in accordance with SFAS No. 142. Intangible assets with an indefinite useful economic life should not be amortized until the life of the asset is determined to be finite. The Company is required to adopt the provisions of SFAS No. 142 effective January 1, 2002. SFAS No. 142 will have a significant favorable impact on the Company's 2002 financial results and beyond. See Note 1 in Notes to Consolidated Financial Statements for further discussion of the impact of SFAS No. 142.

Also in June 2001, the FASB issued SFAS No. 141, "Business Combinations." SFAS No. 141 requires that all business combinations be accounted for under the purchase method and defines the criteria for identifying intangible assets for recognition apart from goodwill. SFAS No. 141 applies to all business combinations initiated after June 30, 2001 and all business combinations accounted for using the purchase method for which the acquisition date is July 1, 2001 or later. The Company is required to adopt the provisions of SFAS No. 141 effective January 1, 2002.

In August 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." SFAS No. 144 addresses financial accounting and reporting for the impairment of long-lived assets and for long-lived assets to be disposed of. Under SFAS No. 144, an impairment loss is recognized only if the carrying amount of a long-lived asset to be held and used is not recoverable from its undiscounted cash flows and the loss is

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

(Continued)

measured as the difference between the carrying amount and the fair value of the asset. Long-lived assets to be disposed of by sale are to be measured at the lower of their carrying amount or fair value, less cost to sell, and depreciation related to such long-lived assets is required to be discontinued.

In addition, SFAS No. 144 retains the basic provisions of APB Opinion No. 30 for the presentation of discontinued operations in the income statement but broadens that presentation to include a component of an entity rather than a segment of a business. The provisions of this Statement are effective for financial statements issued for fiscal years beginning after December 15, 2001, and interim periods within those fiscal years, with early application encouraged. The provisions of this Statement generally are to be applied prospectively. The Company has not determined the effect of this new standard; however, due to the similarities with existing accounting standards regarding impairment losses, the impact is not expected to be material in the determination of carrying amounts for long-lived assets.

FINANCIAL CONDITION AND LIQUIDITY

During the year ended December 31, 2001, the Company had a revolving credit agreement with a group of banks (the "Senior Credit Facility"), which initially provided for borrowings up to \$15.0 million and had a maturity date of July 1, 2002. After amendments to the Senior Credit Facility in May and September related to the sale of certain assets, the available borrowings were reduced to \$7.0 million. Borrowings under the Senior Credit Facility bore interest at the lead bank's prime rate plus a margin of 3%. The borrowings were limited to 80% of eligible receivables. In December 2001, the Company terminated the Senior Credit Facility. The effective average interest rates for borrowings under the Senior Credit Facility during 2001 and 2000 were 10.3% and 10.2%, respectively.

On March 5, 2002, the Company entered into a new revolving credit agreement with a bank (the "2002 Credit Facility") which has a maturity date of January 1, 2005 and provides for total availability of up to \$10.0 million. Borrowings under the 2002 Credit Facility bear interest at either prime rate or at the London Interbank Offered Rate plus a margin of 3% and are limited to 80% of eligible accounts receivable. The 2002 Credit Facility is

secured by substantially all of the Company's personal property, and by a pledge of the common stock of the Company's operating subsidiaries, and is also guaranteed by such subsidiaries. Under the terms of the 2002 Credit Facility, the Company is required to maintain certain financial ratios and other financial conditions and is also prohibited from making certain investments, advances, dividends or loans.

The Company's capitalization at December 31, 2001, consisted of \$3.0 million in long-term obligations (including current portion) and \$100.9 million in shareholders' equity. The total debt-to-capital ratio was 2.9% at December 31, 2001.

The Company leases certain offices, transportation, computer and other equipment used in its continuing operations under noncancelable operating lease agreements expiring at various dates through 2011. Most leases contain renewal options and some contain purchase options. Total future obligations under noncancelable leases and maturities of long-term debt at December 31, 2001, are as follows: 2002 - \$3.2 million; 2003 - \$2.7 million; 2004 - \$2.4 million; 2005 - \$4.7 million; 2006 - \$1.6 million; subsequent to 2006 - \$5.4 million. Payments in 2005 include a note payment of \$2.8 million.

