cultivating value

tyler technologies

Empowering people who serve the public®

2010 Annual Report

At Tyler Technologies, we know from experience that skillful and consistent cultivation yields powerful results over time. That's why we're committed to a strategy of long-term growth and success that steadily builds upon our core strength—software solutions and services designed exclusively for the public sector.

Year after year, Tyler employees remain disciplined in the execution of four fundamental strategies that define our long-term growth plan: expanding our geographic reach, broadening our product offerings, winning large-scale contracts, and extending our relationships with existing clients. By staying focused on these strategies, Tyler is cultivating long-term value—and empowering people who serve the public.

to our share holders

The past two years have tested the strength and resolve of businesses in virtually every industry. As a technology solutions partner exclusively serving the public sector, Tyler Technologies has felt the impact of tightening budgets throughout our market. New business was off in 2010, as reflected by declines in software license and professional services revenues. Sales cycles are longer as public sector organizations delay decisions, and client buying processes are more involved than they have historically been, with less predictable timing.

In spite of these difficult conditions, we have continued to cultivate long-term value for our clients, shareholders and employees. While market opportunities as a whole were down in 2010, we improved win rates with our major products and continued to expand our client base, with $35 million in new software license revenues. We were very successful in growing recurring revenues, adding $17 million in subscription and maintenance revenues. Additionally, we enhanced shareholder value with the repurchase of 3,559,000 shares of our common stock over the course of 2010.

Tyler continues to maintain a strong balance sheet with low debt. In August, Tyler put into place a four-year, $150 million revolving credit facility. Our strong financial position enabled us to obtain very attractive terms on this long-term facility, which gives us the flexibility to take advantage of opportunities as they arise, including stock repurchases and strategic acquisitions.

A Strategic Acquisition

Tyler Technologies completed one acquisition in 2010—purchasing the assets of Wiznet, an electronic filing engine for courts. Rebranded as Odyssey® File & Serve, this powerful solution benefits our court clients in a number of ways. It enables organizations to eliminate the cost of traditional filing, including storage and handling of paper documents. At the same time, it helps clients deliver a better experience to the public by providing instant electronic communication to all case parties, along with convenient features such as online payment of fees. And for clients who choose our revenue-sharing model, Odyssey File & Serve can be implemented with little or no up-front costs. In addition to these and other client benefits, this acquisition offers key advantages to Tyler, including an attractive recurring revenue stream under the model in which we share transaction fees.

Importantly, Odyssey File & Serve also allows us to capitalize on the growing demand for e-filing solutions. Today, e-filing solutions are requested by approximately 70 percent of prospects, compared to less than five percent just five years ago. In fact, Odyssey File & Serve was the cornerstone of Tyler's first federal contract—a $2.1 million agreement signed in November with the United States Securities and Exchange Commission (SEC). This solution

will integrate with the SEC's existing case management system through Tyler's portal, allowing instant electronic access to all public, non-secured SEC filings. The agreement includes software licenses, as well as hosting and related professional services. This is just one example of how we continue to broaden our product offerings to win new business.

Managing Our Strengths

One of the most notable aspects of our performance in 2010 was the strong growth of our subscription services. We continued to convert a number of our traditional clients to the software as a service (SaaS) delivery model, providing a solution to the challenges of staff turnover and equipment maintenance by eliminating the need to manage software systems in-house. Our SaaS solutions are also proving to be increasingly attractive to new clients, giving them access to our industry-leading solutions without the up-front investment and with fewer in-house resources. Growth in recurring revenues works in our favor to help moderate the impact of dynamic and unpredictable capital spending cycles.

With slow new license sales in recent quarters, Tyler experienced a lower demand for our professional services. This resulted in underutilization of our implementation teams, increasing pressures on gross margins. Historical methods of projecting staffing needs were not effective in this uncertain market. We are now staffing to projects that can be more tangibly identified, as well as cross-training resources to better balance with needs, while retaining experienced and skilled professionals to be able to effectively serve clients as the market recovers.

Operationally, we continue to focus on maximizing efficiencies and reducing redundancies across our organization. As a company that's grown through strategic acquisitions, we have historically had a number of administrative and operational functions that were decentralized across our product lines. In 2010, we launched an internal initiative to evaluate these functions and move toward greater centralization of processes where it makes sense to do so. We've already made considerable progress in leveraging marketing, finance and accounting, and IT resources across the organization. We look forward to achieving more efficiency through greater integration in other areas, such as product development and professional services.

Investing in Product Development

Research and development are top priorities at Tyler Technologies, and our spending in these areas in 2010 was at its highest level ever as we continued to make what we believe are well-timed investments that will benefit Tyler and empower clients in the future. From partnering with Microsoft to develop multi-touch technology for the courtroom to using Microsoft® Silverlight® technology to make valuable business intelligence easily accessible to our clients, we are in the best possible position to address the changing technology needs of the public sector.

In the year ahead, we're looking forward to the release of the Microsoft Dynamics® AX solution for the public sector. We've been working closely with Microsoft on the development of this product since 2007, and we're excited about the opportunity to combine Microsoft's global reach in the software market with Tyler's unmatched expertise in the public sector.

We're confident that our clients will enjoy enhanced functionality from the Microsoft/Tyler synergy. And we'll have the opportunity to access new markets both in the United States and internationally. It will take some time to realize revenues from this new product, and we don't expect to see a meaningful impact in 2011, but we anticipate launching sales activities in the second half of the year.

Opportunities Ahead

We expect that Tyler will continue to win an increasing share of the market, even if the market is not currently expanding at the same rate it did in the last decade. With extended sales cycles, the timing of new business continues to be less predictable than it has been historically. Still, despite inconsistent bookings over the last few quarters, we finished the year with our backlog at the highest level in the company's history at $281 million, up 21 percent from the end of 2009. And with an active pipeline of prospects and a competitive position that we believe is stronger than ever, Tyler is cautiously optimistic about opportunities for improved performance in the next fiscal year.

John S. Marr, Jr. President and CEO **John M. Yeaman** Chairman of the Board

Thanks to our company's long-term approach to cultivating value, Tyler Technologies has succeeded in holding its ground financially while advancing our industry leadership even during economic downturns. To our shareholders, employees and clients, we thank you for your enduring commitment to delivering excellence in the public sector.

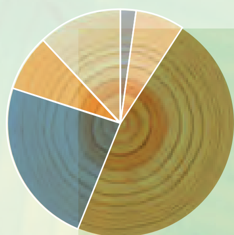
John S. Marr, Jr.
President and Chief Executive Officer

tyler at a glance

With more than 2,000 employees and more than 9,000 local government and school clients across the United States, Tyler Technologies is the largest company in the nation with an exclusive focus on software and technology solutions for the public sector.

Many of our subject matter experts began their careers in public service, giving Tyler an invaluable perspective on the unique demands that governments and schools face. We draw upon our employees' firsthand knowledge and our clients' direct input to continually enhance our offerings and deliver intuitive, targeted solutions.

Revenue Mix



- 47% Maintenance
- 24% Software Services
- 12% Software Licenses
- 8% Subscriptions
- 7% Appraisal Services
- 2% Hardware and Other

Recurring Revenues
in millions

Appraisal & Tax

As the nation's leading provider of appraisal and tax software and services, Tyler combines sound appraisal practices with client-centric technologies. Offerings include computer-assisted mass appraisal (CAMA) solutions, tax billing and collections software, and turnkey or targeted reassessment and revaluation services.

Courts & Justice

Our courts and justice solutions help judges, court clerks, prosecutors, law enforcement officers, and corrections and supervision staff streamline their day-to-day operations. From court case management to e-payments for traffic tickets, Tyler's integrated solutions provide a broad range of innovative functionality designed to increase efficiency.

ERP | Financial

Tyler's financial enterprise resource planning (ERP) solutions focus on efficient management of core functions such as accounting and financial management, payroll, human capital management, citizen services, utilities and revenues. Our ERP products are fully scalable to accommodate growing populations, from small towns to the largest cities and counties.

Land & Vital Records

Tyler's land and vital records solutions are designed to meet the document management needs of the public sector, from land records, marriage licenses and birth certificates to social service documents and enterprise-wide content management. Like all Tyler solutions, these products are designed with input from people who've worked on the front lines in public service.

Schools

Tyler has a true understanding of the K-12 school market, and what sets us apart from our competitors is our ability to deliver an authentic district wide solution—student information, boundary-district planning, student transportation, school information warehouse, and financial and human capital management. Tyler's full suite of applications help educators and administrators put students first.

nurturing our future

Our commitment to research and development remains steadfast. With nearly 600 developers, engineers and others directly involved in product development, Tyler is continually investing in its technology and providing clients with innovative solutions that stand the test of time.

