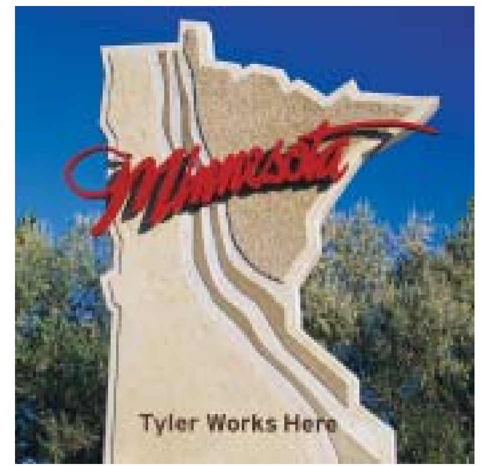
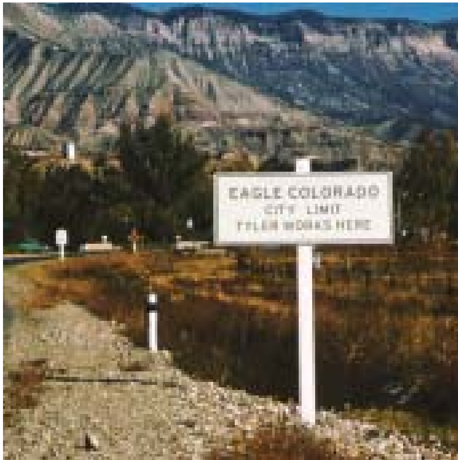


TYLER TECHNOLOGIES 2002 ANNUAL REPORT



Each day, governments in 1,899 cities and towns, 620 counties and 49 states rely on software, services and support from Tyler Technologies' divisions: Courts and Justice, Financial and City Solutions, Property Appraisal and Tax, and Recording Systems. Why?

Because Tyler Works.

These are tough times, make no mistake about it.

An uncertain economy, corporate governance breakdowns, and conflicts around the world. An apparent reluctance in 2002 to invest in new productivity tools produced gloomy results for the overall software industry -- of less than 3% growth, according to International Data Corporation.

Against that backdrop we're extremely proud of the results achieved by the Tyler team.

In a difficult environment we have not backed off our strategic initiatives. To the contrary, we've strengthened our competitive position – expanding geographically, adding sales resources, and improving the competitiveness of our products. Built on the critical mass we achieved in 2001, our record results in 2002 are a testament to the financial and operational leverage inherent in our business model. Revenues grew by 13% and we met or exceeded our key earnings targets. The outlook for the year 2003 and beyond is for sustained growth in revenues

and profits. Why? Because Tyler's business model works.

Tyler works: Continued demand for our products and services. Despite concerns over state and local government budgets, our results in the past year give us reason to continue to be optimistic about the market for our local government software and services. Our position in the market continued to strengthen, and our revenue mix shifted to a greater proportion of higher margin software-related revenues. Our software license revenues were exceptionally strong in 2002, with 25% growth over 2001. We also posted solid growth in software services and maintenance revenues. Our appraisal services revenues have nearly doubled in the last two years, growing from $20.9 million in 2000 to $37.3 million in 2002. While we have strengthened our position as the nation's leading provider of these services with our highly successful project in Nassau County, NY, we don't expect that our appraisal services revenues will continue to grow at the same rate. We believe that software – related revenues will be the primary driver of growth in the coming year. As a result, we expect to see a somewhat lower overall growth rate with a more strategic revenue mix.

Tyler works: New business signed at a good pace. During 2002, we successfully penetrated new geographic markets and signed contracts with larger cities, counties and a state. Our broad product line now opens more opportunities for cross-selling and additional business with existing customers. Significant new contracts in 2002 include:

- The State of Minnesota
- Allegheny County (Pittsburgh), Pennsylvania
- Lee County, Florida
- Fairfax County, Virginia
- City and County of Denver, Colorado
- Wayne County (Detroit), Michigan, Airport Authority
- Lake County (Gary), Indiana

Tyler works: Innovative product development. In 2002 we signed our first two contracts for Tyler's Odyssey court case management system. This new Web-based courts system is being

That we're in tough times is not exactly breaking news. So we're extremely proud of the Tyler team whose efforts resulted in 13% revenue growth.

installed statewide in Minnesota as well as in Lee County, FL. In addition to our new-generation courts and justice products, Tyler is devoting significant development resources to Orion, our new Web-based appraisal system, and to the enhancement of our financial and recording suites of products.

Tyler works: Our core strengths remain key to our success and to our customers. An exceptionally customer-oriented staff and a deep and experienced management team played a large role in Tyler's 2002 success. A wider array of products and services that work well for–and anticipates–our customers' needs. This translates into an ever-growing, broad base of loyal customers. In a market that requires the right technology and a mandate to operate more efficiently - from the courthouse to the statehouse.

Tyler works: Building shareholder value. Our balance sheet is solid. During 2002, we used free cash flow to repurchase 1.5 million shares of our stock and authorized the repurchase of up to one million additional shares. We agreed at year-end to sell our 35% stake in HTE, Inc., for approximately $39.3 million, against a cost basis of about $16 million. We expect the transaction to close in the first quarter of 2003. The cash proceeds from this investment provide additional flexibility to take advantage of opportunities to build value for our shareholders, including further stock repurchases.

Tyler works: By the numbers – 2002 financial highlights:

- Revenues grew 13% to $133.9 million.
- Software license revenues grew 25%. 2002's fourth quarter was our best quarter ever for software license revenues at $7.2 million.
- Software services revenues were up 19% to $25.7 million.
- Gross margin improved more than two percentage points to 35.8%.
- SG&A expense declined to 25.3% of revenues from 25.9% in 2001
- EBITDA grew 41% to $18.6 million.
- Pretax income from continuing

We are the only company in our industry that does it all.

positive impacts on the communities we serve and reinforce our reputation

operations grew to $10.0 million from $1.8 million in 2001.

- Income from continuing operations rose to $6.2 million, or 12 cents per share, up from $272,000, or one cent per share, last year.

- After income from discontinued operations of $1.8 million, we had net income of $8.0 million, or 16 cents per share.

- We ended the year with nearly $14 million in cash and no bank debt. For the year 2002 free cash flow (cash generated from operations minus capital expenditures) was over $10 million.

- Our year-end backlog of signed contracts remained solid at $89.1 million.

We anticipate another very successful year in 2003, notwithstanding the uncertainties ahead. Having all the right components in place for profitable growth should increase value for all stakeholders. Local governments' mandate to be more efficient continues. Tyler's products and services offer greater efficiencies for almost every aspect of the day to day management of local government. Coast to coast. We continue to reinforce our reputation for getting the job done right regardless of the complexity.

We are the only company in our industry that does it all. We will continue to bring new products to the market that create positive impacts on the communities we serve. These products will increase opportunities to grow revenues and profits. Our team is committed; their customer focus is intense. Tyler works.

We will continue to bring new products to the market that create for getting the job done right.

Stuart Reeves,
Chairman

John Yeaman,
President & CEO

10,000 lakes, one software platform.

The state of Minnesota was searching for a solution; one that would have a direct impact on justice and public safety, according to Dale Good, Chief Information Officer for the Judicial Branch of Minnesota's state government. This was an $11 million opportunity that played directly to Tyler's strengths. And after a rigorous selection process Tyler was chosen.

Tyler's Odyssey court case management system will be installed in all 87 counties in Minnesota. The new court system will link each county's court records and set, Tyler believes, a new standard for the other 49 states and courts around the world. "Courts as far away as Australia will be watching," says Glenn Smith of Tyler Technologies. "We have all the pieces now – domain expertise, talent and financial resources."

Odyssey consolidates the judiciary's case processing and tracking functions, and behaves like applications already familiar to users. That makes training easier and users productive even faster. As a Web-based system, Odyssey has the added benefit of centralized – and therefore easier and more efficient – support because it takes the software application off individual desktops.

For the citizens of Minnesota, Odyssey will improve the vigilance and tracking of predators and criminals, county to county, statewide. Information about their criminal records and whereabouts now becomes a statewide resource linked to numerous databanks. Odyssey also keeps better track of juveniles; who they are, and where they are. Odyssey transforms courts into information-enabled enterprises. Judges will have more pertinent information, more quickly to make sounder decisions.

Dale Good of the Minnesota Supreme Court's IT division says their initial skepticism about the ability of an off-the-shelf software product to meet their requirements, versus developing one from scratch, has been satisfied. "Odyssey is configurable and extendable, which makes it flexible enough to satisfy our needs," according to Mr. Good. He adds that Tyler's in-depth knowledge and understanding of the way courts operate also contributed to being awarded the contract.

Odyssey is configurable and extendable, which makes it flexible enough to satisfy our needs.

More vigilance. Swifter justice. Safer children. These are expected outcomes from the use of Odyssey.

When Minnesota first issued its request for proposal (RFP), Tyler was in the process of developing its new-generation system based on the National Center for State Courts' latest standards. Tyler recognized the value and potential of the Minnesota opportunity but was not far enough along in Odyssey's development to respond to the RFP. However, when the system developed by Minnesota's previous software vendor failed a scalability test, Tyler was ready with Odyssey.

The $11 million contract for Odyssey is just the beginning; Tyler is already discussing related opportunities. As more courts recognize the need for data to be shared quickly and accurately between courts and across jurisdictions, Tyler is prepared to meet their needs with a state-of-the-art solution.

Dale Good, Chief Information Officer
Judicial Branch, State of Minnesota

A monumental task.

In 1997, homeowners in New York's Nassau County, upset at valuations of their properties, filed a lawsuit against the county that resulted in a court-ordered reassessment of residential property taxes. For Charles O'Shea, then campaigning for Chairman of the Board of Assessors, it would mean a monumental task of enormous political sensitivity; no Chairman had been required to undertake a reassessment in over 60 years.

"It would have had dire political consequences had it not gone well," recalls Mr. O'Shea. "Remember, we're talking about over 415,000 parcels of property, including 360,000

residential properties belonging to a very vocal, very educated population that can be very critical under the best of circumstances." The property tax division of Tyler Technologies, Cole Layer Trumble (CLT), was up to the challenge.

Bruce Nagel, head of CLT, believes they were chosen for such a highly visible project because of their track record. He pointed out that CLT was not the lowest bidder. Mr. O'Shea believes that the strength and size of Tyler Technologies prepared CLT to undertake such a complex commitment. He said, "CLT had the best proposal, experience and ability to handle a big job under tough time constraints. Their professionalism was very evident. They could take the heat."

Results show the right decision was made. Mr. O'Shea has said that statistical tests used to measure the accuracy and uniformity of the property values indicate that this reassessment is the best job ever performed in a large assessing jurisdiction. A strong foundation has now been built for the required annual updates for the years 2003 through 2009. "No fair-minded person can look at the work that was done here in Nassau County, involving 415,000 parcels, under the deadlines imposed, and not conclude that the result was something the county could be proud of," he says.

CLT, from a field of 12, was the unanimous choice in 2000 of the Nassau County proposal committee. The $34 million contract utilized CLT's Integrated Assessment System (IAS), a computer assisted mass appraisal software system. 150 local inspectors were hired in one month for the two-year project. Because of the project's high profile nature CLT took all the necessary steps to keep the electorate fully informed and up to date; CLT had fulltime public information people on the job and created a Web site to keep citizens constantly apprised of the progress. Timely information was crucial in building and sustaining the confidence of the citizens of Nassau County.

According to Mr. O'Shea, Tyler's CLT professionals performed, "the best reassessment of a large assessing jurisdiction in the history of the U.S."

No fair-minded person can look at the work that was done involving 415,000 parcels, under the deadlines imposed, and not be pleased.

Charles O'Shea, Chairman Nassau County Board of Assessors

Chester County, for the record.

When Terence Farrell ran for Chester County (Pennsylvania) Recorder of Deeds in 1999, he promised citizens that he would modernize the land records computer system. Mr. Farrell kept his campaign promise – and more. With the help of Tyler Technologies, Mr. Farrell and his team developed a land records systems that did what it was supposed to do – and saved taxpayers $200,000 per year and won national recognition for Chester County.

"Going into the job I knew that the decision I made for a new system would be the most important decision in my term as Recorder," Mr.

Farrell says. When he began his campaign the old system, less than two years old, was broken. "You name it," Mr. Farrell says, "the system had the problem. There was a clear need to move into the 21st century."

Meeting with vendors at trade shows, traveling and evaluating for months the efforts of what 15 other counties in three states were doing, Mr. Farrell and his staff studied every possible option. Other counties in the same purchasing board cooperative as Chester County, and already clients of Tyler's records software division (Eagle), gave positive references. "We evaluated all the responses from their RFP process and were satisfied that Eagle was the logical choice," says Mr. Farrell. The final step involved evaluations from Chester County's Department of Computer and Information Services; they were satisfied.

From three finalists, Eagle was awarded the contract because of a combination of functionality, technology, dependability and price. "Eagle was not the least expensive," Mr. Farrell said, "but their pricing structure allowed us to save hundreds of thousands of dollars compared to the old system, even as our document volume increased."