For the year ended December 31, 2001, the Company made capital expenditures of \$9.3 million for continuing operations. These expenditures included \$6.2 million relating to software development costs. The remaining expenditures were primarily for computer equipment and expansions required to support internal growth. The Company also purchased a formerly leased building for \$1.3 million in connection with an existing obligation of the discontinued information and property records service segment. Subsequent to December 31, 2001, the Company entered into a contract to sell the building for approximately \$1.0 million in cash subject to the potential buyer securing financing for the purchase. The building is included in net assets of discontinued operations on the consolidated balance sheet at December 31, 2001. Capital expenditures in 2001 were primarily funded with cash generated from operations.

Excluding acquisitions, Tyler anticipates that 2002 capital spending will be approximately \$10.0 million, \$6.5 million of which will be related to software development. Capital spending in 2002 is expected to be funded from cash flow from operations.

On May 16, 2001, the Company sold all of the common stock of one of the remaining businesses that was previously designated as a discontinued operation. In connection with the sale, the Company received, among other consideration, cash proceeds of \$575,000, and a promissory note of \$750,000 payable in 58 monthly installments at an interest rate of 9%. On September 21, 2001, the Company sold all of the common stock of CCR, which had also been classified as a discontinued operation. The sale price of the common stock consisted of \$3.1 million in cash, as well as future payments contingent on the retention of certain customers subsequent to the sale.

On November 4, 1999, the Company acquired selected assets and assumed selected liabilities of Cole Layer Trumble Company ("CLT") from a privately held company ("Seller"). A portion of the consideration consisted of the issuance of 1.0 million restricted shares of Tyler common stock and included price protection on the sale of the stock. The price protection, which expired November 4, 2001, was equal to the difference between the actual sale proceeds of the Tyler common stock and \$6.25 on a per share basis, but was limited to \$2.75 million. During the year ended December 31, 2001, the Seller submitted to Tyler a claim under the price protection provision which qualified for the maximum amount of the price protection. The purchase

agreement contained a number of post-closing adjustments which resulted in a receivable of approximately \$1.4 million due Tyler from the Seller. During the year ended December 31, 2001 and concurrent with the settlement of the price protection provision, Tyler paid the Seller \$1.35 million in cash on a net basis and eliminated the aforementioned receivable. The two parties entered into a mutual release agreement to fully settle the price protection and related purchase agreement provisions.

The Company is from time to time engaged in discussions with respect to selected acquisitions and expects to continue to assess these and other strategic 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 available borrowing capacity under the 2002 Credit Facility will provide sufficient funds to meet its needs for at least the next year.

Corporate Information

CORPORATE OFFICERS

Louis A. Waters

Chairman and Co-Chief Executive Officer

John M. Yeaman

President and Co-Chief Executive Officer

Theodore L. Bathurst

Vice President and Chief Financial Officer

Brian K. Miller

Vice President - Finance and Treasurer

H. Lynn Moore, Jr.

Vice President - General Counsel and Secretary

Rick L. Hoff

Chief Technology Officer

Terri L. Alford

Controller

BOARD OF DIRECTORS

Louis A. Waters

*Chairman of the Board and Co-Chief Executive Officer
Tyler Technologies, Inc.*

Ben T. Morris

*President and Chief Executive Officer
Sanders Morris Harris*

Ulrich Otto

*Chairman and Chief Executive Officer
Otto Holding B.V.*

G. Stuart Reeves

*Retired Executive Vice President
Electronic Data Systems Corporation*

Glenn A. Smith

*President - Courts & Justice Division
Tyler Technologies, Inc.*

John D. Woolf

*Executive Vice President and Chief Financial Officer
eiStream, Inc.*

John M. Yeaman

*President and Co-Chief Executive Officer
Tyler Technologies, Inc.*

CORPORATE HEADQUARTERS

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Dallas, Texas

LEGAL COUNSEL

Gardere Wynne Sewell LLP

Dallas, Texas

COMMON STOCK

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

INVESTOR INFORMATION

The Company's Annual Report on Form 10-K is available on the Company's Web site at www.tylertechnologies.com. A copy of the Form 10-K or other information may be obtained by contacting the Investor Relations department at corporate headquarters.

INVESTOR RELATIONS

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