Q&A: fielding questions

Despite the difficult economic conditions we faced throughout 2010, Tyler Technologies made progress on a number of fronts. With this question and answer format, we hope to answer many of the questions our shareholders may have about both the successes and challenges the company faced during the year. We'll also offer a glimpse of what's to come.

Can you provide some historical context for the company's financial performance in 2010?

2010 revenues were virtually flat compared to the previous year, with declines in both software license and software services revenues, offset by solid growth in recurring revenues. Net income for 2010 declined approximately 7.2 percent, as a slight gross margin improvement was more than offset by a 25 percent increase in research and development expense. Significantly, the fourth quarter of 2010 marked our 39th consecutive quarter of profitability, a powerful testament to Tyler's ability to weather difficult market conditions and perform consistently well, even in a tough environment.

What were Tyler's greatest challenges in 2010, and how are you addressing them?

New sales were down for the year due to increased budget pressures at the local level, which led to longer and less predictable sales cycles in the public sector market. We also saw delays in project implementation timetables with some clients. We were not able to fully utilize our professional services resources, which put short-term pressures on our margins and brought greater challenges related to managing staffing levels. We believe that carefully matching staffing levels to visible business while avoiding large-scale layoffs—common among many of our competitors—has positioned us well for an eventual recovery in the market.

In light of the longer sales cycles you've discussed, can you elaborate on the new business pipeline?

Our pipeline is extremely active, at or near an historic high, but in today's business environment the timing of decisions isn't as predictable as it has been in the past. New requests for proposal (RFP) activity in 2010 generally exceeded prior-year levels, in terms of both the number of proposals and the total dollar value. In addition to the increased complexity of the buying process, we know that many prospects have chosen to defer buying decisions until budget situations improve. However, due to the mission-critical nature of our products and the functions they automate, we anticipate that most of these decisions will still move forward as the needs become more pressing.

How does the company view its balance sheet?

Over the last decade, Tyler has had very little or no debt on its balance sheet. While we maintain a conservative approach to managing our capital structure, our cash flow is very reliable, with the majority of our revenues

Free Cash Flow
in millions

(a) excludes capital expenditures for office facilities of $1.3 million in 2010, $9.4 million in 2009 and $16.0 million in 2008

Backlog
in millions

ERP | FINANCIAL

As clients focus on ways to save time and money throughout their core functions, financial ERP solutions from Tyler provide a wealth of features and functionality. In 2010, Tyler secured new contracts with clients in 31 states and Guam—from the Contra Costa County Office of Education in California to the city of Rochester, New York—empowering these organizations to enhance services to citizens, manage their finances efficiently and make the most of their resources.

derived from recurring sources. With the current low cost of credit, we believe it is appropriate to have a prudent amount of leverage. In 2010, we took advantage of Tyler's strong financial position and more favorable credit markets and put into place a new $150 million revolving line of credit with a syndicate of seven banks. This four-year facility, with very attractive rates, gives us a great deal of flexibility to take advantage of opportunities that may require cash in excess of that generated from operations, including stock repurchases and acquisitions.

With the economy still in flux, how does the public sector fund solutions from Tyler Technologies?

In most cases, the acquisition of our software comes from the general fund or a capital budget, which are furnished primarily from local revenues. Property taxes generally make up a major portion of these revenues. Despite volatility in the real estate market, property taxes tend to be a relatively stable source, as tax rates are often increased if values go down. Other local fees, such as utility billings and court fees, are also often significant revenue sources.

The solutions we provide support mission-critical functions such as administering jails, paying teachers, billing utilities and collecting taxes. We believe the majority of systems in use by local governments today are either "home-grown" or came from a vendor who is no longer competitive in the market, and over time these systems are becoming increasingly unreliable or unsupportable. The need to maintain uninterrupted access to vital information and processes ultimately drives replacement of these systems and eventually becomes a priority that generally outweighs short-term budgetary concerns.

Although these factors generally drive the need to acquire new software, a new system from Tyler also helps our public sector clients realize lasting value through enhanced efficiencies, enabling them to do more with fewer resources. In 2010, California proved to be one of our strongest markets for enterprise resource planning (ERP) systems, even though that state has been especially hard hit by the economic downturn.

What are some examples of those enhanced efficiencies?

Our school transportation solution is a great example. It helps school districts save on fuel expenditures by optimizing school bus routes. It also helps clients better manage fleet costs by potentially reducing the capital, staffing and maintenance expenditures associated with additional buses. That's a very specific example; in more general terms, our solutions make information easy to access, enabling clients to provide responsive customer service even with lean staffing. And since many processes and transactions can become paperless, clients can eliminate costs associated with processing and storing paper documents. Every Tyler Technologies solution is specially designed to help the public sector act as responsible stewards of public funds.

With Tyler's goal of increasing new business with large government entities, how do you compete with prominent global software companies?

Years ago, prospective clients in large cities, counties and school districts believed they had to make a choice between the deep public sector domain expertise of Tyler and the technology advances of a global or "Tier 1" vendor.

Many of Tyler's professionals have worked in the public sector—so we know firsthand what challenges and concerns our clients face every day.

How can school districts support and overcome operational challenges with limited resources? Our school solutions bring the answers into view.

Our new Microsoft Silverlight enhancements are helping Tyler clients access data with ease and view their operations in a new light.

APPRAISAL & TAX

Tyler is the country's largest mass appraisal company, and appraisal outsourcing solutions were a source of growth for us in 2010. This was led by an $8.2 million contract with Allegheny County (Pittsburgh), Pennsylvania; a $4.5 million agreement with Cobb County, Georgia; and a $3.3 million contract with Gwinnett County, Georgia. We also expanded the reach of our appraisal and tax software solutions with a $2.3 million software contract with the state of Nebraska. Other wins included software contracts with counties in Indiana, Arizona, South Carolina, Minnesota, Nebraska and Ohio.

We believe that our current product offerings are extremely competitive when viewed objectively, specifically in light of the significant investments in product development we have continued to make over recent years. Tyler offers a unique combination of leading technologies that scale to work in large, complex organizations together with features and functionality that address the specific needs of the public sector. In contrast, while the global software companies have very robust products, the public sector is just one of a wide range of vertical markets they serve, and a great deal of the functionality in their products does not add value for public sector clients.

Additionally, global providers often use third-party systems integrators to implement their software, and it frequently takes an army of consultants to adapt the software to a public sector client's needs, including complex customizations for specific vertical applications that are not a part of the core product. Virtually all of Tyler's implementations are performed with our own professional services teams, who work exclusively with public sector clients and therefore have tremendous expertise in our clients' operations. As a result, the professional services component of our implementations is typically significantly lower, providing a lower total cost of ownership, enhanced by a solid reputation for completing projects on time and within budget.

While the brand recognition of some of these prominent vendors is sometimes seen as justifying their higher cost, we believe that in this more difficult budget environment, Tyler is frequently getting a closer look because of our lower total cost as well as the availability of our SaaS offerings. We are confident that our value proposition is very attractive in those situations, and we can point to a number of multimillion-dollar wins in 2010 where we competed with global ERP providers. These include our contracts with the cities of Madison, Wisconsin, and Rochester, New York, and with the Columbus (Ohio) City School system. Public sector solutions are all we do, and as a result, we bring tremendous value to the client relationship.

What kind of investment—financial and otherwise—are you making in product development?

In 2010, Tyler dedicated more resources and spent more on product development than at any time in the company's history. Companywide, approximately 600 professionals are directly involved in product development. We have an extremely talented team of developers working on new products, as well as on enhancements to existing products, and we're very proud of their ongoing innovations.

Tyler Technologies already has a reputation as a leader and innovator in the public sector. Wouldn't it be to your financial advantage to decrease your R&D budget for the short term?

While many software companies, including some of our competitors, cut back on R&D spending in response to the economic slowdown, we did not. The pace of technology moves quickly, and we believe that it is crucial to continue to invest aggressively in initiatives to improve our already strong competitive position. Recent R&D projects, such as delivering our Munis® solution using 100 percent Microsoft Silverlight technology, are elevating the user experience by giving clients more intuitive control over how they view their data. It all goes back to our focus on cultivating value over the long term.

Our singular focus on the public sector fortifies our solutions with unrivaled strength. Through both adverse and advantageous economic climates, our proven strategies consistently deliver powerful results.

Even in the best of times, the public sector faces tremendous pressure to save money. Tyler's solutions help our clients do more with less.

While many companies cut back on research and development, Tyler Technologies invested in innovation at our highest level ever to further enhance our product offerings.

Our solutions help clients serve the public more effectively and efficiently, resulting in solid, long-term returns on their technology investments.

What were some other highlights of your product development program for 2010?