Today the land records database is integrated with other county records, allowing access to other departments that need the data. The system eliminates redundancy and makes searching for records easier and more efficient for the 15 county agencies it serves on a daily basis. The Urban and Regional Information Systems Association honored the performance of Chester County's system at its annual conference in 2002. "Eagle's software is the heart of the system," says Mr. Farrell.

Literally tons of paperwork have been eliminated, which not only speeds up processing, but saves tax dollars by being more efficient.

Terence Farrell, Recorder of Deeds
Chester County Pennsylvania

MUNIS elected.

In 1999, the City of South Portland, Maine decided to decentralize the functions of payroll, human resources, general ledger, accounts payable and receivable, purchase orders, tax billing and parking tickets. The city would change the way they had always conducted business, from manual entries to, for many, using computers for the first time.

First, a consulting firm was hired to conduct a complete analysis of each city department's needs. Their conclusion was that the 10-year-old sys-

tem's life cycle had ended and the hardware was barely hanging on.

Notices were sent to over 100 software vendors that a request for proposal (RFP) was being prepared; 40 requested the RFP, and 11 then responded to the RFP. Mr. Coombs decided to try something different in the selection process. Instead of the finance department management, he let the users make the decision. After four full days of demos from the finalists, the committee of 20 departmental users made a unanimous decision in Tyler's favor.

have been nightmares. This went as well as it possibly could considering what they were undertaking in a very tight timeframe. I would have to say no one could do a better job in their business."

The full suite of Tyler financial software products, created by Tyler's MUNIS division, has made employees of the City of South Portland much more efficient, productive and organized, says Mr. Coombs. Employees have been freed to perform other important tasks and headcount has stabilized.

Implementation went as well as it could considering what they were undertaking in a very tight timeframe. I would have to say no one could do a better job in their business.

"Intuitive, easy to use, and has all the functionality," is how Robert Coombs, Finance Director for the City of South Portland, describes Tyler's MUNIS software. "A successful implementation would mean buy-in from the people who would be using it. 50-50 would have worked, but the vote for Tyler was unanimous, even though technically it did not have the most bells and whistles," he says.

"Implementation went amazingly well," according to Mr. Coombs. "Implementations for other systems

Robert Coombs, Finance Director
City of South Portland, Maine

It's all about reputation.

Choosing Tyler Technologies' InVision municipal software was an easy decision for Goose Creek, according to Ron Faretra, Finance Director for the City of Goose Creek, South Carolina. "I wanted their entire customer list and they gave it to me. That was important. Not every vendor would do it." From the initial list of 15 possible vendors, the final step in the process was checking references. Mr. Faretra's staff checked 25 of Tyler's customers.

"It was amazing," he says. "We wanted to know what they thought of the software. But 23 of the 25 talked about [Tyler's] customer support and we didn't even ask. It was all very positive." That's no surprise to Tyler's InVision municipal software sales team; they send the entire customer list to all prospects, confident that every day virtually all of their customers are pleased.

Not only are they good people, but they really know what they're talking about. I don't have to tell them what the software needs to do. They tell me.

"Our reputation is our most significant asset," says Dustin Womble, president of Tyler's municipal software division, known as INCODE. "Local governments are inherently risk-adverse. These decision makers place a tremendous value on the experiences of their peers. In the last 20 years of business, over 99% of clients that purchased INCODE software products and services remain INCODE clients. This fact carries more weight with potential clients than any marketing point or software feature."

"Besides being light years ahead of most of their competition in functionality and technology," Mr. Faretra says, "the experience of their customer support people is invaluable. Not only are they good people, but a high percentage are MBAs and CPAs. They really know what they're talking about. I don't have to tell them the software needs to do this or that. They tell me."

Goose Creek, 50 square miles and the home of 30,000 people, has recently built a new state-of-the-art administration facility, managed by the most senior city administrator in all of South Carolina, 25-year veteran Dennis C. Harmon. "We are well-known and a lot of other cities [administrators] come to tour," says Mr. Faretra. "People ask about software more than I ever thought, and I am happy to tell them about InVision. It keeps accurate and timely billing for utilities and provides better financial records for the community. We can budget and plan better."

Ron Faretra, Finance Director
City of Goose Creek, South Carolina

We ended the year with nearly $14 million in cash and no bank debt, and we're profitable. Our growth continues to be driven by a strong local government software and services market and products that do well for our customers. Our business model works.

Now for the numbers:

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, 2002 and 2001, and the related consolidated statements of operations, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2002. 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, 2002 and 2001, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2002, in conformity with accounting principles generally accepted in the United States.

As discussed in Note 7 in the Notes to the Consolidated Financial Statements, the Company changed its method of accounting for goodwill.

Dallas, Texas
February 21, 2003

CONSOLIDATED STATEMENTS OF OPERATIONS

For the years ended December 31

IN THOUSANDS, EXCEPT PER SHARE AMOUNTS

	2002	2001	2000
Revenues:			
Software licenses	$ 24,278	$ 19,491	$19,312
Software services	25,703	21,538	19,425
Maintenance	40,667	36,587	29,108
Appraisal services	37,319	34,727	20,909
Hardware and other	5,930	6,473	5,179
Total revenues	133,897	118,816	93,933
Cost of revenues:			
Software licenses	5,482	4,130	2,605
Software services and maintenance	50,175	46,024	38,355
Appraisal services	25,512	23,894	14,681
Hardware and other	4,746	4,749	4,017
Total cost of revenues	85,915	78,797	59,658
Gross profit	47,982	40,019	34,275
Selling, general and administrative expenses	33,914	30,830	32,805
Amortization of acquisition intangibles	3,329	6,898	6,903
Operating income (loss)	10,739	2,291	(5,433)
Legal fees associated with affiliated investment	704	--	--
Interest expense	187	630	4,914
Interest income	(193)	(151)	(30)
Income (loss) from continuing operations before income taxes	10,041	1,812	(10,317)
Income tax provision (benefit)	3,869	1,540	(2,810)
Income (loss) from continuing operations	6,172	272	(7,507)
Discontinued operations:			
Loss from operations, after income taxes	--	--	(4,251)
Gain (loss) on disposal, after income taxes	1,817	(3)	(12,839)
Gain (loss) from discontinued operations	1,817	(3)	(17,090)
Net income (loss)	$ 7,989	$ 269	$(24,597)
Basic income (loss) per common share:			
Continuing operations	$ 0.13	$ 0.01	$ (0.17)
Discontinued operations	0.04	(0.00)	(0.37)
Net income (loss) per common share	$ 0.17	$ 0.01	$ (0.54)
Diluted income (loss) per common share:			
Continuing operations	$ 0.12	$ 0.01	$ (0.17)
Discontinued operations	0.04	(0.00)	(0.37)
Net income (loss) per common share	$ 0.16	$ 0.01	$ (0.54)
Basic weighted average common shares outstanding	47,136	47,181	45,380
Diluted weighted average common shares outstanding	49,493	47,984	45,380

See accompanying notes

December 31

IN THOUSANDS, EXCEPT SHARE AND PER SHARE AMOUNTS

ASSETS	2002	2001
Current assets:		
Cash and cash equivalents	$ 13,744	$ 5,271
Accounts receivable (less allowance for losses of $690 in 2002 and $1,275 in 2001)	33,510	35,256
Income taxes receivable	--	151
Prepaid expenses and other current assets	4,009	3,318
Deferred income taxes	1,197	1,329
Total current assets	52,460	45,325
Net assets of discontinued operations	--	1,000
Property and equipment, net	6,819	6,967
Other assets:		
Investment security available - for - sale	27,196	11,238
Goodwill	46,298	43,292
Customer base, net	14,645	15,518
Software, net	21,933	19,982
Other acquisition intangibles	10	3,419
Sundry	484	234
	$ 169,845	$ 146,975

LIABILITIES AND SHAREHOLDERS' EQUITY	2002	2001
Current liabilities:		
Accounts payable	$ 2,390	$ 2,036
Accrued liabilities	11,186	9,774
Net current liabilities of discontinued operations	442	581
Deferred revenue	26,208	27,215
Total current liabilities	40,226	39,606
Long-term obligations, less current portion	2,550	2,910
Deferred income taxes	8,413	3,575
Commitments and contingencies		
Shareholders' equity:		
Preferred stock, $10.00 par value; 1,000,000 shares authorized, none issued	--	--
Common stock, $0.01 par value; 100,000,000 shares authorized; 48,147,969 shares issued in 2002 and 2001	481	481
Additional paid-in capital	156,898	157,242
Accumulated deficit	(40,954)	(48,943)
Accumulated other comprehensive income (loss), net of tax	7,418	(4,545)
Treasury stock, at cost; 1,928,636 and 920,205 shares in 2002 and 2001, respectively	(5,187)	(3,351)
Total shareholders' equity	118,656	100,884
	$ 169,845	$ 146,975

See accompanying notes

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

For the years ended December 31, 2002, 2001 and 2000

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, 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 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 shares 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
Comprehensive income:								
Net income	--	--	--	--	7,989	--	--	7,989
Unrealized gain on investment security, net of tax	--	--	--	11,963	--	--	--	11,963
Total comprehensive income								19,952
Issuance of shares pursuant to stock compensation plans	--	--	(542)	--	--	491	2,164	1,622
Treasury stock purchases	--	--	--	--	--	(1,500)	(4,000)	(4,000)
Federal income tax benefit related to exercise of stock options	--	--	198	--	--	--	--	198
Balance at December 31, 2002	48,148	$ 481	$156,898	$ 7,418	$ (40,954)	(1,929)	$ (5,187)	$ 118,656

See accompanying notes

For the years ended December 31
IN THOUSANDS

	2002	2001	2000
Cash flows from operating activities:			
Net income (loss)	$ 7,989	$ 269	$ (24,597)
Adjustments to reconcile net income (loss) to net cash provided (used) by operations:			
Depreciation and amortization	8,522	10,910	9,686
Non-cash interest and other charges	348	361	2,069
Provision for losses – accounts receivable	727	1,681	1,438
Deferred income tax provision (benefit)	3,384	1,258	(2,890)
Discontinued operations – noncash charges and changes in operating assets and liabilities	(2,458)	(2,590)	8,215
Changes in operating assets and liabilities, exclusive of effects of acquired companies and discontinued operations:			
Accounts receivable	1,019	(258)	(7,052)
Income tax receivable	151	172	2,571
Prepaid expenses and other current assets	(279)	(853)	48
Other receivables	--	--	85
Accounts payable	354	(2,263)	697
Accrued liabilities	1,095	(2,092)	1,370
Deferred revenue	(1,007)	6,149	1,234
Net cash provided (used) by operating activities	19,845	12,744	(7,126)
Cash flows from investing activities:			
Additions to property and equipment	(2,508)	(3,101)	(2,645)
Software development costs	(7,210)	(6,225)	(6,714)
Cost of acquisitions, net of cash acquired	--	(2,750)	--
Cost of acquisitions subsequently discontinued	--	--	(3,073)
Capital expenditures of discontinued operations	--	(1,353)	(2,201)
Proceeds from disposal of discontinued operations and related assets	1,807	3,675	79,821
Other	(63)	48	213
Net cash (used) provided by investing activities	(7,974)	(9,706)	65,401
Cash flows from financing activities:			
Net payments on revolving credit facility	--	(4,750)	(56,250)
Payments on notes payable	(456)	(354)	(836)
Payment of debt of discontinued operations	(324)	(992)	(2,925)
Issuance of common stock	--	--	9,270
Repurchase of common stock	(4,000)	--	--
Proceeds from exercise of stock options	1,622	230	19
Debt issuance costs	(240)	(118)	(1,300)
Net cash used by financing activities	(3,398)	(5,984)	(52,022)
Net increase (decrease) in cash and cash equivalents	8,473	(2,946)	6,253
Cash and cash equivalents at beginning of year	5,271	8,217	1,964
Cash and cash equivalents at end of year	$ 13,744	$ 5,271	$ 8,217

See accompanying notes

December 31, 2002 and 2001

TABLE IN THOUSANDS, EXCEPT PER SHARE DATA

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

DESCRIPTION OF BUSINESS

We provide integrated software systems and related services for local governments. We develop and market a broad line of software products and services to address the information technology ("IT") needs of cities, counties, schools and other local government entities. In addition we provide professional IT services to our customers, including software and hardware installation, data conversion, training and product modifications, along with continuing maintenance and support for customers using our systems. We also provide property appraisal outsourcing services for taxing jurisdictions.

We discontinued the operations of our information and property records services segment in 2000. See Note 3 - Discontinued Operations.

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include our parent company and our subsidiaries, all of which are wholly-owned. All significant intercompany balances and transactions have been eliminated in consolidation.

CASH AND CASH EQUIVALENTS

Cash equivalents include items almost as liquid as cash, such as money market investments with maturity periods of three months or less when purchased. For purposes of the statements of cash flows, we consider all investments with original maturities of three months or less to be cash equivalents.

REVENUE RECOGNITION

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

We recognize revenue from software transactions in accordance with Statement of Position ("SOP") 97-2, "Software Revenue Recognition," as amended by SOP 98-4 and SOP 98-9 as follows:

Software Licenses. We recognize the revenue allocable to software licenses and specified upgrades upon delivery of the software product or upgrade to the customer, unless the fee is not fixed or determinable or collectibility is not probable. If the fee is not fixed or determinable including payment terms three months or more from shipment, 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 product's functionality.