In addition to using Microsoft Silverlight technology, our research and development efforts are at work in every Tyler solution area. In the courtroom, the dynamic Odyssey® SessionWorks Judge Edition puts case files and related document management literally at a judge's fingertips using multi-touch technology developed in partnership with Microsoft. For appraisal jurisdictions and tax offices, we've made significant upgrades to our iasWorld product suite by adding advanced functionality such as a role-based digital dashboard, as well as providing an enriched yet streamlined user interface. And Incode V.X, a true .Net application, provides a unique user experience—from role-based navigation and tailored workspaces to extensive business intelligence functionality for robust native reporting and managed services features for deployment and system management.

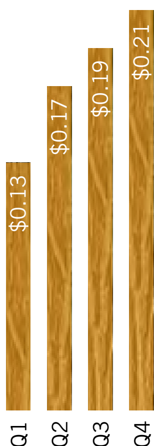
Our largest single project, however, remains our co-development effort with Microsoft on Microsoft Dynamics AX for the public sector, which is scheduled for release in mid-2011.

What is the strategic opportunity for the Microsoft Dynamics AX public sector product, and when do you expect to begin to realize the benefits from your investment in that product?

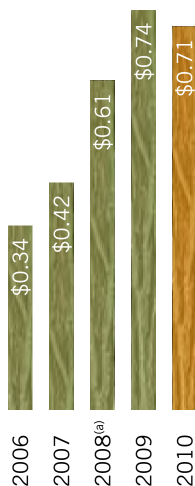
We established a partnership with Microsoft in 2007 to develop public sector functionality for a new version of its Dynamics AX product, which is being developed for the global ERP market. Since then, we have invested a significant amount of effort and money (all of which has been expensed) on that project. This Microsoft-branded product is expected to be released in mid-2011.

As a reseller of Dynamics AX for the public sector, we expect to win incremental business through our direct sales of this product, including large-scale opportunities

2010 Quarterly Earnings Per Share
in dollars



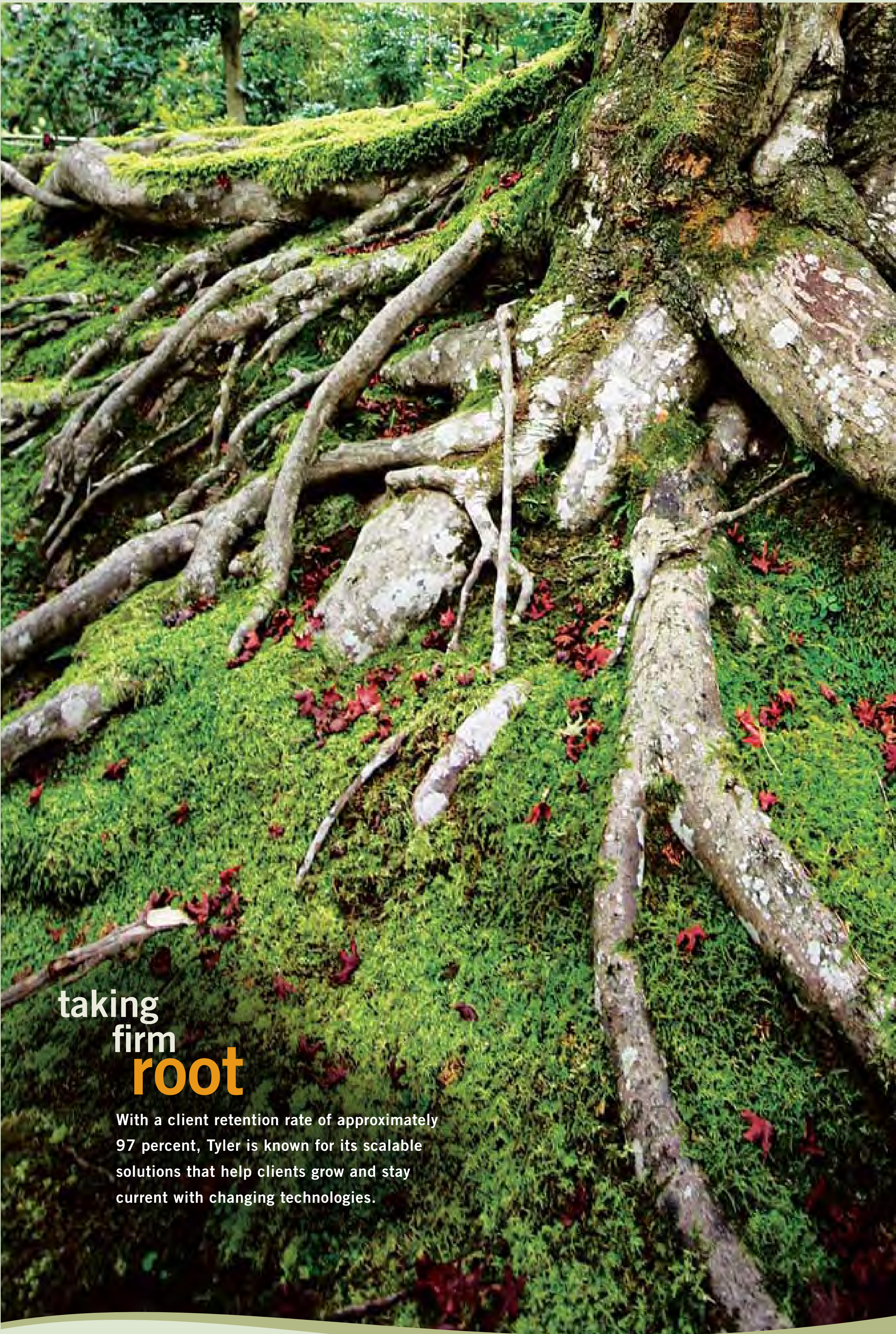
Diluted Annual Earnings Per Share
in dollars



(a) 2008 EPS is non-GAAP and excludes non-cash legal settlement charge related to warrants of $0.23

COURTS & JUSTICE

A $10 million contract with Fulton County (Atlanta), Georgia, for our Odyssey integrated justice system was one of several agreements that reinforced our position as the leader in courts and justice solutions across the nation. Other significant contracts included an $8.8 million contract for a statewide case management system for South Dakota, and a $6.8 million agreement with Pinellas County, Florida. In Texas, Tyler signed a $5.3 million integrated justice contract with existing client El Paso County, along with a municipal courts contract with the city of Amarillo and several contracts for our Odyssey Online solution.



taking firm root

With a client retention rate of approximately 97 percent, Tyler is known for its scalable solutions that help clients grow and stay current with changing technologies.

where we believe the combination of Microsoft's technology and branding and Tyler's deep domain expertise will be powerful. Those sales will likely also include ancillary Tyler applications, as well as professional services engagements for Tyler.

In addition, Dynamics AX for the public sector will also be sold through other Microsoft channel partners. Some of these partners will address markets where Tyler currently has little or no presence with ERP products, including the federal government, state governments and international governments. Tyler will share in license and maintenance revenues from any sale of Dynamics AX in the public sector worldwide. We believe that the majority of these revenues will be incremental to our current business, and that they will have relatively high incremental margins.

We do not expect that there will be any meaningful revenues from the Microsoft Dynamics AX product in 2011, given the length of sales cycles. The impact in 2012 may be relatively neutral as revenues ramp up to cover our ongoing fixed costs related to the product. Microsoft and Tyler are committed to ultimately capturing a significant share of the global public sector ERP market, and the release of this product is a key step toward that goal.

In addition to your R&D initiatives, Tyler has a long history of expanding its capabilities through acquisitions. Does the current economy change your acquisition strategy?

Not fundamentally—although in recent years we've become more selective in terms of considering potential acquisitions. We typically look at acquisitions that either add unique products or services, enabling us to broaden our offerings, or that have complementary products that allow us to quickly gain market share and build recurring revenues. We evaluate candidates carefully, looking for a clearly defined strategic fit and reasonable valuations. Our acquisition of Wiznet for approximately $10 million in January 2010 met these criteria, enabling us to add an e-filing solution that we knew well from our previous partnership, along with an attractive and growing recurring revenue stream.

How do your SaaS solutions figure into your strategy?

We believe it's important to offer clients a choice, and SaaS is an attractive option for those who need the benefits that our best-of-breed solutions provide, but either don't want to maintain the in-house technical resources to manage the system or prefer to pay for the solution over a subscription term rather than through traditional license fees.

While we've offered our Munis ERP solution in a hosted model since 2001 with a high level of client satisfaction, we've added more products to the hosted model in recent years. Our SaaS offerings now include our Incode V.X, as well as our iasWorld appraisal and tax solution and Odyssey Online, a hosted version of our industry-leading courts and justice solution. In December 2010, we signed our largest SaaS deal to date—a $6 million, five-year contract with Columbus (Ohio) City Schools for our Munis solution. Tyler will implement the product throughout the district (Ohio's largest with more than 50,000 students), maintain servers and software, conduct perpetual upgrades, and provide disaster recovery services. Not only is the hosted model a logistically seamless option for our clients—it is also a financially sound model for Tyler.

SCHOOLS

With notable contracts in Ohio, California and Pennsylvania, Tyler's school solutions continued to mature in 2010, and seven school districts nationwide have opted to purchase Tyler's ERP solutions in conjunction with our robust student information software. Our school offerings now include Tyler Telematic GPS, a new product that uses global positioning technology in concert with our Versatrans school transportation solution to decrease fuel consumption, reduce maintenance costs and analyze driver habits.

LAND & VITAL RECORDS

While budget constraints at the local government level impacted new contracts for our land and vital records solutions in 2010, we continued to cultivate value by empowering clients to manage public records electronically, automate social services functions and provide public access to authorized records while protecting private information. From individual departments and recording offices to enterprise content management, Tyler offers a broad range of solutions to suit the document management needs of the public sector.

Sustainability is an increasingly important consideration for many companies today. What are some of the ways Tyler supports green practices?

From a client perspective, products like our school bus routing software help school districts decrease their carbon footprint by identifying opportunities to increase efficiencies—in this example, using less fuel through more efficient routing. In addition, many of our technology solutions make it possible for governments and schools to go paperless, which not only saves trees but also reduces waste related to ink and toner cartridges. From a corporate perspective, Tyler Technologies supports a broad spectrum of green initiatives throughout our operations. We've implemented recycling programs and energy-saving initiatives, and we've built and moved into a LEED-certified building to accommodate growth in our Lubbock, Texas, office.

In 2009, Tyler announced a major rebranding initiative to reinforce the company's singular mission: Empowering people who serve the public. Do you believe attitudes or operations were affected as a result in 2010?

Absolutely. The majority of our software products originated through acquisitions, so in some cases the market knew us better by the original names—such as CLT, Munis, Odyssey, Incode, Eden and Eagle. By emphasizing Tyler Technologies' current position as a unified company with multiple complementary product lines, we were able to leverage the historic equity of our founding products while successfully building on the Tyler brand.

As a result, we've seen measurable gains in our online marketing efforts. From 2009 to 2010, traffic to www.tylertech.com increased more than 200 percent. Additionally, the number of impressions and click-through rates of our online advertising campaigns tripled by year's end. We've also begun implementing targeted marketing campaigns that allow us to identify and track prospect leads and, ultimately, help drive new and add-on sales.

The preceding Q&A reflects the views of Tyler Technologies' management regarding company performance and market perspectives. To learn more, visit www.tylertech.com or contact our investor relations team at info@tylertech.com.

Our common stock is traded on the New York Stock Exchange under the symbol "TYL." At December 31, 2010, we had approximately 2,037 stockholders of record. A number of our stockholders hold their shares in street name; therefore, there are substantially more than 2,037 beneficial owners of our common stock.

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

		High	Low
2009:	First Quarter	$14.79	$11.35
	Second Quarter	17.76	14.17
	Third Quarter	17.62	14.51
	Fourth Quarter	21.09	16.76
2010:	First Quarter	$21.52	$17.13
	Second Quarter	19.83	15.44
	Third Quarter	20.46	15.00
	Fourth Quarter	22.19	19.49

We did not pay any cash dividends in 2010 or 2009. Our bank credit agreement contains restrictions on the payment of cash dividends. We intend to retain earnings for use in the operation and expansion of our business, and, therefore, we do not anticipate declaring a cash dividend in the foreseeable future.

During 2010, we purchased approximately 3.6 million shares of our common stock for an aggregate purchase price of $65.8 million. The repurchase program, which was approved by our board of directors, was announced in October 2002, and was amended in April and July 2003, October 2004, October 2005, May 2007, May 2008, October 2008, May 2009, July 2010 and October 2010. Our board of directors authorized the repurchase of an additional 2.0 million shares on July 27, 2010 and an additional 2.0 million shares on October 26, 2010. As of December 31, 2010, we had remaining authorization to repurchase up to 2.7 million additional shares of our common stock. There is no expiration date specified for the authorization and we intend to repurchase stock under the plan from time to time.

SELECTED FINANCIAL DATA

	For the Years Ended December 31,				
(In thousands, except per share data)	2010	2009	2008	2007	2006
STATEMENT OF OPERATIONS DATA:					
Revenues	$288,628	$ 290,286	$265,101	$219,796	$195,303
Costs and expenses:					
Cost of revenues	160,311	161,523	155,314	135,371	120,499
Selling, general and administrative expenses	69,480	70,115	62,923	51,724	48,389
Research and development expense	13,971	11,159	7,286	4,443	3,322
Amortization of customer and trade name intangibles	3,225	2,705	2,438	1,478	1,318
Non-cash legal settlement related to warrants [1]	—	—	9,045	—	—
Operating income	41,641	44,784	28,095	26,780	21,775
Other (expense) income, net	(1,742)	(146)	1,181	1,800	1,080
Income from operations before income taxes	39,899	44,638	29,276	28,580	22,855
Income tax provision	14,845	17,628	14,414	11,079	8,493
Net income	$ 25,054	$ 27,010	$ 14,862	$ 17,501	$ 14,362
Net income per diluted share	$ 0.71	$ 0.74	$ 0.38	$ 0.42	$ 0.34
Weighted average diluted shares	35,528	36,624	39,184	41,352	41,868
STATEMENT OF CASH FLOWS DATA:					
Cash flows provided by operating activities	$ 35,350	$ 42,941	$ 47,802	$ 34,111	$ 26,804
Cash flows used by investing activities	(8,694)	(13,658)	(9,554)	(34,275)	(24,326)
Cash flows used by financing activities	(34,238)	(21,349)	(46,128)	(7,406)	(5,999)
BALANCE SHEET DATA:					
Total assets	$264,032	$ 270,670	$251,761	$241,508	$220,276
Revolving line of credit	26,500	—	—	—	—
Shareholders' equity	106,972	134,358	114,262	137,211	125,875

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

FORWARD-LOOKING STATEMENTS

In addition to historical information, this document 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 the documents we file from time to time with the SEC.

When used in this Annual Report, the words "believes," "expects," "anticipates," "foresees," "forecasts," "estimates," "plans," "intends," "continues," "may," "will," "should," "projects," "might," "could" or the negative of such terms and similar expressions are intended to identify forward-looking statements. Similarly, statements that describe our business strategy, outlook, objectives, plans, intentions or goals also are forward-looking statements.

OVERVIEW

General

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

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

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

– Revenues – We derive our revenues from five primary sources: sale of software licenses; subscription-based services; software services; maintenance and support; and appraisal services. Because the majority of the software we sell is "off-the-shelf," increased sales of software products generally result in incrementally higher gross margins. Thus, the most significant driver to our business is the number and size of software license sales. In addition, new software license sales generally generate implementation services revenues as well as future maintenance and support revenues, which are a recurring revenue source. We also monitor our customer base and churn since our maintenance and support revenue should increase due to our historically low customer turnover. During 2010, approximately 47% of our revenue was attributable to ongoing support and maintenance agreements and our customer turnover was approximately 3%.

- Cost of Revenues and Gross Margins – Our primary cost component is personnel expenses in connection with providing software implementation, subscription-based services, maintenance and support, and appraisal services to our customers. We can improve gross margins by controlling headcount and related costs and by expanding our revenue base, especially from those products and services that produce incremental revenue with minimal incremental cost, such as software licenses, subscription-based services, and maintenance and support. Our appraisal projects are seasonal in nature, and we often employ appraisal personnel on a short-term basis to coincide with the life of a project. As of December 31, 2010, our total employee count increased to 2,054 from 2,018 at December 31, 2009. Most of these additions were to our appraisal staff which is cyclical and in part driven by statutory revaluation cycles in various states. Additions to our appraisal staff were offset somewhat by a smaller implementation and support staff as we manage costs and staff to ensure they are in line with demand in professional services.
- Selling, General and Administrative ("SG&A") Expenses – The primary components of SG&A expenses are administrative and sales personnel salaries and commissions, marketing expense, share-based compensation expense, rent and professional fees. Sales commissions typically fluctuate with revenues and share-based compensation expense generally increases when the market price of our stock increases. Other administrative expenses tend to grow at a slower rate than revenues.
- Liquidity and Cash Flows – The primary driver of our cash flows is net income. Uses of cash include acquisitions, capital investments in property and equipment and discretionary purchases of treasury stock. In 2010, we purchased 3.6 million shares of our common stock for an aggregate purchase price of $65.8 million. During 2010 we used cash of $9.5 million to acquire one company and invested $4.9 million in property and equipment. Our investment in property and equipment included $1.3 million related to construction of an office building. We also borrowed $26.5 million on our revolving line of credit mainly to assist in funding discretionary purchases of treasury stock. Our working capital needs are fairly stable throughout the year with the significant components of cash outflows being payment of personnel expenses offset by cash inflows representing collection of accounts receivable and cash receipts from customers in advance of revenue being earned.
- Balance Sheet – Cash, accounts receivable and days sales outstanding and deferred revenue balances are important indicators of our business.