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

For arrangements that include customization or modification of the software, or where software services are otherwise considered essential, we recognize revenue using contract accounting. We use the percentage-of-completion method to recognize revenue from these arrangements. We measure progress-to-completion primarily using labor hours incurred, or value added. The percentage of completion methodology generally results in the recognition of reasonably consistent profit margins over the life of a contract since we have the ability to produce reasonably dependable estimates of contract billings and contract costs. We generally use the level of profit mar-

gins that are most likely to occur on a contract. If the most likely profit margins cannot be precisely determined, the lowest probable level of profit in the range of estimates is used for the contract until the results can be estimated more precisely. These arrangements are often implemented over an extended time period and occasionally require us to revise total cost estimates. Amounts recognized in revenue are calculated using the progress-to-completion measurement after giving effect to any changes in our cost estimates. Changes to total estimated contract costs, if any, are recorded in the period they are determined. Estimated losses on incompleted contracts are recorded in the period in which we first determine that a loss is apparent.

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

Appraisal Services. For our real estate appraisal projects, we recognize revenue using contract accounting. We measure progress-to-completion primarily using units completed and these arrangements are often implemented over a one to three year time period.

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

Postcontract Customer Support. Our customers generally enter into PCS agreements when they purchase the software license. Our PCS agreements are generally renewable every year. 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.

Deferred revenue consists primarily of payments received in advance of revenue being earned under software licensing, software services and hardware installation, support and maintenance contracts. Unbilled revenue is not billable at the balance sheet dates but is recoverable over the remaining life of the contract through billings made in accordance with contractual agreements.

USE OF ESTIMATES

The preparation of our consolidated financial statements in conformity with accounting principles generally accepted in the United States ("GAAP") requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant items subject to such estimates and assumptions include the application of the percentage of completion method, the carrying amount of intangible assets and valuation allowances for receivables and deferred income tax assets. Actual results could differ from those estimates.

PROPERTY AND EQUIPMENT

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

INTEREST COST

We capitalize interest cost as a component of capitalized software development costs. We capitalized interest costs of $269,000 during 2002, $578,000 during 2001 and $586,000 during 2000.

RESEARCH AND DEVELOPMENT COSTS

We record all research and development costs as expense when incurred. We expensed research and development costs of $611,000 during 2002, $412,000 during 2001 and $973,000 during 2000.

INCOME TAXES

Income taxes are accounted for under the asset and liability method. Deferred taxes arise because of dif-

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

STOCK COMPENSATION

In accordance with Statement of Financial Accounting Standards ("SFAS") No. 123, "Accounting for Stock-Based Compensation," we elected to account for our stock-based compensation under Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees," as amended and related interpretations including FASB Interpretation No. 44, "Accounting for Certain Transactions involving Stock Compensation," an interpretation of APB Opinion No. 25, issued in March 2000. Under APB No. 25's intrinsic value method, compensation expense is determined on the measurement date; that is, the first date on which both the number of shares the option holder is entitled to receive, and the exercise price, if any, are known. Compensation expense, if any, is measured based on the award's intrinsic value – the excess of the market price of the stock over the exercise price on the measurement date. The exercise price of all of our stock options granted equals the market price on the measurement date. Therefore we have not recorded any compensation expense related to grants of stock options.

The weighted-average fair value per stock option granted was $3.61 for 2002, $1.28 for 2001 and $2.02 for 2000. We estimated the fair values using the Black-Scholes option pricing model and the following assumptions for the periods presented:

	YEARS ENDED DECEMBER 31,		
	2002	2001	2000
Expected dividend yield	0%	0%	0%
Risk-free interest rate	4.9%	5.1%	6.1%
Expected stock price volatility	77.0%	78.0%	73.0%
Expected term until exercise (years)	7	7	7

Pro forma information regarding net income (loss) and earnings (loss) per share is required by SFAS No. 123 for awards granted after December 31, 1994, as if we had accounted for our stock-based awards to employees under the fair value method of SFAS No. 123, and is as follows:

	YEARS ENDED DECEMBER 31,		
	2002	2001	2000
Net income (loss)	$ 7,989	$ 269	$ (24,597)
Add stock-based employee compensation cost included in net income (loss), net of related tax benefit	--	--	--
Deduct total stock-based employee compensation expense determined under fair-value-based method for all rewards, net of related tax benefit	(1,394)	(1,188)	(1,399)
Pro forma net income (loss)	$ 6,595	$ (919)	$ (25,996)
Pro forma net income (loss) per basic share	$ 0.14	$ (0.02)	$ (0.57)
Pro forma net income (loss) per diluted share	$ 0.13	$ (0.02)	$ (0.57)

COMPREHENSIVE INCOME (LOSS)

Changes in accumulated other comprehensive income (loss) follows:

	YEARS ENDED DECEMBER 31,		
	2002	2001	2000
Net income (loss)	$ 7,989	$ 269	$ (24,597)
Other comprehensive income (loss):			
Change in fair value of securities available-for-sale (net of deferred tax expense of $3,995 for 2002)	11,963	6,146	(28,622)
Total comprehensive income (loss)	$ 19,952	$ 6,415	$ (53,219)

We did not record a tax benefit in connection with the change in the unrealized gain (loss) for 2001 or 2000 since we 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 we have a number of operating subsidiaries, separate segment data has not been presented as they meet the criteria for aggregation as permitted by SFAS No. 131, "Disclosures About Segments of an Enterprise and Related Information."

GOODWILL AND OTHER INTANGIBLE ASSETS

Our business acquisitions result in the allocation of the purchase price to goodwill and other intangible assets. We allocate the cost of acquired companies first to identifiable assets based on estimated fair values. The excess of the purchase price over the fair value of identifiable assets acquired, net of liabilities assumed, is recorded as goodwill.

On January 1, 2002 we adopted the provisions of SFAS No. 141, "Business Combinations," and SFAS No. 142, "Goodwill and Other Intangible Assets." SFAS No. 141 eliminates the pooling of interest method of accounting for business combinations initiated after June 30, 2001. The adoption of SFAS No. 141 did not impact our results of operations or financial position.

With the adoption of SFAS No. 142 goodwill and intangible assets not subject to amortization are tested annually for impairment, and are tested for impairment more frequently if events and circumstances indicate that the asset might be impaired. An impairment loss is recognized to the extent that the carrying amount exceeds the asset's fair value.

Prior to the adoption of SFAS No. 142, goodwill was amortized on a straight-line basis over the expected periods to be benefited and assessed for recoverability by determining whether the amortization of the goodwill balance over its remaining life could be recovered through undiscounted future operating cash flows of the acquired operation. All other intangible assets were amortized on a straight-line basis. The amount of goodwill and other intangible asset impairment, if any, was measured by the amount by which the carrying amount of the assets exceeded the fair value of the assets. Fair value was determined based on projected discounted future operating cash flows using a discount rate reflecting our average cost of funds.

IMPAIRMENT OF LONG-LIVED ASSETS

SFAS No. 144 provides a single accounting model for long-lived assets to be disposed of. SFAS No. 144 also changes the criteria for classifying an asset as held for sale; and broadens the scope of businesses to be disposed of that qualify for reporting as discontinued operations and changes the timing of recognizing losses on discontinued operations. We adopted SFAS No. 144 on January 1, 2002. The adoption of SFAS No. 144 did not affect our results of operations or financial position.

In accordance with SFAS No. 144, long-lived assets, such as property, plant, and equipment, and purchased intangibles subject to amortization, are reviewed for impairment whenever events or changes in circumstances indicate that the amount we have recorded for an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash

flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset. Assets to be disposed of would be separately presented in the balance sheet and reported at the lower of the carrying amount or fair value less costs to sell, and are no longer depreciated. The assets and liabilities of a disposed group classified as held for sale would be presented separately in the appropriate asset and liability sections of the balance sheet.

Prior to the adoption of SFAS No. 144, we accounted for long-lived assets in accordance with SFAS No. 121, "Accounting for Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of."

COSTS OF COMPUTER SOFTWARE

Software development costs have been accounted for in accordance with SFAS No. 86, "Accounting for the Costs of Computer Software to be Sold, Leased, or Otherwise Marketed." Under SFAS No. 86, capitalization of software development costs begins upon the establishment of technological feasibility and prior to the availability of the product for general release to customers. We capitalized software development costs of approximately $7.2 million during 2002, $6.2 million during 2001 and $6.7 million during 2000. Software development costs primarily consist of personnel costs, rent for related office space and capitalized interest cost. We begin to amortize capitalized costs when a product is available for general release to customers. Amortization expense is determined on a product-by-product basis at a rate not less than straight-line basis over the product's remaining estimated economic life. Amortization of software development costs was approximately $2.8 million during 2002, $1.7 million during 2001 and $622,000 during 2000.

FAIR VALUE OF FINANCIAL INSTRUMENTS

We used the following methods and assumptions to estimate the fair value of each class of financial instruments at the balance sheet date:

- Cash and cash equivalents, accounts receivables, trade accounts payables, deferred revenues and certain other assets: Costs approximate fair value because of the short maturity of these instruments. Our available-for-sale investments are recorded at fair value based on quoted market prices.
- Long-term obligations: Cost/carrying values 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.
- We do not have any 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 our products and services are provided, as well as their dispersion across many different geographic areas. Historically our credit losses have not been significant. As a result, as of December 31, 2002, we do not believe we have any significant concentrations of credit risk.

Our 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, we may perform the work prior to when the services are billable and/or payable pursuant to the contract. We have recorded retentions and unbilled receivables (costs and estimated profit in excess of billings) of approximately $6.2 million and $7.5 million at December 31, 2002 and 2001, respectively, in connection with such contracts. Retentions are included in trade accounts receivable and amounted to $2.6 million at December 31, 2002, of which $168,000 is expected to be collected in excess of one year.

One customer accounted for approximately 10% during 2002 and 13% during 2001, of our total consolidated revenues. No single customer accounted for greater than 10% of total consolidated revenues during 2000.

RECLASSIFICATIONS

Pursuant to Financial Accounting Standards Board Emerging Issues Task Force ("EITF") Issue No. 01-

14, "Income Statement Characterization of Reimbursements Received for 'Out-of-Pocket' Expenses Incurred," customer reimbursements for out-of-pocket expenses are to be included in net revenues and the related costs in cost of revenues. Because these additional net revenues are offset by the associated reimbursable expenses included in cost of revenues, the adoption of EITF No. 01-14 in 2002 did not impact income (loss) from continuing operations or net income (loss) for all periods presented. Net revenues and cost of revenues for 2001 and 2000 were recast to reclassify certain reimbursable expenses to conform to the current year presentation in accordance with EITF No. 01-14. See Note 17 – Quarterly Financial Information.

In addition, certain other amounts for previous years have been reclassified to conform to the current year presentation.

(2) ACQUISITIONS

On November 4, 1999, we acquired selected assets and assumed selected liabilities of Cole Layer Trumble Company ("CLT") from a privately held company ("Seller"). Part of the purchase price 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. The price protection was limited to $2.75 million. During the year ended December 31, 2001, we received a claim from the Seller 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 in 2001 of $2.75 million, net of the deferred tax benefit of $963,000, was charged to paid-in capital during 2001. The purchase agreement contained a number of post-closing adjustments which resulted in a receivable of approximately $1.4 million due to us from the Seller. During the year ended December 31, 2001 and concurrent with the settlement of the price protection provision, we paid the Seller $1.35 million in cash on a net basis and eliminated the $1.4 million receivable due to us. We entered into a mutual release agreement with the Seller to fully settle the price protection and related purchase agreement provisions.

In January 2000 we paid $3.0 million in cash (among other consideration) for Capital Commerce Reporter, Inc. ("CCR") which was included in our information and property records services segment that was discontinued in December 2000.

We have used the purchase method of accounting for all of our business combinations. Results of operations of acquired entities are included in our consolidated financial statements from the respective dates of acquisition.

(3) DISCONTINUED OPERATIONS

Discontinued operations includes the operating results of the information and property records services segment which we discontinued in December 2002, two non-operating subsidiaries relating to a formerly owned subsidiary that we sold in December 1995 and an automotive parts distributor that we sold in March 1999.

On September 29, 2000, we sold certain net assets of Kofile, Inc. and another subsidiary, our interest in a certain intangible work product, and a building and related building improvements ("Kofile Sale") for a cash sale price of $14.4 million. Effective December 29, 2000, we sold for cash our land records business unit, consisting of Business Resources Corporation ("Resources"), to an affiliate of Affiliated Computer Services, Inc. (the "Resources Sale"). The Resources Sale was valued at approximately $71.0 million. Concurrent with the Resources Sale, our management with our 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 our resources on our software systems and services segment and to reduce debt. The businesses and assets divested or identified for divesture 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).

Our 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. 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). This loss consisted 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.

On May 16, 2001, we sold all of the common stock of one of the businesses in the discontinued information and property records services segment. In connection with the sale, we received cash proceeds of $575,000, approximately 60,000 shares of Tyler common stock, a promissory note of $750,000 payable in 58 monthly installments at an interest rate of 9%, and other contingent consideration. On September 21, 2001, we sold all of the common stock of CCR for $3.1 million in cash.