Acquisitions

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

In connection with this transaction we acquired total tangible assets of approximately $867,000. We recorded goodwill of approximately $2.6 million, all of which is expected to be deductible for tax purposes, and other intangible assets of approximately $6.1 million. The $6.1 million of intangible assets is attributable to customer relationships and acquired software that will be amortized over a weighted average period of approximately nine years. Our balance sheet as of December 31, 2010 reflects the allocation of the purchase price to the assets acquired based on their estimated fair values at the date of acquisition.

The operating results of this acquisition are included in our results of operations since the date of acquisition.

Outlook

Consistent with 2010, we expect to continue to invest aggressively in product development in 2011. We believe that our competitive position is strong and that we are well-positioned to take advantage of an eventual return to a stronger economic environment. However, until we see signs of sustained improvement, we are expecting that the new business environment in 2011 will continue to be both challenging and unpredictable, and that growth will again come primarily from recurring revenues.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

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

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

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

We use contract accounting, primarily the percentage-of-completion method, as discussed in ASC 605-35, Construction — Type and Certain Production — Type Contracts, for those software arrangements that involve significant production, modification or customization of the software, or where our software services are otherwise considered essential to the functionality of the software. We measure progress-to-completion primarily using labor hours incurred, or value added. In addition, we recognize revenue using the proportionate performance method of revenue recognition for our property appraisal projects, some of which can range up to five years. These methods rely on estimates of total expected contract revenue, billings and collections and expected contract costs, as well as measures of progress toward completion. We believe reasonably dependable estimates of revenue and costs and progress applicable to various stages of a contract can be made. At times, we perform additional and/or non-contractual services for little

to no incremental fee to satisfy customer expectations. If changes occur in delivery, productivity or other factors used in developing our estimates of expected costs or revenues, we revise our cost and revenue estimates, and any revisions are charged to income in the period in which the facts that give rise to that revision first become known. In connection with these and certain other contracts, we may perform the work prior to when the services are billable and/or payable pursuant to the contract. The termination clauses in most of our contracts provide for the payment for the fair value of products delivered and services performed in the event of an early termination.

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

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

Intangible Assets and Goodwill. Our business acquisitions typically result in the creation of goodwill and other intangible asset balances, and these balances affect the amount and timing of future period amortization expense, as well as expense we could possibly incur as a result of an impairment charge. The cost of acquired companies is allocated to identifiable tangible and intangible assets based on estimated fair value, with the excess allocated to goodwill. Accordingly, we have a significant balance of acquisition date intangible assets, including software, customer related intangibles, trade name and goodwill. In addition, we capitalize software development costs incurred subsequent to the establishment of technological feasibility. 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. We evaluate goodwill for impairment annually as of April, or more frequently if impairment indicators arise. An impairment loss is recognized to the extent that the carrying amount exceeds the asset's fair value. The fair values calculated in our impairment tests are determined using discounted cash flow models involving several assumptions. These assumptions include, but are not limited to, anticipated operating income growth rates, our long-term anticipated operating income growth rate and the discount rate. Our cash flow forecasts are based on assumptions that are consistent with the plans and estimates we are using to manage the underlying businesses. The assumptions that are used are based upon what we believe a hypothetical marketplace participant would use in estimating fair value. We have identified two reporting units for impairment testing. Our reporting units are the same as our reportable segments and consistent with the reporting units tested for impairment in prior years. Assets, liabilities and goodwill have been assigned to reporting units based on assets acquired and liabilities assumed as of the date of acquisition. We evaluate the reasonableness of the fair value calculations of our reporting units by comparing the total of the fair value of all of our reporting units to our total market capitalization. We base our fair value estimates on assumptions we believe to be reasonable but that are unpredictable and inherently uncertain.

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. Such indicators may include, among others: a significant decline in expected future cash flows; a sustained, significant decline in stock price and market capitalization; a significant adverse change in legal factors or in the business climate; unanticipated competition; and reductions in growth rates. In addition, products, capabilities, or technologies developed by others may render our software products obsolete or non-competitive. Any adverse change in these factors could have a significant impact on the recoverability of goodwill or other intangible assets.

Our annual goodwill impairment analysis, which we performed during the second quarter of 2010, did not result in an impairment charge. During 2010 we did not identify any triggering events which would require an update to our annual impairment review. A hypothetical 10% decrease in the fair value of either of our reporting units as of December 31, 2010 would have had no impact on the carrying value of our goodwill.

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

ANALYSIS OF RESULTS OF OPERATIONS AND OTHER

The following discussion compares the historical results of operations on a basis consistent with GAAP for the years ended December 31, 2010, 2009 and 2008.

	% of Total Revenues		
	2010	2009	2008
Revenues:			
Software licenses	12.1%	14.5%	15.7%
Subscriptions	8.1	5.9	5.4
Software services	23.7	27.7	28.3
Maintenance	47.0	42.9	40.5
Appraisal services	7.1	6.5	7.2
Hardware and other	2.0	2.5	2.9
Total revenues	100.0	100.0	100.0
Operating Expenses:			
Cost of software licenses and acquired software	1.8	2.4	4.2
Cost of software services, maintenance and subscriptions	47.8	47.3	47.6
Cost of appraisal services	4.5	4.0	4.6
Cost of hardware and other	1.5	2.0	2.2
Selling, general and administrative expenses	24.1	24.2	23.7
Research and development expense	4.8	3.8	2.8
Amortization of customer base and trade name intangibles	1.1	0.9	0.9
Non-cash legal settlement related to warrants	—	—	3.4
Operating income	14.4	15.4	10.6
Other (expenses) income, net	(0.6)	0.0	0.4
Income before income taxes	13.8	15.4	11.0
Income tax provision	5.1	6.1	5.4
Net income	8.7%	9.3%	5.6%

2010 Compared to 2009

Revenues

Software licenses.

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

			Change	
($ in thousands)	2010	2009	$	%
Enterprise Software Solutions	$32,757	$39,484	$(6,727)	(17)%
Appraisal and Tax Software Solutions and Services	2,156	2,647	(491)	(19)
Total software license revenues	$34,913	$42,131	$(7,218)	(17)%

In 2010 we signed 58 large new contracts with average software license fees of approximately $440,000, compared to 74 large new contracts signed in 2009 with average software license fees of approximately $307,000. We consider contracts with a license fee component of $100,000 or more to be large. Although a contract is signed in a particular year, the year in which the revenue is recognized may be different because we recognize revenue according to our revenue recognition policy as described in Note 1 in the Notes to Financial Statements.

In 2010, ESS software license revenues recognized declined substantially compared to the prior year period. The decrease in software license revenues is mainly attributable to longer sales cycles to negotiate and close contracts that have reached the request for proposal phase and postponement of customer purchasing decisions mainly due to

budgetary constraints related to economic conditions. The software installation period for a substantial number of our ESS solutions is relatively short and delays in the timing of signing new contracts will impact our results in the short term. In addition, a portion of the decline was due to a number of customers choosing our subscription-based options, rather than purchasing the software under a traditional perpetual software license arrangement. Subscription-based arrangements result in lower software license revenues in the initial year as compared to traditional perpetual software license arrangements but generate higher overall subscription-based services revenue over the term of the contract. We expect ESS software license revenues in 2011 to be flat compared to 2010.

ATSS software license revenue is substantially dependent on revaluation cycles which are cyclical and in part driven by statutory revaluation cycles in various states. In addition, local government taxing authorities generally do not purchase a new software license for each revaluation cycle.

Subscriptions.

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

			Change	
($ in thousands)	2010	2009	$	%
Enterprise Software Solutions	$22,975	$16,870	$6,105	36%
Appraisal and Tax Software Solutions and Services	323	311	12	4
Total subscription revenues	$23,298	$17,181	$6,117	36%

Subscription-based services revenue primarily consists of revenues derived from application service provider ("ASP") arrangements and other hosted service offerings, software subscriptions and disaster recovery services. In January 2010, we acquired Wiznet, which provides primarily subscription-based electronic document filing solutions for courts and law offices and is included in our ESS segment. Excluding the impact of this acquisition, ESS and total subscription revenues grew by 18% in 2010. ASP and other software subscription agreements are typically for periods of three to six years and automatically renew unless either party cancels the agreement. Disaster recovery and miscellaneous other hosted service agreements are typically renewable annually. Existing customers who converted to our ASP model as well as new customers for ASP and other hosted service offerings provided the majority of the subscription revenue increase with the remaining increase due to slightly higher rates for disaster recovery services. In 2010, 50 existing customers elected to transfer to our ASP model and we added 19 new customers.

Software services.

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

			Change	
($ in thousands)	2010	2009	$	%
Enterprise Software Solutions	$58,371	$70,041	$(11,670)	(17)%
Appraisal and Tax Software Solutions and Services	9,969	10,364	(395)	(4)
Total software services revenues	$68,340	$80,405	$(12,065)	(15)%

Software services revenues primarily consists of professional services billed in connection with the installation of our software, conversion of customer data, training customer personnel and consulting. New customers who purchase our proprietary software licenses generally also contract with us to provide for the related software services as well. Existing customers also periodically purchase additional training, consulting and minor programming services. The decline in software services revenues in 2010 is principally due to lower new software license contract activity in recent quarters due to weak economic conditions. In addition, the increase in the mix of customers choosing our subscription-based solutions was a factor in lower software services revenues.

Maintenance.

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

($ in thousands)	2010	2009	Change $	Change %
Enterprise Software Solutions	$120,764	$110,404	$10,360	9%
Appraisal and Tax Software Solutions and Services	14,891	14,108	783	6
Total maintenance revenues	$135,655	$124,512	$11,143	9%

We provide maintenance and support services for our software products and third party software. Maintenance revenues increased 9% in 2010 compared to 2009. This increase was due to growth in our installed customer base and slightly higher maintenance rates on most of our product lines. Our annual maintenance and support growth rate has declined compared to previous year's growth rate due to a number of customers converting to ASP arrangements as well as new customers choosing our subscription-based options, rather than purchasing the software under a traditional perpetual software license arrangement.

Appraisal services.

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

($ in thousands)	2010	2009	Change $	Change %
Enterprise Software Solutions	$ —	$ —	$ —	—%
Appraisal and Tax Software Solutions and Services	20,554	18,740	1,814	10
Total appraisal services revenues	$20,554	$18,740	$1,814	10%

Appraisal services revenue increased 10% in 2010 compared to 2009. The appraisal services business is somewhat cyclical and driven in part by statutory revaluation cycles in various states. We substantially completed several large appraisal projects mid-2009. We began several new revaluation contracts in late 2009 which contributed to the revenue growth in 2010. We expect appraisal revenues for 2011 will be moderately higher than 2010.

Cost of Revenues and Gross Margins

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

($ in thousands)	2010	2009	Change $	Change %
Software licenses	$ 3,456	$ 5,440	$ (1,984)	(36)%
Acquired software	1,592	1,411	181	13
Software services, maintenance and subscriptions	138,085	137,199	886	1
Appraisal services	12,910	11,518	1,392	12
Hardware and other	4,268	5,955	(1,687)	(28)
Total cost of revenues	$160,311	$161,523	$ (1,212)	(1)%

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

Gross margin percentage	2010	2009	Change
Software license and acquired software	85.5%	83.7%	1.8%
Software services, maintenance and subscriptions	39.2	38.2	1.0
Appraisal services	37.2	38.5	(1.3)
Hardware and other	27.3	18.6	8.7
Overall gross margin	44.5%	44.4%	0.1%

Software license and acquired software. Cost of software license and acquired software is comprised of third party software costs, amortization of acquired software and amortization expense for capitalized development costs on certain software products. Cost of third party software comprised approximately 60% of our cost of software license revenues in 2010 compared to approximately 69% of our cost of software license in 2009. Third party software sales declined due to lower proprietary software sales. New software license sales are a significant driver of third party license sales. Costs of acquired software comprises approximately 32% of our cost of software license revenues in 2010 compared to approximately 21% of our cost of software license in 2009. Cost of acquired software includes amortization expense for software acquired through acquisitions. We completed several acquisitions in the period 2007 through 2010 and these costs are being amortized over a weighted average period of approximately five years. The balance is made up of amortization of capitalized development costs on other software products. Amortization expense for capitalized development cost is determined on a product-by-product basis at an annual rate not less than straight-line basis over the product's estimated life, which is generally five years. Development costs consist mainly of personnel costs, such as salary and benefits paid to our developers, and rent for related office space. We did not capitalize any internal software development costs in 2010 or 2009.

In 2010, our software license gross margin percentage increased compared to the prior year period because our product mix included less third party software. Third party software has a lower gross margin than proprietary software solutions.

Software services, maintenance and subscription-based services. Cost of software services, maintenance and subscriptions primarily consists of personnel costs related to installation of our software, conversion of customer data, training customer personnel and support activities and various other services such as ASP and disaster recovery. In 2010, the software services, maintenance and subscriptions gross margin increased compared to the prior year partly because maintenance and various other services such as ASP and disaster recovery costs typically grow at a slower rate than related revenues due to leverage in the utilization of our support and maintenance staff and economies of scale, as well as annual rate increases on certain services. We are also managing costs and staff levels to ensure they are in line with demand for professional services. Our implementation and support staff has declined by 61 employees since December 31, 2009.

Appraisal services. Our appraisal services gross margin declined compared to 2009. Our appraisal services gross margin in 2009 included the positive impact of cost savings and operational efficiencies experienced on an unusually complex reappraisal project that ended in mid-2009. In addition, a high proportion of the costs of appraisal services revenue are variable, as we often hire temporary employees to assist in appraisal projects whose term of employment generally ends with the projects' completion.

Our blended gross margin for 2010 increased compared to 2009 due to lower third party software expense which offset the impact of a revenue mix that included less software license revenues. The gross margin also benefited from leverage in the utilization of our support and maintenance staff and economies of scale and slightly higher rates on certain services.

Selling, General and Administrative Expenses

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

			Change	
($ in thousands)	2010	2009	$	%
Selling, general and administrative expenses	$69,480	$70,115	$(635)	(1)%

SG&A expenses declined in 2010 compared to 2009 due to lower commission costs and marketing expenses which were offset somewhat by higher share-based compensation expense. Marketing expenses in 2009 include costs associated with the launch of a new corporate branding initiative.

Research and Development Expense

Research and development expense consists primarily of salaries, employee benefits and related overhead costs associated with product development and enhancements and upgrades provided to existing customers under maintenance plans. The following table sets forth a comparison of our research and development expense for the following years ended December 31:

			Change	
($ in thousands)	2010	2009	$	%
Research and development expense	$13,971	$11,159	$2,812	25%

Research and development expense consists of costs associated with development of new products and new software platforms from which we do not currently generate revenue. These include the Microsoft Dynamics AX project, as well as other new product development efforts. In 2010 approximately two-thirds of the increase in gross research and development expense relates to investments in new product development other than Microsoft Dynamics AX. We have increased our research and development efforts as we continue to make investments in existing and new products that we believe will enhance our competitive position and drive long-term revenue growth. We have increased our development staff by 27 employees since December 31, 2009. In January 2007, we entered into a Software Development and License Agreement, which provides for a strategic alliance with Microsoft Corporation ("Microsoft") to jointly develop core public sector functionality for Microsoft Dynamics AX to address the accounting needs of public sector organizations worldwide. In September 2007, Tyler and Microsoft signed an amendment to the Software Development and License Agreement, which grants Microsoft intellectual property rights in and to certain portions of the software code provided and developed by Tyler into Microsoft Dynamics AX products to be marketed and sold outside of the public sector in exchange for reimbursement payments to partially offset the research and development costs.

In 2010 and 2009, we offset our research and development expense by $5.1 million and $3.5 million, respectively, which were the amounts earned under the terms of our agreement with Microsoft. In September 2008, Tyler and Microsoft signed a statement of work under the Amended Software Development and License Agreement for which we expected to recognize offsets to our research and development expense by approximately $850,000 each quarter through the end of 2010. In addition, in October 2009, the scope of the project was further expanded which will result in additional offsets to research and development expense, varying in amount from quarter to quarter through mid-2012 for a total of approximately $6.2 million. As of December 31, 2010, we have received $1.1 million and expect to receive the remaining $5.1 million through mid-2012. The actual amount and timing of future research and development costs and related reimbursements and whether they are capitalized or expensed may vary. We currently expect that for 2011, we will recognize less reimbursement from Microsoft than we did in 2010 due to changes in the timing of deployment of resources.

Amortization of Customer and Trade Name Intangibles

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

($ in thousands)	2010	2009	Change $	Change %
Amortization of customer and trade name intangibles	$3,225	$2,705	$520	19%

In January 2010 we completed one acquisition, which increased amortizable customer and trade name intangibles by approximately $5.5 million. This amount will be amortized over 10 years.