We renegotiated certain aspects of the May 16, 2001 sale transaction and as a result of this renegotiation in March 2002, we received additional cash of approximately $800,000 and a subordinated note receivable amounting to $200,000, to fully settle the promissory note and other contingent consideration received in connection with this previous sale. The subordinated note is payable in 16 equal quarterly principal payments with interest at a rate of 6%. Because the subordinated note receivable is highly dependent upon future operations of the buyer, we are recording its value when the cash is received which is our historical practice. During 2002, we received payments of $46,000 on the subordinated note.

During the year ended December 31, 2002, the IRS issued temporary regulations that in effect allowed us to deduct for tax purposes losses attributable to the March 1999 sale of our automotive parts subsidiary that were previously not allowed. The tax benefit of allowing the deduction of this loss amounted to approximately $970,000. In addition, we renegotiated a note receivable and certain contingent consideration in connection with a subsidiary sold in 2001 and received proceeds of approximately $846,000 in 2002. We initially assigned no value for accounting purposes to the note receivable and contingent consideration when the loss on the disposal of the discontinued operation was first established in 2000 and when the note was first received in 2001. In addition, we settled in the fourth quarter of 2002 our asbestos litigation for an amount that was approximately $200,000 less than the liability initially established for this matter (See Note 16 – Commitments and Contingencies). The aggregate effects of these events, net of the related tax effects, and other minor adjustments to the reserve for discontinued operations resulted in a credit to discontinued operations of $1.8 million in 2002. In our opinion and based on information available at this time, we believe that our net liabilities related to discontinued operations are adequate.

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 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.

Net assets of discontinued operations of the information and property records services segment and two of our non-operating subsidiaries included in the consolidated balance sheets as of December 31, 2002 and 2001 includes the following:

	2002	2001
Restricted asbestosis settlement cash with offsetting amount in current liabilities	$ 1,325	$ 2,310
Accounts receivable	--	100
Deferred taxes	1,705	2,192
Other current liabilities primarily consisting of asbestosis settlement obligations (see Note 16)	(3,472)	(5,183)
Net current liabilities	(442)	(581)
Property and equipment held for sale	--	1,000
Net (liability) assets	$ (442)	$ 419

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

	2000
Revenues	$ 39,680
Costs and expenses	44,635
Loss before income tax benefit	(4,955)
Income tax benefit	(704)
Net loss	$ (4,251)

Other. One of our 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. We recorded net losses, net of related tax effect, of $3,000 during 2001 and $748,000 in 2000 for trial and related costs. See Note 16 – Commitments and Contingencies.

(4) RELATED PARTY TRANSACTIONS

On September 29, 2000, we sold for cash of $14.4 million certain net assets of Kofile and another subsidiary, our interest in a certain intangible work product, and a building and related building improvements to investment entities beneficially owned by a principal shareholder of Tyler, who was also a director at the time.

From time to time, we charter aircraft from businesses in which a member of management is an owner. We recorded rental expense related to such arrangements with a non-corporate officer management member of $69,000 during 2002, $83,000 during 2001 and $81,000 during 2000.

During 2000, we chartered an aircraft from a former director. The rental expense related to these charters was $325,000.

As disclosed in Note 11 – Shareholders' Equity, we purchased 1.5 million shares of our common stock from a former director in 2002.

We have three office building lease agreements with various shareholders and non-corporate officer management members. Total rental expense related to such leases was $1.2 million during 2002, $1.1 million during 2001 and $679,000 during 2000.

Total future minimum rental under noncancelable related party operating leases as of December 31, 2002, are as follows:

2003	$ 1,204
2004	1,198
2005	1,136
2006	1,149
2007	1,179
Thereafter	2,778

(5) PROPERTY AND EQUIPMENT

Property and equipment consists of the following at December 31:

	USEFUL LIVES (YEARS)	2002	2001
Land	--	$ 115	$ 115
Transportation equipment	5	385	390
Computer equipment and purchased software	3-7	8,909	7,542
Furniture and fixtures	3-7	3,797	3,515
Building and leasehold improvements	3-35	1,751	1,338
		14,957	12,900
Accumulated depreciation and amortization		(8,138)	(5,933)
Property and equipment, net		$ 6,819	$ 6,967

Depreciation and amortization expense was $2.4 million during 2002, $2.3 million during 2001 and $2.0 million during 2000.

(6) INVESTMENT SECURITY AVAILABLE-FOR-SALE

Pursuant to an agreement with two major shareholders of H.T.E., Inc. (“HTE”), we acquired approximately 5.6 million shares of HTE’s common stock in exchange for approximately 2.8 million shares of our common stock. The exchange occurred in two transactions, one in August 1999 and the other in December 1999. The 5.6 million shares represent a current ownership interest of approximately 35% of HTE. The cost of the investment was recorded at $15.8 million and is classified as a non-current asset.

Florida state corporation law restricts the voting rights of “control shares,” as defined, acquired by a third party in certain types of acquisitions. These restrictions may be removed by a vote of the shareholders of HTE. On November 16, 2000, the shareholders of HTE, other than Tyler, voted to deny Tyler its right to vote the “control shares” of HTE. When we acquired the HTE shares, HTE took the position that all of our shares were “control shares” and therefore did not have voting rights. We disputed this contention and asserted that the “control shares” were only those shares in excess of 20% of the outstanding shares of HTE, and it was only those shares that lacked voting rights. At the time of our acquisition, no court had interpreted the Florida “control share” statute.

On October 29, 2001, HTE notified us that, pursuant to the Florida “control share” statute, it had redeemed all 5.6 million shares of HTE common stock owned by us for a cash price of $1.30 per share. On October 29, 2001, we notified HTE that its purported redemption of our HTE shares was invalid and contrary to Florida law, and in any event, the calculation by HTE of fair value for our 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 HTE’s purported redemption of all of our HTE shares at a redemption price of $1.30 per share was lawful and to effect the redemption and cancel our HTE shares. We 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, that HTE’s purported redemption of any or all of our shares was illegal under Florida law and that we had the ability to vote up to 20% of the issued and outstanding shares of HTE common stock owned by us.

On September 18, 2002, the court issued an order declaring that HTE’s purported redemption was invalid. On September 24, 2002, we entered into a settlement agreement with HTE in which HTE agreed that it would not attempt any other redemption of our shares. In addition, HTE agreed to dismiss and release us from the tort claims it alleged against us as disclosed in previous filings. On December 11, 2002, the court issued a further order declaring that all of our HTE shares are “control shares” and therefore none of our shares have voting rights. The court further ruled that voting rights would be restored to our HTE shares if we were to sell or otherwise transfer our HTE shares to an unaffiliated third party in a transaction that did not constitute a “control share acquisition.” During 2002 we incurred approximately $704,000 of legal and other related costs associated with these matters which are classified as non-operating expenses.

Under GAAP, a 20% investment in the voting stock of another company creates the presumption that the investor has significant influence over the operating and financial policies of that company, unless there is evidence to the contrary. Our management has concluded that we do not have such influence. Accordingly, we account for our investment in HTE pursuant to the provisions of SFAS No. 115, “Accounting for Certain Investments in Debt and Equity Securities.” These securities are classified as available-for-sale and are recorded at fair value as determined by quoted market prices for HTE common stock. Unrealized holding gains and losses, net of the related tax effect, are excluded from earnings and are reported as a separate component of shareholders’ equity until the securities are sold. 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 we consider to be other than temporary results in a reduction in the cost basis to fair value. The impairment is charged to earnings and a new cost basis for the security is established.

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, we used quoted market price per share in calculating fair value to be used for financial reporting purposes.

	QUOTED MARKET PER SHARE	COST	FAIR VALUE	GROSS UNREALIZED HOLDING GAINS (LOSSES)
December 31, 2002	$ 4.84	$ 15.8	$ 27.2	$ 11.4
December 31, 2001	2.00	15.8	11.2	(4.6)
February 21, 2003	6.93	15.8	38.9	23.1

On February 4, 2003, we entered into an agreement with SunGard Data Systems, Inc. (“SDS”) in which we agreed to tender all of our HTE shares in the tender offer to be commenced by SDS for the acquisition of HTE. On February 5, 2003, SDS and HTE announced a definitive agreement for the acquisition of all of the shares of HTE for $7.00 per share in cash. SDS and HTE also announced that the consummation of the transaction is subject to customary conditions, including the tender of at least a majority of the outstanding shares of HTE in the tender offer and the expiration of the waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended. SDS and HTE further announced that certain shareholders owning approximately 49.6% of the total outstanding shares of HTE had agreed to tender their shares. According to the press release issued by SDS and HTE, the acquisition is expected to close in the first quarter of 2003. Assuming the acquisition is consummated, we will receive approximately $39.3 million in gross cash proceeds from the sale of our HTE shares. There can be no assurance that the acquisition of HTE by SDS will be consummated on the terms as disclosed, if at all. If SDS does not acquire HTE, we will continue to classify our investment as an available-for-sale security in accordance with SFAS No. 115 and as a non-current asset since the investment was initially made for a continuing business purpose.

(7) GOODWILL AND OTHER INTANGIBLE ASSETS

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

	2002	2001
Gross carrying amount of acquisition intangibles:		
Goodwill	$ 46,298	$ 51,063
Customer base	17,997	17,997
Software acquired	12,158	12,158
Workforce	--	6,191
Non-compete agreements	163	163
	76,616	87,572
Accumulated amortization	(13,066)	(20,314)
Acquisition intangibles, net	$ 63,550	$ 67,258
Post acquisition software development costs	$ 24,560	$ 17,369
Accumulated amortization	(5,224)	(2,416)
Post acquisition software costs, net	$ 19,336	$ 14,953

Total amortization expense was $6.1 million during 2002, $8.6 million during 2001 and $7.5 million during 2000.

As discussed in Note 1 – Summary of Significant Accounting Policies, on January 1, 2002, we adopted the provisions of SFAS No. 141, “Business Combinations” and SFAS No. 142, “Goodwill and Other Intangible Assets.”

Under SFAS No. 142, assembled workforce, net of related deferred taxes, is subsumed into goodwill upon the

adoption of the Statement as of January 1, 2002. If we had accounted for goodwill (including workforce) under the non-amortization approach of SFAS No. 142, our net income (loss) and related per share amounts would have been as follows for the years ended December 31, 2001 and 2000:

	2001	2000
Reported net income (loss)	$ 269	$(24,597)
Add back goodwill amortization, net of income taxes	2,960	2,934
Adjusted net income (loss)	$ 3,229	$(21,663)
Basic and diluted net income (loss) per share	$ 0.01	$ (0.54)
Goodwill amortization, net of income taxes, per share	0.06	0.06
Basic and diluted net income (loss) per share	$ 0.07	$ (0.48)

SFAS No. 142's transitional goodwill impairment evaluation required us to perform an assessment of whether there was an indication that goodwill was impaired as of the date of adoption. To accomplish this, we identified our reporting units and determined the carrying value of each reporting unit by assigning the assets and liabilities, including the existing goodwill and intangible assets, to those reporting units as of January 1, 2002. We determined the fair value of each reporting unit and compared it to the carrying amount of the reporting unit and concluded there was no impairment. In addition to the transitional goodwill impairment test, we are required to perform, at least annually, a goodwill impairment test and designate a consistent date for such annual testing. We determined the fair value of each reporting unit and compared it to the carrying amount of the reporting unit at March 31, 2002 and concluded there was no impairment.

The allocation of acquisition intangible assets following our adoption of SFAS No. 142 is summarized in the following table:

AS OF DECEMBER 31, 2002	GROSS CARRYING AMOUNT	WEIGHTED AVERAGE AMORTIZATION PERIOD	ACCUMULATED AMORTIZATION
Intangibles no longer amortized:			
Goodwill	$ 46,298	--	$ --
Amortizable intangibles:			
Customer base	17,997	21 years	3,352
Software acquired	12,158	5 years	9,561
Non-compete agreements	163	4 years	153

The changes in the carrying amount of goodwill for the year ended December 31, 2002 are as follows:

Balance as of December 31, 2001 (cost of $51,063 and accumulated amortization of $7,771)	$ 43,292
Goodwill adjustments during 2002 relating to workforce (cost of $6,191 and accumulated amortization of $2,808 at January 1, 2002), net of deferred taxes of $377, being subsumed into goodwill upon the adoption of SFAS No. 142 on January 1, 2002	3,006
Balance as of December 31, 2002	$ 46,298

(7) GOODWILL AND OTHER INTANGIBLE ASSETS (CONTINUED)

Estimated annual amortization expense relating to acquisition intangibles is as follows:

YEARS ENDING DECEMBER 31,	
2003	$ 2,800
2004	1,500
2005	900
2006	900
2007	900

(8) ACCRUED LIABILITIES

Accrued liabilities consists of the following at December 31:

	2002	2001
Accrued wages and commissions	$ 7,667	$ 7,071
Other accrued liabilities	3,079	2,580
Current portion of long-term obligations	440	123
Total accrued liabilities	$ 11,186	$ 9,774

(9) LONG-TERM OBLIGATIONS

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

	2002	2001
10% promissory notes payable due January 2005	$ 2,520	$ 2,800
Other	470	233
Total obligations	2,990	3,033
Less current portion	440	123
Total long-term obligations	$ 2,550	$ 2,910

Long-term debt outstanding at December 31, 2002 matures as follows: 2003 - $440,000; 2004 - $30,000; and the remainder in 2005.

We paid interest of $377,000 in 2002, $814,000 in 2001 and $8.8 million in 2000.

On March 5, 2002, we entered into a revolving bank credit agreement. Our credit agreement matures January 1, 2005 and provides for total availability of up to $10.0 million. Borrowings 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 credit agreement is secured by substantially all of our personal property, by a pledge of the common stock of our operating subsidiaries, and is also guaranteed by our operating subsidiaries. The credit agreement requires us to maintain certain financial ratios and other financial conditions and prohibits us from making certain investments, advances, cash dividends or loans.

At December 31, 2002, our bank has issued outstanding letters of credit totaling $3.7 million under our credit agreement to secure performance bonds required by some of our customer contracts. Our borrowing base under the credit agreement is limited by the amount of eligible receivables and was reduced by the letters of credit at December 31, 2002. At December 31, 2002, we had no outstanding bank borrowings under the credit agreement and had an available borrowing base of $6.3 million.

(10) INCOME TAX

The income tax provision (benefit) on income (loss) from continuing operations consisted of the following:

YEARS ENDED DECEMBER 31,	2002	2001	2000
Current:			
Federal	$ --	$ --	$ --
State	485	282	80
	485	282	80
Deferred	3,384	1,258	(2,890)
	$ 3,869	$ 1,540	$ (2,810)

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

YEARS ENDED DECEMBER 31,	2002	2001	2000
Income tax expense (benefit) at statutory rate	$ 3,514	$ 634	$ (3,611)
State income tax, net of federal income tax benefit	315	183	52
Non-deductible amortization	--	635	640
Non-deductible business expenses	40	83	110
Other, net	--	5	(1)
	$ 3,869	$ 1,540	$ (2,810)

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

	2002	2001
Deferred income tax assets:		
Net operating loss carryforward	$ 3,734	$ 3,667
Capital loss carryfoward	1,114	--
Basis difference on investment security	--	1,591
Operating expenses not currently deductible	865	967
Employee benefit plans	345	299
Minimum tax credits	268	268
Research tax credits	78	78
Other	--	100
Net deferred income tax assets before valuation allowance	6,404	6,970
Less valuation allowance	(1,114)	(1,690)
Net deferred income tax assets	5,290	5,280
Deferred income tax liabilities:		
Basis difference on investment security	(3,995)	--
Property and equipment	(1,148)	(1,069)
Intangible assets	(7,363)	(6,442)
Other	--	(15)
Total deferred income tax liabilities	(12,506)	(7,526)
Net deferred income tax liabilities	$ (7,216)	$ (2,246)

(10) INCOME TAX (CONTINUED)

At December 31, 2002, we had available approximately $10.7 million of net tax operating loss carryforwards for federal income tax purposes. These carryforwards, which may provide future tax benefits, expire from 2011 through 2022. During the year ended December 31, 2002, we claimed a deduction for the write off of preferred stock which was deemed worthless for tax purposes. The preferred stock had an initial tax value of $3 million and was received in connection with the sale of our discontinued automotive parts subsidiary which was sold in March 1999. At December 31, 2002, we had available approximately $3.2 million of capital loss carryforwards for federal income tax purposes which expire December 31, 2006.

Although realization is not assured, we believe it is more likely than not that all the deferred tax assets, except for the asset relating to the capital loss carryforward will be realized. Accordingly, we believe no valuation allowance is required for the remaining deferred tax assets. However, the amount of the deferred tax asset considered realizable could be adjusted in the future if estimates of reversing taxable temporary differences are revised.

We paid income taxes, net of refunds received, of $455,000 in 2002 and $273,000 in 2001. In 2000 we received a refund of prior years' income taxes of $2.7 million.

(11) SHAREHOLDERS' EQUITY

In May 2000, we sold 3.3 million shares of common stock and 333,380 warrants in a private placement 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.

As of December 31, 2002, we have an additional warrant outstanding to purchase 2.0 million shares of our common stock at $2.50 per share. This warrant expires in September 2007.

In August 2002, we consummated an agreement to purchase 1.1 million of our common shares from William D. Oates, a former director of Tyler, for a cash purchase price of $4.0 million. In October 2002, we repurchased an additional 400,000 of our shares as part of the initial agreement by assigning our rights and obligations under a Data License and Update Agreement associated with our discontinued information property records service business to eiStream. eiStream is an affiliate of William D. Oates. The repurchase of all 1.5 million shares was charged to treasury stock to the extent cash was paid.

In August 2002, our Board of Directors approved a plan to repurchase up to 1.0 million shares of our common stock. Subsequent to December 31, 2002 and through February 21, 2003, we have repurchased 339,000 shares for an aggregate purchase price of $1.4 million.

(12) STOCK OPTION PLAN

We have a stock option plan that provides for granting stock options to key employees and directors. Options become fully exercisable after three to eight years of continuous employment and expire ten years after the grant date. Once exercisable, the employee can purchase shares of our common stock at the market price on the date we granted the option. As of December 31, 2002 there were 1.2 million shares available for future grants under the plan from the original 6.5 million shares approved by the stockholders.

The following table summarizes our stock option plan's transactions for the three-year period ended December 31, 2002:

	NUMBER OF SHARES	WEIGHTED-AVERAGE EXERCISE PRICES
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
Granted	280	4.86
Forfeited	(322)	5.65
Exercised	(491)	3.29
Options outstanding at December 31, 2002	4,105	$ 3.49
Exercisable options:		
December 31, 2000	1,385	$ 5.04
December 31, 2001	1,504	5.20
December 31, 2002	1,910	4.26

The following table summarizes information concerning outstanding and exercisable options at December 31, 2002:

RANGE OF EXERCISE PRICES	WEIGHTED AVERAGE REMAINING CONTRACTUAL LIFE	NUMBER OF OUTSTANDING OPTIONS	WEIGHTED AVERAGE PRICE OF OUTSTANDING OPTIONS	NUMBER OF EXERCISABLE OPTIONS	WEIGHTED AVERAGE PRICE OF EXERCISABLE OPTIONS
$ 0.00 - $2.19	8.3 years	2,018	$1.64	634	$ 1.63
2.19 - 3.28	8.4	140	2.62	38	2.63
3.28 - 4.38	7.1	527	4.02	283	3.99
4.38 - 5.47	6.5	720	5.24	432	5.26
5.47 - 6.56	6.0	448	6.18	321	6.22
6.56 - 7.66	5.1	216	7.63	173	7.63
7.66 - 8.75	5.8	6	7.75	5	7.75
9.84 - 10.19	5.3	30	10.19	24	10.19

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

(13) EARNINGS (LOSS) PER SHARE

Basic earnings and diluted earnings (loss) per common share data was computed as follows:

	YEARS ENDED DECEMBER 31, 2002	2001	2000
Numerator:			
Income (loss) from continuing operations for basic and diluted earnings per share	$ 6,172	$ 272	$ (7,507)
Denominator:			
Denominator for basic earnings per share – Weighted-average shares	47,136	47,181	45,380
Effect of dilutive securities:			
Employee stock options	1,386	593	--
Warrants	971	210	--
Potentially dilutive common shares	2,357	803	--
Denominator for diluted earnings per share – Adjusted weighted-average shares	49,493	47,984	45,380
Basic earnings (loss) per common share from continuing operations	$ 0.13	$ 0.01	$ (0.17)
Diluted earnings (loss) per common share from continuing operations	$ 0.12	$ 0.01	$ (0.17)

Stock options issuable under the stock option plan representing common stock equivalents of 1.3 million during 2002, 2.3 million during 2001 and 3.5 million during 2000 had exercise prices greater than the average quoted market price of our common stock. These common stock equivalents were outstanding during 2002, 2001 and 2000 but were not included in the computation of diluted earnings per share because their inclusion would have had an antidilutive effect. Additionally, warrants to purchase 333,380, and 2.3 million shares of our common stock for 2001 and 2000, respectively, were not included in the computation of diluted earnings per share because the effect would have been antidilutive.

(14) LEASES

We lease offices, transportation, computer and other equipment for use in our operations. Most of these leases are noncancelable operating lease agreements and expire at various dates through 2012. In addition to rent, the leases generally require us to pay taxes, maintenance, insurance and certain other operating expenses.

Rent expense was approximately $3.4 million in 2002, $2.8 million in 2001 and $2.1 million in 2000.

Future minimum lease payments under all noncancelable leases at December 31, 2002 are:

FISCAL YEAR	OPERATING LEASES
2003	$ 3,504
2004	3,171
2005	2,972
2006	2,682
2007	2,572
Thereafter	9,538
Total future minimum lease payments	$ 24,439

(15) EMPLOYEE BENEFIT PLANS

We provide a defined contribution plan for the majority of our employees meeting minimum service requirements. The employees can contribute up to 15% of their current compensation to the plan subject to certain statutory limitations. We contribute up to a maximum of 2% of an employee's compensation to the plan. We made contributions to the plan and charged continuing operations $881,000 during 2002, $868,000 during 2001, and $761,000 during 2000.

(16) COMMITMENTS AND CONTINGENCIES

One of our 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 Tyler. These claims are for alleged work related injuries and physical conditions resulting from alleged exposure to silica, asbestos, and/or related industrial dusts during the plaintiff's employment at the foundry. We sold the operating assets of the foundry on December 1,

1995. As a non-operating subsidiary of Tyler, the assets of Swan consist primarily of various insurance policies issued to Swan during the relevant time periods and restricted cash of $1.3 million at December 31, 2002. Swan tendered the defense and indemnity obligations arising from these claims to its insurance carriers, who, prior to December 20, 2001, entered into settlement agreements with approximately 275 of the plaintiffs, each of whom agreed to release Swan, Tyler, 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 Tyler, 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 prepetition between Swan, Tyler, 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, Tyler, all of Tyler's affected affiliates, and the insurers participating in the funding of the trust; and (d) the full and final release of each of Swan, Tyler, all of Tyler's 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.

The confirmation hearings on Swan's plan of reorganization were held on December 9, 2002. The plan of reorganization received the affirmative vote of approximately 99% of the total votes cast. All objections to the plan were resolved prior to the confirmation hearing, and the final confirmation order will therefore not be subject to appeal. The confirmation order will discharge, release, and extinguish all of the foundry-related obligations and liabilities of Tyler, Swan, their affected affiliates, and the insurers participating in the funding of the trust. Further, the confirmation order will include the issuance of injunctions that channel all present and future foundry-related claims into the trust and forever bar any such claims from being asserted, either now or in the future, against Swan, Tyler, their affected affiliates, and the participating insurers. In order to receive the benefits described above, we have agreed, among other things, to transfer all of the capital stock of Swan to the trust (net assets of Swan at December 31, 2002 were $309,000) so that the trust can directly pursue claims against insurers who have not participated in the funding of the trust. In addition, we have agreed to contribute $1.5 million in cash to the trust, which is due as follows: $750,000 within ten days of the confirmation order becoming a final order; $500,000 on the first anniversary of the date the confirmation order becomes a final order; and $250,000 on the second anniversary of the date the confirmation order becomes a final order. The confirmation order will become a final order thirty days after execution by both the bankruptcy and district court judges, which is expected to occur by the end of the first quarter of 2003. Our ultimate settlement obligation under the plan of reorganization of $1.5 million is approximately $200,000 less than the remaining carrying amount of the liability initially recorded for this matter. Accordingly, $200,000 ($130,000 net of tax) was included in the $1.8 million credit recorded for discontinued operations in 2002. See Note 3 – Discontinued Operations.

We initially provided for estimated claim settlement costs when minimum levels can be reasonably estimated. If the best estimate of claim costs could only be identified within a range and no specific amount within that range could be determined more likely than any other amount within the range, the minimum of the range was 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 initially recorded in 1996. Legal and related professional services costs to defend litigation of this nature have been expensed as incurred.

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

(16) COMMITMENTS AND CONTINGENCIES (CONTINUED)

See Note 6 – Investment Securities Available-for-Sale, for discussion of litigation in connection with HTE's attempted cash redemption of all shares of HTE common stock currently owned by Tyler.

(17) QUARTERLY FINANCIAL INFORMATION (unaudited)

The following tables contain selected financial information from unaudited consolidated statements of operations for each quarter of 2002 and 2001.