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

2011	$ 3,186
2012	3,134
2013	2,975
2014	2,974
2015	2,974

Other

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

($ in thousands)	2010	2009	Change $	Change %
Other (expense) income, net	$(1,742)	$(146)	$(1,596)	NA

In 2010, over half of other expense is comprised of interest expense, non-usage and other fees associated with a credit agreement entered into in August 2010. Other expense in 2009 is mainly comprised of interest expense, non-usage fees and other bank fees. Interest expense was higher in 2010 than 2009 due to higher debt levels associated with our stock repurchases. In addition the effective interest rate in 2010 was 3.4% compared to 1.8% in 2009.

Income Tax Provision

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

($ in thousands)	2010	2009	Change $	Change %
Income tax provision	$14,845	$17,628	$(2,783)	(16)%
Effective income tax rate	37.2%	39.5%		

Our effective income tax rate declined compared to 2009 mainly due to a $579,000 research and development tax credit in 2010. In addition to the impact of the research and development tax credit in 2010, the effective income tax rate for both years were different from the statutory United States federal income tax rate of 35% due to state income taxes, non-deductible share-based compensation expense, the qualified manufacturing activities deduction, and non-deductible meals and entertainment costs.

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

2009 Compared to 2008

Revenues

Software licenses.

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

($ in thousands)	2009	2008	Change $	Change %
Enterprise Software Solutions	$39,484	$39,215	$269	1%
Appraisal and Tax Software Solutions and Services	2,647	2,275	372	16
Total software license revenues	$42,131	$41,490	$641	2%

We acquired several student information and financial management solutions for K-12 schools from January through August 2008. Excluding the impact of these acquisitions, ESS software license revenue would have declined approximately $900,000. In mid-2009 our sales cycle to negotiate and close contracts which have reached the request for proposal phase lengthened slightly mainly due to budgetary constraints related to declining economic conditions. As a result the purchasing processes for some of our customers were extended to include more approval and documentation requirements. In addition, a few contracts included requirements to construct interfaces to existing systems or other essential functionality which results in recognizing revenue over a longer period of time.

ATSS software license revenue is substantially dependent on revaluation cycles which are cyclical and in part driven by statutory revaluation cycles in various states. In addition, local government taxing authorities generally do not purchase a new software license for each revaluation cycle.

Subscriptions.

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

($ in thousands)	2009	2008	Change $	Change %
Enterprise Software Solutions	$16,870	$14,352	$2,518	18%
Appraisal and Tax Software Solutions and Services	311	22	289	NA
Total subscription revenues	$17,181	$14,374	$2,807	20%

Excluding the impact of acquisitions, ESS subscription revenues grew 16% in 2009 compared to 2008. This increase was due to new customers for ASP and other hosted service offerings as well as existing customers converting to ASP arrangements and slightly higher rates for disaster recovery services.

Software services.

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

($ in thousands)	2009	2008	Change $	Change %
Enterprise Software Solutions	$70,041	$63,508	$ 6,533	10%
Appraisal and Tax Software Solutions and Services	10,364	11,489	(1,125)	(10)
Total software services revenues	$80,405	$74,997	$ 5,408	7%

Excluding the impact of acquisitions, ESS software services revenue increased 9% compared to 2008. This increase was mainly due to additions to our implementation and support staff as well as leverage in the utilization of our implementation and support staff and slightly higher rates on some arrangements.

Maintenance.

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

($ in thousands)	2009	2008	Change $	Change %
Enterprise Software Solutions	$110,404	$ 94,546	$15,858	17%
Appraisal and Tax Software Solutions and Services	14,108	12,912	1,196	9
Total maintenance revenues	$124,512	$107,458	$17,054	16%

Excluding the impact of acquisitions, total maintenance revenues increased 14% in 2009 compared to 2008. Excluding the impact of acquisitions, ESS maintenance and support services grew 15% and ATSS maintenance and support services grew 8% in 2009 compared to 2008. This increase was due to growth in our installed customer base and slightly higher maintenance rates on most of our product lines.

Appraisal services.

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

($ in thousands)	2009	2008	Change $	Change %
Enterprise Software Solutions	$ —	$ —	$ —	—%
Appraisal and Tax Software Solutions and Services	18,740	19,098	(358)	(2)
Total appraisal services revenues	$18,740	$19,098	$(358)	(2)%

Appraisal services revenue declined 2% in 2009 compared to 2008. The appraisal services business is somewhat cyclical and driven in part by statutory revaluation cycles in various states. We substantially completed several large appraisal projects mid-2009.

Cost of Revenues and Gross Margin

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

($ in thousands)	2009	2008	Change $	Change %
Software licenses	$ 5,440	$ 9,224	$ (3,784)	(41)%
Acquired software	1,411	1,799	(388)	(22)
Software services, maintenance and subscriptions	137,199	126,247	10,952	9
Appraisal services	11,518	12,251	(733)	(6)
Hardware and other	5,955	5,793	162	3
Total cost of revenues	$161,523	$155,314	$ 6,209	4%

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

Gross margin percentage	2009	2008	Change
Software license and acquired software	83.7%	73.4%	10.3%
Software services, maintenance and subscriptions	38.2	35.9	2.3
Appraisal services	38.5	35.9	2.6
Hardware and other	18.6	24.6	(6.0)
Overall gross margin	44.4%	41.4%	3.0%

Software license and acquired software. Amortization expense for capitalized development costs on certain software products comprised approximately 15% of our cost of software license revenues in 2009 compared to approximately 50% of our cost of software license in 2008. The remaining balance is made up of third party software costs.

Cost of acquired software includes amortization expense for software acquired through acquisitions. In late 2008 software associated with one significant acquisition completed in December 2003 became fully amortized.

In 2009, our software license gross margin percentage rose significantly compared to the prior year period because several products became fully amortized in late 2008, as did software acquired related to a significant acquisition in December 2003.

Software services, maintenance and subscription-based services. In 2009, the software services, maintenance and subscriptions gross margin increased compared to the prior year partly because maintenance and various other services such as ASP and disaster recovery costs typically grow at a slower rate than related revenues due to leverage in the utilization of our support and maintenance staff and economies of scale. The software services, maintenance and subscription-based services gross margin also benefited from slightly higher rates for certain services.

Appraisal services. Our appraisal gross margin increased compared to 2008 as the result of cost savings and operational efficiencies experienced on an unusually complex project. A high proportion of the costs of appraisal services revenue are variable, as we often hire temporary employees to assist in appraisal projects whose term of employment generally ends with the projects' completion.

Our blended gross margin for 2009 was higher than 2008 due to lower amortization expense of software development costs described above. The gross margin also benefited from leverage in the utilization of our support and maintenance staff and economies of scale and slightly higher rates on certain services.

Selling, General and Administrative Expenses

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

($ in thousands)	2009	2008	Change $	Change %
Selling, general and administrative expenses	$70,115	$62,923	$7,192	11%

The increase in SG&A expenses included higher share-based compensation expense, commission costs and marketing expenses. Marketing expenses in 2009 include costs associated with the launch of a new corporate branding initiative.

Research and Development Expense

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

($ in thousands)	2009	2008	Change $	Change %
Research and development expense	$11,159	$7,286	$3,873	53%

Research and development expense consist of costs associated with the Microsoft Dynamics AX project, in addition to costs associated with other new product development efforts. In 2009 and 2008, we offset our research and development expense by $3.5 million and $1.8 million, respectively, which were the amounts earned under the terms of our agreement with Microsoft.

Amortization of Customer and Trade Name Intangibles

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

			Change	
($ in thousands)	2009	2008	$	%
Amortization of customer and trade name intangibles	$2,705	$2,438	$267	11%

In 2009 we completed several acquisitions and purchased certain software assets to complement our tax and appraisal solutions and our student information management solutions.

Non-Cash Legal Settlement Related to Warrants

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

Other

Other (expense) income in 2009 and 2008 includes non-usage and other fees associated with a credit agreement entered into in October 2008. Other income in 2008 also included $1.1 million of interest income which declined due to significantly lower invested cash balances in 2009. Our invested cash balances declined due to purchases of treasury stock and investments in office facilities in late 2008 and 2009.

Income Tax Provision

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

			Change	
($ in thousands)	2009	2008	$	%
Income Tax Provision	$17,628	$14,414	$3,214	22%
Effective income tax rate	39.5%	49.2%		

Our 2009 effective income tax rate declined compared to 2008 mainly due to a non-cash legal settlement related to warrants charge of $9.0 million in 2008, which was not deductible. In addition to the impact of the non-deductible non-cash legal settlement charge in 2008, the effective income tax rate for both years were different from the statutory United States federal income tax rate of 35% due to state income taxes, non-deductible share-based compensation expense, the qualified manufacturing activities deduction, and non-deductible meals and entertainment costs.