	QUARTER ENDED							
	2002				2001			
	DEC 31	SEPT 30	JUNE 30	MAR 31	DEC 31	SEPT 30	JUNE 30	MAR 31
Revenues [1]	$ 36,396	$ 34,974	$ 33,605	$ 28,922	$ 31,463	$ 28,658	$ 31,237	$ 27,458
Gross profit	14,228	12,312	11,708	9,734	11,346	9,920	10,132	8,621
Income (loss) from continuing operations before income taxes	4,086	2,922	2,116	917	1,310	614	745	(857)
Income (loss) from continuing operations	2,581	1,739	1,290	562	163	251	372	(514)
Income (loss) from discontinued operations	1,817	--	--	--	35	(23)	(1)	(14)
Net income (loss)	$ 4,398	$ 1,739	$ 1,290	$ 562	$ 198	$ 228	$ 371	$ (528)
Diluted earnings (loss) from continuing operations	$ 0.05	$ 0.04	$ 0.03	$ 0.01	$ 0.00	$ 0.01	$ 0.01	$ (0.01)
Diluted earnings (loss) from discontinued operations	0.04	--	--	--	0.00	(0.01)	(0.00)	(0.00)
Net earnings (loss) per diluted share	$ 0.09	$ 0.04	$ 0.03	$ 0.01	$ 0.00	$ 0.00	$ 0.01	$ (0.01)
Shares used in computing diluted earnings (loss) per share	48,482	49,372	50,405	49,725	48,915	48,396	47,425	47,179

[1] Previously reported amounts for revenues and cost of revenues for quarterly periods prior to October 1, 2002 have been reclassified to report certain reimbursable customer expenses as revenues and as cost of revenue in accordance with EITF 01-14 as discussed in Note 1 – Summary of Significant Accounting Policies. We increased quarterly revenues and the related cost of revenues from the previously reported amounts for the following three-month periods ended:

March 31, 2001	$ 186
June 30, 2001	260
September 30, 2001	223
December 31, 2001	259
March 31, 2002	266
June 30, 2002	289
September 30, 2002	281

SELECTED FINANCIAL DATA

FOR THE YEARS ENDED DECEMBER 31, *(In thousands, except per share data)*	2002	2001	2000	1999	1998
Statement of Operations Data [1]					
Revenues [2]	$ 133,897	$ 118,816	$ 93,933	$ 71,416	$ 23,440
Costs and expenses:					
Cost of revenues [2]	85,915	78,797	59,658	37,027	13,143
Selling, general and administrative expenses	33,914	30,830	32,805	29,404	11,680
Amortization of acquisition intangibles [3]	3,329	6,898	6,903	4,966	1,499
Operating income (loss)	10,739	2,291	(5,433)	19	(2,882)
Legal fees associated with affiliated investment	704	--	--	--	--
Interest (income) expense, net	(6)	479	4,884	1,797	234
Income (loss) from continuing operations before income taxes	10,041	1,812	(10,317)	(1,778)	(3,116)
Income tax provision (benefit)	3,869	1,540	(2,810)	188	(652)
Income (loss) from continuing operations	$ 6,172	$ 272	$ (7,507)	$ (1,966)	$ (2,464)
Income (loss) from continuing operations per diluted share	$ 0.12	$ 0.01	$ (0.17)	$ (0.05)	$ (0.08)
Weighted average diluted shares outstanding	49,493	47,984	45,380	39,105	32,612
Other Data:					
EBITDA [4]	$ 18,557	$ 13,203	$ 4,253	$ 6,130	$ (890)
Statement of Cash Flows Data:					
Cash flows from operating activities	$ 19,845	$ 12,744	$ (7,126)	$ 715	$ 1,758
Cash flows from investing activities	(7,974)	(9,706)	65,401	(24,743)	(36,787)
Cash flows from financing activities	(3,398)	(5,984)	(52,022)	24,955	27,893
Balance Sheet Data: [1] ***AS OF DECEMBER 31***					
Total assets	$ 169,845	$ 146,975	$ 150,712	$ 243,260	$ 124,328
Long-term obligations, less current portion	2,550	2,910	7,747	61,530	37,189
Shareholders' equity	118,656	100,884	96,122	138,904	76,346

[1] For the years 1998 through 2002, results of operations include the results of the continuing companies that were formerly the software systems and services segment, from the respective dates we acquired the companies, and exclude the results of operations of the discontinued information and property records services segment and automotive parts segment. Prior years' selected financial data has been restated to reflect discontinuation of the information and property records services segment in 2000 and the automotive parts segment in 1998. See Note 3 in Notes to Consolidated Financial Statements.

[2] Pursuant to Financial Accounting Standards Board Emerging Issues Task Force ("EITF") Issue No. 01-14, "Income Statement Characterization of Reimbursements Received for 'Out-of-Pocket' Expenses Incurred," customer reimbursements for out-of-pocket expenses are to be included in net revenues and the related costs in cost of revenues. Because these additional net revenues are offset by the associated reimbursable expenses included in cost of revenues, the adoption of EITF No. 01-14 in 2002 did not impact income (loss) from continuing operations for all periods presented. Net revenues and cost of revenues for 2001 and 2000 were recast to reclassify certain reimbursable expenses to conform to the current year presentation in accordance with EITF No. 01-14. Periods prior to 2000 were not recast because reimbursable expenses were immaterial. See Note 17 in Notes to Consolidated Financial Statements.

[3] Effective January 1, 2002, we adopted the provisions of Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets." Under the new standard, goodwill and intangible assets with indefinite useful lives are no longer amortized but instead tested for impairment at least annually. In accordance with the new standard, results of operations for years prior to 2002 are reported under the previous accounting standards for goodwill and intangible assets. Amortization expense net of income taxes, related to goodwill (including assembled workforce subsumed into goodwill) no longer expensed under the new standard was $2,960 in 2001, $2,934 in 2000, $2,199 in 1999 and $836 in 1998.

[4] EBITDA consists of income from continuing operations before interest, income taxes, depreciation and amortization. EBITDA is not calculated in accordance with accounting principles generally accepted in the United States, but we believe that it is widely used as a measure of operating performance. EBITDA should only be considered together with other measures of operating performance such as operating income, cash flows from operating activities, or any other measure for determining operating performance or liquidity that is calculated in accordance with accounting principles generally accepted in the United States. EBITDA is not necessarily an indication of amounts that may be available for us to reinvest or for any other discretionary uses and does not take into account our debt service requirements and other commitments. In addition, since all companies do not calculate EBITDA the same way, it may not be comparable to other companies' similarly titled measures. The following reconciles to EBITDA from income (loss) from continuing operations before income taxes for the periods presented:

FOR THE YEARS ENDED DECEMBER 31,	2002	2001	2000	1999	1998
Income (loss) from continuing operations before income taxes	$ 10,041	$ 1,812	$ (10,317)	$ (1,778)	$ (3,116)
Amortization of acquisition intangibles	3,329	6,898	6,903	4,966	1,499
Depreciation and amortization included in cost of revenues and selling, general and administrative expenses	5,193	4,014	2,783	1,145	493
Interest (income) expense, net	(6)	479	4,884	1,797	234
EBITDA	$ 18,557	$ 13,203	$ 4,253	$ 6,130	$ (890)

FORWARD - LOOKING STATEMENTS

In addition to historical information, this Annual Report contains forward-looking statements. The forward-looking statements are made in reliance upon safe harbor provisions of the Private Securities Litigation Reform Act of 1995. The forward-looking statements are subject to certain risks and uncertainties that could cause actual results to differ materially from those reflected in the forward-looking statements. Readers are cautioned not to place undue reliance on these forward-looking statements, which reflect management's opinions only as of the date hereof. We undertake no obligation to revise or publicly release the results of any revision to these forward-looking statements. Readers should carefully review the risk factors described in our Form 10-K and other documents we file from time to time with the SEC.

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 are intended to identify forward-looking statements.

GENERAL

We provide integrated information management solutions and services for local governments. We have a broad line of software products and services to address the information technology ("IT") needs of virtually every area of operation for cities, counties, schools and other local government entities. Most of our customers have our software installed in-house. For customers who prefer not to physically acquire the software and hardware, we provide outsourced hosting for some of our applications at one of our data centers through an applications service provider ("ASP") arrangement. We provide professional IT services to our customers, including software and hardware installation, data conversion, training and, at times, product modifications. In addition, we provide outsourced property appraisal services for taxing jurisdictions. We also provide continuing customer support services to ensure proper product performance and reliability.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Our discussion and analysis of financial condition and results of operations is based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States ("GAAP"). The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets and liabilities at the date of the financial statements, the reported amounts of revenues and expenses during the reporting period, and related disclosure of contingent assets and liabilities. The Notes to the Consolidated Financial Statements contained herein describe our significant accounting policies used in the preparation of the consolidated financial statements. On an on going basis, we evaluate our estimates, including, but not limited to, those related to intangible assets, bad debts and our long-term service contracts. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

We believe the following critical accounting policies affect significant judgments and estimates used in the preparation of our consolidated financial statements:

Revenue Recognition. We recognize revenues in accordance with the provisions of the American Institute of Certified Public Accountants Statement of Position ("SOP") 97-2, "Software Revenue Recognition," as amended by SOP 98-4 and SOP 98-9, as well as Technical Practice Aids issued from time to time by the American Institute of Certified Public Accountants, and in accordance with the SEC Staff Accounting Bulletin No. 101 "Revenue Recognition in Financial Statements." Our revenues are derived from software licenses, hardware, post-contract customer support/maintenance and services that typically range from installation, training and basic consulting to software modification and customization to meet specific customer needs. For multiple element software arrangements, which do not entail the performance of services that are considered essential to the functionality of the software, we generally record revenue when the delivered products or performed services result in a legally enforceable claim. We maintain allowances for doubtful accounts, sales adjustments and estimated cost of product warranties, which are provided at the time the revenue

is recognized. Since most of our customers are governmental entities, we rarely incur a loss resulting from the inability of a customer to make required payments. Occasionally, customers may become dissatisfied with the functionality of the software products and/or the quality of the services and request a reduction of the total contract price or similar concession. While we engage in extensive product and service quality assurance programs and processes, our allowances for these contract price reductions may need to be revised in the future. In connection with our customer contracts and the adequacy of related allowances and measures of progress towards contract completion, our project managers are charged with the responsibility to continually review the status of each customer on a specific contract basis. Also, management at our corporate offices as well as at our operating companies review on at least a quarterly basis significant past due accounts receivable and the adequacy of related reserves. Events or changes in circumstances that indicate that the carrying amount for the allowances for doubtful accounts, sales adjustments and estimated cost of product warranties may require revision, include, but are not limited to, deterioration of a customer's financial condition, failure to manage our customer's expectations regarding the scope of the services to be delivered, and defects or errors in new versions or enhancements of our software products.

For those minimal number of software arrangements that include customization of the software, which is considered essential to its functionality, and for substantially all of our real estate appraisal outsourcing projects, we recognize 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. We follow this method since reasonably dependable estimates of revenue and costs applicable to various stages of a contract can be made. At times, we perform additional and/or non-contractual services for little to no incremental fee, to satisfy customer expectations. If changes occur in delivery, productivity or other factors used in developing our estimates of expected costs or revenues, we revise our cost and revenue estimates, and any revisions are charged to income in the period in which the facts that give rise to that revision first become known.

Intangible Assets and Goodwill. Our business acquisitions typically result in the creation of goodwill and other intangible asset balances, and these balances affect the amount and timing of future period amortization expense, as well as expense we could possibly incur as a result of an impairment charge. The cost of acquired companies is allocated to identifiable tangible and intangible assets based on estimated fair value, with the excess allocated to goodwill. Accordingly, we have a significant balance of acquisition date intangible assets, including software, customer base and goodwill. In addition, we capitalize software development costs incurred subsequent to the establishment of technological feasibility on a specific software project. Certain of these intangible assets are amortized over their estimated useful lives. All intangible assets with definite and indefinite lives are reviewed for impairment annually or whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of goodwill is generally measured by a comparison of the carrying amount of an asset to its fair value generally determined by estimated future net cash flows expected to be generated by the asset. Recoverability of other intangible assets is generally measured by comparison of the carrying amount to estimated undiscounted future cash flows. The assessment of recoverability or of the estimated useful life for amortization purposes will be affected if the timing or the amount of estimated future operating cash flows is not achieved. Events or changes in circumstances that indicate the carrying amount may not be recoverable include, but are not limited to, a significant decrease in the market value of the business or asset acquired, a significant adverse change in the extent or manner in which the business or asset acquired is used or a significant adverse change in the business climate. In addition, products, capabilities, or technologies developed by others may render our software products obsolete or non-competitive.

2002 Compared to 2001

The following table includes items from our audited consolidated financial statements and the relevant percentage change in the amounts between the periods presented. The amounts shown in the table are in thousands, except the per share data:

	YEARS ENDED DECEMBER 31, 2002	2001	%CHANGE
Revenues:			
Software licenses	$ 24,278	$ 19,491	25%
Software services	25,703	21,538	19
Maintenance	40,667	36,587	11
Appraisal services	37,319	34,727	7
Hardware and other	5,930	6,473	(8)
Total revenues	133,897	118,816	13
Cost of revenues:			
Software licenses	5,482	4,130	33
Software services and maintenance	50,175	46,024	9
Appraisal services	25,512	23,894	7
Hardware and other	4,746	4,749	(0)
Total cost of revenues	85,915	78,797	9
% of revenues	*64.2%*	*66.3%*	
Gross profit	47,982	40,019	20
% of revenues	*35.8%*	*33.7%*	
Selling, general and administrative expenses	33,914	30,830	10
% of revenues	*25.3%*	*25.9%*	
Amortization of acquisition intangibles	3,329	6,898	(52)
Operating income	10,739	2,291	369
Legal fees associated with affiliated investment	704	--	
Interest (income) expense	(6)	479	
Income before income taxes	10,041	1,812	
Income tax provision	3,869	1,540	
Effective income tax rate	*38.5%*	*85.0%*	
Income from continuing operations	$ 6,172	$ 272	
Diluted earnings per share from continuing operations	$ 0.12	$ 0.01	
Cash flows provided by operating activities	$ 19,845	$ 12,744	
Cash balance at December 31	13,744	5,271	
Capital expenditures:			
Software development costs	7,210	6,225	
Property and equipment	2,508	3,101	

REVENUES

The following table compares the components of revenue as a percentage of total revenues for the periods presented:

YEARS ENDED DECEMBER 31,	2002	2001
Software licenses	18.1%	16.4%
Software services	19.2	18.1
Maintenance	30.4	30.8
Appraisal services	27.9	29.2
Hardware and other	4.4	5.5
	100.0%	100.0%

Software license revenues. Software license revenues increased $4.8 million, or 25%, for the year ended December 31, 2002, compared to 2001. During 2002, we recognized approximately $2.4 million in license revenues from four customers for real estate appraisal software, while we recorded minimal license revenues from appraisal software in 2001. The remainder of the increase in software license revenues was related to expansion of our financial and city solutions software products into the midwest and the western United States, and was aided by the release of several new financial and city solutions products and enhancements. Our financial and city solutions software products automate accounting systems for cities, counties, school districts, public utilities and not-for-profit organizations.

Software services revenues. For the year ended December 31, 2002, software services revenues increased $4.2 million, or 19%, compared to 2001. The increase in software services is primarily related to higher software license sales. Typically, contracts for software licenses include services such as installation of the software, conversion of customer data to be compatible with the new software and training customer personnel to use the software. In addition, software services revenues for 2002 included approximately $1.9 million for services performed under an $11.0 million contract signed with the State of Minnesota in July 2002 to install our new Odyssey court case management system. The Minnesota contract includes both software license and software services but no license revenues were recognized under the contract in 2002. Approximately 70% of the installation is expected to be performed by late 2003. The remainder of the installation is expected to be performed from 2004 through 2006.

Maintenance revenues. For the year ended December 31, 2002, maintenance revenue increased $4.1 million, or 11%, from $36.6 million for 2001. We provide maintenance and support services for our software products, third party software and hardware. The maintenance revenue increase was due to growth in our installed customer base and slightly higher rates. During 2001, we received and recorded as revenue a one-time settlement of approximately $650,000 from a third party provider of maintenance services relating to past services. Excluding this settlement, maintenance revenue increased approximately 13% for the year ended December 31, 2002 compared to the prior year.

Appraisal services revenues. Appraisal services revenues increased $2.6 million, or 7%, for the year ended December 31, 2002, compared to 2001. The increase was primarily related to our contract with Lake County, Indiana, which was first awarded in December 2001. The contract to provide professional services and technology to reassess real property in Lake County is valued at $15.9 million, of which $14.4 million relates to appraisal services, and is expected to be completed by late 2003. During 2002, appraisal services revenue also included $12.1 million of appraisal revenue related to our contract with the Nassau County, New York Board of Assessors ("Nassau County"), which was comparable to the amount recognized in 2001. Substantially all of the work related to the Nassau County contract had been completed as of December 31, 2002.

COST OF REVENUES

Cost of software license revenues. For the year ended December 31, 2002, cost of software license revenues increased $1.4 million, or 33%, compared to the prior year, primarily due to higher amortization expense of software development costs. In 2001, we had several products in the development stage, which were released beginning in the third quarter of 2001. Once a product is available for general release, we begin to expense the costs associated with the development generally over the estimated useful life of the product. Development costs mainly consist of personnel costs, such as salary and benefits paid to our software developers, rent for related office space and capitalized interest costs.

Cost of software service and maintenance revenues. For the year ended December 31, 2002, cost of software services and maintenance revenues increased $4.2 million, or 9%, compared to 2001. This increase is consistent with the higher software services and maintenance revenues for the same period, although software services and maintenance revenues grew at a higher rate than the cost of those revenues, which is reflective of more efficient utilization of our support and maintenance staff and economies of scale. As a percentage of related revenues, cost of software services and maintenance was 76% in 2002 compared to 79% in 2001.

Cost of appraisal services revenues. For the year ended December 31, 2002, cost of appraisal service revenue increased approximately $1.6 million, or 7%, compared to the year ended December 31, 2001. This increase is consistent with the increase in appraisal services revenue, which also rose 7% compared to the prior year. Cost of appraisal services revenues as a percentage of appraisal services revenue was 68% for 2002 compared to 69% for 2001.

GROSS PROFIT

For the years ended December 31, 2002 and 2001, our overall gross margin was 36% and 34%, respectively. The 2002 gross margin benefited from a product mix that included more software license revenues and higher maintenance revenues than the prior year. Software license revenues have lower associated costs than other revenues such as software and appraisal services, third party software and hardware. In addition, utilization of our personnel that provide services and support has improved, which has increased our overall gross profit. The increase in our gross profit was offset slightly by higher software development amortization during 2002.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses, or SG&A, increased $3.1 million, or 10%, for the year ended December 31, 2002 compared to the prior year. As a percentage of revenues, SG&A was 25% in 2002 compared to 26% in 2001. The $3.1 million increase in SG&A was related primarily to higher costs with respect to sales commissions, and increases in health and other insurance expenses.

AMORTIZATION OF ACQUISITION INTANGIBLES

Our amortization of acquisition intangibles for the year ended December 31, 2001 amounted to $6.9 million, including $3.6 million for amortization of goodwill and workforce costs. Effective January 1, 2002, we adopted Statement of Financial Accounting Standards ("SFAS") No. 142, "Goodwill and Other Intangible Assets." As a result of adopting SFAS No. 142, we ceased amortizing goodwill and workforce after December 31, 2001. The remaining amortization consisted of those costs allocated to our customer base and acquisition date software. See further discussion of the effect of adopting SFAS No. 142 in Note 7 in Notes to the Consolidated Financial Statements.

INTEREST (INCOME) EXPENSE

Our cash balances have increased significantly during 2002 due to cash generated from operations, the receipt of proceeds from the sale of certain discontinued businesses and the exercise of stock options. In 2002 we invested excess cash in money market investments. Offsetting interest income from these money market investments was $255,000 of interest expense for an outstanding $2.5 million note payable. As a result, we had net interest income of $6,000 for the year ended December 31, 2002 compared to net interest expense of $479,000 for 2001. In addition, during the years ended December 31, 2002 and 2001, we capitalized $269,000 and $578,000, respectively, of interest costs related to capitalized software development costs.

INCOME TAX PROVISION

We had an effective income tax rate of 39% for the year ended December 31, 2002. For the year ended December 31, 2001, we had an effective income tax rate of 85%. Our effective income tax rate in both years exceeded the federal statutory rate of 35% due primarily to the net effect of state income taxes and items that are non-deductible for federal income tax purposes, including certain non tax-deductible goodwill amortization in periods prior to 2002.

DISCONTINUED OPERATIONS

Discontinued operations consists of the operating results of the information and property records serv-

ices segment which we discontinued in December 2000, two non-operating subsidiaries relating to a formerly owned subsidiary that we sold in December 1995 and an automotive parts distributor that we sold in March 1999.

On September 29, 2000, we sold certain net assets of Kofile, Inc. and another subsidiary, our interest in a certain intangible work product, and a building and related building improvements (the "Kofile Sale") for a cash sale price of $14.4 million. Effective December 29, 2000, we sold for cash our 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, our management, with our 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 our resources on our software systems and services segment and to reduce debt. The businesses and assets divested or identified for divesture 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).

Our 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. 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). This loss consisted 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.

On May 16, 2001, we sold all of the common stock of one of the remaining businesses in the discontinued information and property records services segment. In connection with the sale, we received cash proceeds of $575,000, approximately 60,000 shares of Tyler common stock, a promissory note of $750,000 payable in 58 monthly installments at an interest rate of 9%, and other contingent consideration. On September 21, 2001, we sold all of the common stock of Capital Commerce Reporter, Inc. for $3.1 million in cash.

We renegotiated certain aspects of the May 16, 2001 sale transaction and as a result of this renegotiation in March 2002, we received additional cash of approximately $800,000 and a subordinated note receivable for $200,000, to fully settle the promissory note and other contingent consideration received in connection with this sale. The subordinated note is payable in 16 equal quarterly principal payments with interest at a rate of 6%. Because the subordinated note receivable is highly dependent upon future operations of the buyer, we are recording its value when the cash is received which is our historical practice. During 2002, we received receipts of $46,000 on the subordinated note.

During the year ended December 31, 2002, the IRS issued temporary regulations, which in effect allowed us to deduct for tax purposes losses attributable to the March 1999 sale of our automotive parts subsidiary that were previously not allowed. The tax benefit of allowing the deduction of this loss amounted to approximately $970,000. In addition, we renegotiated a note receivable and certain contingent consideration in connection with a subsidiary sold in 2001 and received proceeds of approximately $846,000 in 2002. We initially assigned no value for accounting purposes to the note receivable and contingent consideration when the loss on the disposal of the discontinued operations was first established in 2000 and when the note was first received in 2001. In addition, we settled in the fourth quarter of 2002 our asbestos litigation for an amount that was approximately $200,000 less than the liability initially established for this matter (See Note 16 in Notes to Consolidated Financial Statements). The aggregate effects of these events, net of the related tax effects, and other minor adjustments to the reserve for discontinued operations, resulted in a credit to discontinued operations of $1.8 million in 2002. In our opinion and based on information available at this time, we believe the net liabilities related to discontinued operations are adequate.

The income tax expense or benefit associated with the gains or losses on the respective sales of the busi-

nesses in the information and property records services segment 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.

One of our non-operating subsidiaries is involved in various claims for work-related injuries and physical conditions relating to a formerly-owned subsidiary that we sold in 1995. For the years ended December 31, 2001 and 2000, we expensed and included in discontinued operations, net of related tax effect, $3,000 and $748,000, respectively, for trial and related costs (See Note 16 in the Notes to the Consolidated Financial Statements).

INVESTMENT SECURITY AVAILABLE-FOR-SALE

Pursuant to an agreement with two major shareholders of H.T.E., Inc. ("HTE"), we acquired approximately 5.6 million shares of HTE's common stock in exchange for approximately 2.8 million shares of our common stock. The exchange occurred in two transactions, one in August 1999 and the other in December 1999. The 5.6 million shares represent a current ownership interest of approximately 35% of HTE. The cost of the investment was recorded at $15.8 million and is classified as a non-current asset.

Florida state corporation law restricts the voting rights of "control shares," as defined, acquired by a third party in certain types of acquisitions. These restrictions may be removed by a vote of the shareholders of HTE. On November 16, 2000, the shareholders of HTE, other than Tyler, voted to deny Tyler its right to vote the "control shares" of HTE. When we acquired the HTE shares, HTE took the position that all of our shares were "control shares" and therefore did not have voting rights. We disputed this contention and asserted that the "control shares" were only those shares in excess of 20% of the outstanding shares of HTE, and it was only those shares that lacked voting rights. At the time of our acquisition, no court had interpreted the Florida "control share" statute.

On October 29, 2001, HTE notified us that, pursuant to the Florida "control share" statute, it had redeemed all 5.6 million shares of HTE common stock owned by us for a cash price of $1.30 per share. On October 29, 2001, we notified HTE that its purported redemption of our HTE shares was invalid and contrary to Florida law, and in any event, the calculation by HTE of fair value for our 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 HTE's purported redemption of all of our HTE shares at a redemption price of $1.30 per share was lawful and to effect the redemption and cancel our HTE shares. We 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, that HTE's purported redemption of any or all of our shares was illegal under Florida law and that we had the ability to vote up to 20% of the issued and outstanding shares of HTE common stock owned by us.

On September 18, 2002, the court issued an order declaring that HTE's purported redemption was invalid. On September 24, 2002, we entered into a settlement agreement with HTE in which HTE agreed that it would not attempt any other redemption of our shares. In addition, HTE agreed to dismiss and release us from the tort claims it alleged against us as disclosed in previous filings. On December 11, 2002, the court issued a further order declaring that all of our HTE shares are "control shares" and therefore none of our shares have voting rights. The court further ruled that voting rights would be restored to our HTE shares if we were to sell or otherwise transfer our HTE shares to an unaffiliated third party in a transaction that did not constitute a "control share acquisition." During 2002, approximately $704,000 of legal and other related costs associated with these matters were charged to non-operating expenses.

Under GAAP, a 20% investment in the voting stock of another company creates the presumption that the investor has significant influence over the operating and financial policies of that company, unless there is evidence to the contrary. Our management has concluded that we do not have such influence. Accordingly, we account for our investment in HTE pursuant to the provisions of SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities." These securities are classified as available-for-sale and are recorded at fair value as determined by quoted market prices for HTE common stock.

On February 4, 2003, we entered into an agreement with SunGard Data Systems, Inc. ("SDS") in which we agreed to tender all of our HTE shares in a tender offer to be commenced by SDS for the acquisition of HTE. On February 5, 2003, SDS and HTE announced a definitive agreement for the acquisition of all of the shares of HTE for $7.00 per share in cash. SDS and HTE also announced that the consummation of the transaction is subject to customary conditions, including the tender of at least a majority of the outstanding shares of HTE in the tender offer and the expiration of the waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended. SDS and HTE further announced that certain shareholders owning approximately 49.6% of the total outstanding shares of HTE had agreed to tender their shares. According to the press release issued by SDS and HTE, the acquisition is expected to close in the first quarter of 2003. Assuming the acquisition is consummated, we will receive approximately $39.3 million in gross cash proceeds from the sale of our HTE shares. There can be no assurance that the acquisition of HTE by SDS will be consummated on the terms as disclosed, if at all. If SDS does not acquire HTE, we will continue to classify our investment as an available-for-sale security in accordance with SFAS No. 115 and as a non-current asset since the investment was initially made for a continuing business purpose.

NET INCOME

Net income was $8.0 million in 2002 compared to $269,000 in 2001. For 2002 and 2001, diluted earnings per share was $0.16 and $0.01, respectively. Net income for 2002 included a gain on disposal of discontinued operations, net of taxes, of $1.8 million, or $0.04 per diluted share, and net income for 2001 included a loss on discontinued operations, net of taxes, of $3,000, or $0.00 per diluted share.

2001 Compared to 2000

REVENUES

Revenues were $118.8 million for the year ended December 31, 2001, a 26% increase from revenues of $93.9 million for the prior year.

Software license revenues. Software license revenues increased each quarter during 2001 from $4.0 million in the first quarter to $5.8 million in the fourth quarter. For the year ended December 31, 2001, software license revenue was $19.5 million, compared to $19.3 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 modules of our 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.

Software services revenues. Software services revenues grew 11% to $21.5 million for the year ended December 31, 2001, from $19.4 million for the year ended December 31, 2000. The increase was due to higher proprietary software sales, as we offer services, such as installation of the software, conversion of the customers' data to be compatible with the software and training of the customer personnel to use the software. In addition, during 2001, we entered into more service-intensive contracts, particularly related to our tax products.

Maintenance revenues. For the year ended December 31, 2001, maintenance revenue increased 26%, to $36.6 million, from $29.1 million for 2000. Higher maintenance revenues were due to an increase in our base of installed software and systems products and maintenance rate increases for several product lines. Maintenance and support services are provided for our software and related products.

Appraisal services revenues. For the year ended December 31, 2001, appraisal services revenues were $34.7 million, compared to $20.9 million in the prior year. The 66% increase for the year in appraisal services revenues was primarily due to our continued progress on our contract with Nassau County. The contract to provide outsourced assessment services for Nassau County, together with tax assessment administration software and training, is valued at approximately $34.0 million. Implementation of the Nassau County contract began in September 2000. For the year ended December 31, 2001, we recorded $14.4 million of professional services revenue related to Nassau County.

Hardware and other revenues. Hardware and other revenues increased $1.3 million for the year ended December 31, 2001 from $5.2 million for the same

period of 2000. Approximately $700,000 of the increase related to the Nassau County contract. Other increases were 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 $78.8 million compared to $59.7 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 36% for the year ended December 31, 2000. Overall gross margin was lower because our 2001 revenue mix included more appraisal services compared to 2000. Historically, gross profit is higher for software licenses than for software and appraisal services due to personnel costs associated with services. In addition, software license costs increased during 2001 compared to 2000, due to increased amortization of software development costs. We released several new products during the second and third quarters of 2001, at which time we began to amortize the related software development costs.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses for the year ended December 31, 2001 was $30.8 million compared to $32.8 million in the prior year. Selling, general and administrative expenses 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 our revenue growth. The decline in selling, general and administrative expenses 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 INTANGIBLES

We accounted for all of our past acquisitions using the purchase method of accounting for business combinations. Prior to the adoption of SFAS No. 142, the excess of the purchase price over the fair value of the net identifiable assets of the acquired companies (“goodwill”) was amortized using the straight-line method of amortization over their respective estimated useful lives. Amortization expense of acquisition intangibles was $6.9 million in 2001 and 2000.

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 our former information and property records services segment. In addition, during 2001 we capitalized $578,000 of interest costs related to internally developed software products, compared to $586,000 for 2000.

INCOME TAX PROVISION

For the year ended December 31, 2001, we 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%. The high effective income tax rate is primarily attributable to non tax-deductible goodwill amortization. For 2000, we incurred 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%.

NET INCOME

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.

ACCOUNTING PRONOUNCEMENTS NOT YET ADOPTED

In June 2001, the Financial Accounting Standards Board (“FASB”) issued SFAS No. 143, “Accounting for Asset Retirement Obligations.” SFAS No. 143 requires us to record the fair value of an asset retirement obligation as a liability in the period in which it incurs a legal obligation associated with the retirement of tangible long-lived assets that result from the acquisition, construction, development, and/or

normal use of the assets. A corresponding asset is also recorded and depreciated over the life of the asset. After the initial measurement of the asset retirement obligation, the obligation will be adjusted at the end of each period to reflect the passage of time and changes in the estimated future cash flows relating to the obligation. We are required to adopt SFAS No. 143 on January 1, 2003. The adoption of SFAS No. 143 is not expected to have a material effect on our financial statements.

In April 2002, the FASB issued SFAS No. 145, "Rescission of FASB Statements No. 4, 44 and 64, Amendment of FASB Statement No. 13, and Technical Corrections". SFAS No. 145 amends existing guidance on reporting gains and losses on the extinguishment of debt to prohibit the classification of the gain or loss as extraordinary, as the use of such extinguishments have become part of the risk management strategy of many companies. SFAS No. 145 also amends SFAS No. 13 to require sale-leaseback accounting for certain lease modifications that have economic effects similar to sale-leaseback transactions. The provisions of SFAS No. 145 related to the rescission of Statement No. 4, are applied in fiscal years beginning after May 15, 2002. Earlier application of these provisions is encouraged. The provisions of SFAS No. 145 related to Statement No. 13 were also effective for transactions occurring after May 15, 2002, with early application encouraged. The adoption of SFAS No. 145 is not expected to have a material effect on our financial statements.

In June 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities." SFAS No. 146 addresses financial accounting and reporting for costs associated with exit or disposal activities and nullifies Emerging Issues Task Force ("EITF") Issue 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity." The provisions of this Statement are effective for exit or disposal activities that are initiated after December 31, 2002, with early application encouraged. The adoption of SFAS No. 146 is not expected to have a material effect on our financial statements.

In November 2002, the FASB issued Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness to Others," an interpretation of FASB Statements No. 5, 57 and 107 and a rescission of FASB Interpretation No. 34. This Interpretation elaborates on the disclosures to be made by a guarantor in its interim and annual financial statements about its obligations under guarantees issued. The Interpretation also clarifies that a guarantor is required to recognize, at inception of a guarantee, a liability for the fair value of the obligation undertaken. The initial recognition and measurement provisions of the Interpretation are applicable to guarantees issued or modified after December 31, 2002 and are not expected to have a material effect on our financial statements. The disclosure requirements are effective for financial statements of interim and annual periods ending after December 31, 2002.

In January 2003, the FASB issued Interpretation No. 46, "Consolidation of Variable Interest Entities, an interpretation of Accounting Research Bulletin ("ARB") No. 51." This Interpretation addresses the consolidation by business enterprises of variable interest entities as defined in the Interpretation. The Interpretation applies immediately to variable interests in variable interest entities created after January 31, 2003, and to variable interests in variable interest entities obtained after January 31, 2003. The application of this Interpretation is not expected to have a material effect on our financial statements.

FINANCIAL CONDITION AND LIQUIDITY

On March 5, 2002, we entered into a new $10.0 million revolving bank credit agreement which matures January 1, 2005. Our borrowings are limited to 80% of eligible accounts receivable and bear interest at either the prime rate or at the London Interbank Offered Rate plus a margin of 3%. The credit agreement is secured by our personal property and the common stock of our operating subsidiaries. The credit agreement is also guaranteed by our operating subsidiaries. In addition, we must maintain certain financial ratios and other financial conditions and cannot make certain investments, advances, cash dividends or loans.

As of December 31, 2002, our bank has issued under our credit agreement letters of credit totaling $3.7 million to secure performance bonds required by some of our customer contracts. Our borrowing base under the credit agreement is limited by the amount of eligible receivables and was reduced by the letters of credit at December 31, 2002. At December 31,

2002, we had no outstanding bank borrowings under the credit agreement and had an available borrowing base of $6.3 million.

As of December 31, 2002, our cash balance was $13.7 million, compared to $5.3 million at December 31, 2001. Cash increased primarily due to cash received from disposition of certain discontinued businesses and assets of discontinued business, cash generated from operations, exercise of stock options and improved cash collections. At December 31, 2002, our days sales outstanding ("DSO's") (accounts receivable divided by the quotient of annualized quarterly revenues divided by 360 days) were 85 compared to DSO's of 103 at December 31, 2001.

In March 2002, we received cash of approximately $800,000 and a $200,000 subordinated note receivable to fully settle an existing promissory note and other contingent consideration in connection with the sale in May 2001 of a business unit previously included in the information and property records services segment, which had been discontinued.

In June 2002, we sold the building of a business unit previously included in the discontinued information and property records service segment. Net proceeds from the sale were approximately $961,000.

During the year ended December 31, 2002, we received $1.6 million from the issuance of 491,000 treasury shares upon the exercise of stock options under our employee stock option plan.

During 2002, we made capital expenditures of $9.7 million, including $7.2 million for software development costs. The other expenditures related to computer equipment and expansions related to internal growth. Capital expenditures were funded principally from cash generated from operations.

Excluding acquisitions, we anticipate that 2003 capital spending will be approximately $12.0 million, approximately $9.0 million of which will be related to software development. Capital spending in 2003 is expected to be funded from existing cash balances and cash flows from operations.

On August 15, 2002, we consummated an agreement to repurchase 1.1 million of our common shares from William D. Oates, a former director of Tyler, for a cash purchase price of $4.0 million.

We lease certain offices, transportation, computer and other equipment used in our continuing operations under noncancelable operating lease agreements expiring at various dates through 2012. Most leases contain renewal options and some contain purchase options. Following are the future obligations under noncancelable leases and maturities of long-term obligations at December 31, 2002 (in millions):

	FUTURE RENTAL PAYMENTS UNDER OPERATING LEASES	NOTES PAYABLE AND OTHER	TOTAL
2003	$ 3.5	$ 0.5	$ 4.0
2004	3.2	0.0	3.2
2005	3.0	2.5	5.5
2006	2.7	--	2.7
2007	2.5	--	2.5
Thereafter	9.5	--	9.5
	$ 24.4	$ 3.0	$ 27.4

In August 2002, our Board of Directors approved a plan to repurchase up to 1.0 million shares of our common stock. Subsequent to December 31, 2002 and through February 21, 2003, we have repurchased 339,000 shares for an aggregate purchase price of $1.4 million.

On February 4, 2003, we entered into an agreement with SunGard Data Systems Inc. ("SDS") in which we agreed to tender all of our HTE shares in the tender offer to be commenced by SDS for the acquisition of HTE. On February 5, 2003, SDS and HTE announced a definitive agreement for the acquisition of all of the shares of HTE for $7.00 per share in cash. Assuming the acquisition is consummated, we will receive approximately $39.3 million in gross cash proceeds from the sale of our HTE shares.

As part of the plan of reorganization of Swan Transportation Company, one of our non-operating subsidiaries, we have agreed to contribute approximately $1.5 million over the next three years to a trust that was set up as part of the reorganization. See Note 16 in the Notes to the Consolidated Financial Statements.

From time to time, we have discussions relating to acquisitions and we expect to continue to assess these and other strategic acquisition opportunities as they arise. We may also require additional financing if we decide to make additional acquisitions. There can be no assurance, however, that any such oppor-

tunities will arise, that any such acquisitions will be consummated or that any needed additional financing will be available when required on terms satisfactory to us. Absent any acquisitions, we anticipate that existing cash balances, cash flows from operations, working capital and available borrowing capacity under our revolving credit facility will provide sufficient funds to meet our needs for at least the next year.

CAPITALIZATION

At December 31, 2002, our capitalization consisted of $3.0 million of long-term obligations (including the current portion of those obligations) and $118.7 million of shareholders' equity. Our total debt-to-capital ratio (total debt divided by the sum of total shareholders' equity and total long-term obligations) was 2% at December 31, 2002.

CORPORATE OFFICERS

John M. Yeaman
President and 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

G. Stuart Reeves
Chairman of the Board
Retired Executive Vice President
Electronic Data Systems Corporation

Ben T. Morris
President and Chief Executive Officer
Sanders Morris Harris

Glenn A. Smith
President – Courts & Justice Division
Tyler Technologies, Inc.

John M. Yeaman
President and Chief Executive Officer
Tyler Technologies, Inc.

John S. Marr, Jr.
President – Large Financial Division
Tyler Technologies, Inc.

Michael D. Richards
Chairman and Chief Executive Officer
Reunion Title Company

CORPORATE HEADQUARTERS

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INDEPENDENT AUDITORS

Ernst & Young LLP
Dallas, Texas

LEGAL COUNSEL

Gardere Wynne Sewell LLP
Dallas, Texas

INVESTOR INFORMATION

The Company's Annual Report on Form 10-K is available on the Company's Web site at 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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COMMON STOCK

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

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