FINANCIAL CONDITION AND LIQUIDITY

As of December 31, 2010, we had cash and cash equivalents of $2.1 million and current and non-current investments of $2.2 million, compared to cash and cash equivalents (including restricted cash equivalents) of $15.7 million and current and non-current investments of $2.0 million at December 31, 2009. As of December 31, 2010, we had $26.5 million outstanding borrowings and outstanding letters of credit totaling $8.3 million to secure surety bonds required by some of our customer contracts. These letters of credit expire through mid-2011.

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

($ in thousands)	2010	2009	2008
Cash flows provided by (used by):			
Operating activities	$ 35,350	$ 42,941	$ 47,802
Investing activities	(8,694)	(13,658)	(9,554)
Financing activities	(34,238)	(21,349)	(46,128)
Net (decrease) increase in cash and cash equivalents	$ (7,582)	$ 7,934	$ (7,880)

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

In 2010, operating activities provided net cash of $35.4 million, primarily generated from net income of $25.1 million, non-cash depreciation and amortization charges of $10.8 million, non-cash share-based compensation expense of $6.1 million offset by an increase in working capital of $4.8 million. The increase in working capital was due to lower accounts payable and accrued liabilities pertaining to the timing of payments on vendor invoices and income tax liabilities. In 2010 we adopted a new company-wide vacation policy and as a result paid approximately $1.8 million to reduce accrued vacation balances in 2010 in connection with changing the policy. In addition, accrued bonus liabilities are smaller in 2010 compared to 2009 as a result of financial performance. Our accounts receivable and deferred revenue balances were also higher than 2009 due to an increase in annual software maintenance billings as a result of growth in our installed customer base.

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

Non-current investments available-for-sale consist of two auction rate municipal securities ("ARS") which are collateralized debt obligations supported by municipal agencies and do not include mortgage-backed securities. Short-term investments available-for-sale consists of a portion of one of these ARS which was partially redeemed at par during the period January 1, 2011 through February 24, 2011. These ARS are debt instruments with stated maturities ranging from 21 to 32 years, for which the interest rate is designed to be reset through Dutch auctions approximately every 30 days. However, due to events in the credit markets, auctions for these securities have not occurred since February 2008. Both of our ARS have had very small partial redemptions at par in the period from July 2009 through February 2011. As of December 31, 2010 we have continued to earn and collect interest on both of our ARS. Because quoted prices in active markets are no longer available we determined the estimated fair values of these securities utilizing a discounted trinomial model. The model considers the probability of three potential occurrences for each auction event through the maturity date of each ARS. The three potential outcomes for each auction are (i) successful auction/early redemption, (ii) failed auction and (iii) issuer default. Inputs in determining the probabilities of the potential outcomes include but are not limited to, the securities' collateral, credit rating, insurance, issuer's financial standing, contractual restrictions on disposition and the liquidity in the market. The fair value of each ARS is determined by summing the present value of the probability-weighted future principal and interest payments determined by the model. Since there can be no assurances that auctions for these securities will be successful in the near future, we have classified our ARS as non-current investments.

In association with this estimate of fair value, we have recorded an after-tax temporary unrealized gain on our non-current ARS of $130,000, net of related tax effects of $70,000 in 2010, which is included in accumulated other comprehensive loss on our balance sheet.

We consider the impairment in our ARS as temporary because we do not have the intent to sell, nor is it more-likely-than-not that we will be required to sell these securities before recovery of their cost basis. We believe that this temporary decline in fair value is due entirely to liquidity issues, because the underlying assets of these securities are supported by municipal agencies and do not include mortgage-backed securities, have redemption features which call for redemption at 100% of par value and have a current credit rating of A or AA. The ratings on the ARS take into account credit support through insurance policies guaranteeing each of the bonds' payment of principal and accrued interest, if it becomes necessary. In addition, both ARS have had very small partial redemptions at par in the period July 2009 through February 2011. Based on our cash and cash equivalents balance of $2.1 million, expected operating cash flows and a $150.0 million revolving credit line, we do not believe a lack of liquidity associated with our ARS will adversely affect our ability to conduct business, and believe we have the ability to hold the securities throughout the currently estimated recovery period. We will continue to evaluate any changes in the fair value of our ARS and in the future, depending upon existing market conditions, we may be required to record an other-than-temporary decline in market value.

At December 31, 2010, our days sales outstanding ("DSOs") were 102 days compared to DSOs of 98 days at December 31, 2009. DSOs are calculated based on accounts receivable (excluding long-term receivables, but including unbilled receivables) divided by the quotient of annualized quarterly revenues divided by 360 days.

Investing activities used cash of $8.7 million in 2010 compared to $13.7 million in 2009. In January 2010, we completed the acquisition of the assets of Wiznet, Inc. for $9.5 million in cash. Also, in connection with plans to consolidate workforces and support planned long-term growth, we paid $1.3 million in 2010 compared to $9.4 million in 2009, for construction of an office building in Lubbock, Texas. The impact of these investing activities was offset somewhat by the release of $6.0 million of restricted cash. In August 2010, we elected to replace our cash-collateralized letters of credit with ones issued under our revolving line of credit. Capital expenditures and acquisitions were funded from cash generated from operations.

In 2009, we liquidated $2.5 million of investments in ARS for cash at par. In 2009 we also completed the acquisition of all of the capital stock of Assessment Evaluation Services, Inc. for $1.1 million in cash, paid $700,000 in cash for certain assets of KPL, Inc. d/b/a Parker-Lowe & Associates and acquired various software assets for $1.1 million in cash.

In 2008, we liquidated $36.4 million of ARS investments for cash at par, and we completed the acquisitions of School Information Systems, Inc., VersaTrans Solutions Inc. and certain assets of Olympia Computing Company, Inc. d/b/a Schoolmaster to expand our presence in the education market. The combined purchase price, excluding cash acquired and including transaction costs, was approximately $23.9 million in cash and approximately 196,000 shares of Tyler common stock valued at $2.9 million. We paid $3.3 million, which included $2.1 million for land, for an office development. We also paid $12.7 million for an office building, land, and a related tenant lease in Yarmouth, Maine.

Cash used in financing activities was primarily comprised of purchases of treasury shares, net of proceeds from stock option exercises, borrowings and payments on our revolving credit line and contributions from our employee stock purchase plan. During 2010, we purchased 3.6 million shares of our common stock for an aggregate purchase price of $65.8 million. These purchases were funded by borrowings of $26.5 million under our revolving credit line and cash from operations.

The repurchase program, which was approved by our board of directors, was announced in October 2002, and was amended in April and July 2003, October 2004, October 2005, May 2007, May 2008, October 2008, May 2009, July 2010 and October 2010. Our board of directors authorized the repurchase of an additional 2.0 million shares on July 27, 2010 and an additional 2.0 million shares on October 26 2010. As of December 31, 2010, we had remaining authorization to repurchase up to 2.7 million additional shares of our common stock. Our share repurchase program allows us to repurchase shares at our discretion and market conditions influence the timing of the buybacks and the number of shares repurchased. These share repurchases are funded using our existing cash balances as well as borrowings under our revolving credit agreement and may occur through open market purchases and transactions structured through investment banking institutions, privately negotiated transactions and/or other mechanisms. There is no expiration date specified for the authorization and we intend to repurchase stock under the plan from time to time.

During 2009, we purchased 1.2 million shares of our common stock for an aggregate purchase price of $17.0 million and during 2008, we purchased 4.3 million shares of our common stock for an aggregate purchase price of $59.0 million.

In 2010 we issued 615,000 shares of common stock and received $3.2 million in aggregate proceeds upon exercise of stock options. In 2009 we received $2.3 million from the exercise of options to purchase approximately 425,000 shares of our common stock under our employee stock option plan and during 2008, we received $1.8 million from the exercise of options to purchase approximately 379,000 shares of our common stock under our employee stock option plan. In 2010, 2009 and 2008 we received $1.9 million, $1.5 million and $1.2 million, respectively, from contributions to the Tyler Technologies, Inc. Employee Stock Purchase Plan.

Subsequent to December 31, 2010 and through February 22, 2011 we purchased approximately 335,000 shares of our common stock for an aggregate cash purchase price of $6.8 million.

On August 11, 2010, we terminated our revolving bank credit agreement and a related pledge and security agreement which had been scheduled to mature October 19, 2010 and entered into a new $150.0 million Credit Agreement (the "Credit Facility") and a related pledge and security agreement with a group of seven financial institutions with Bank of America, N.A., as Administrative Agent. The Credit Facility provides for a revolving credit line of $150.0 million (which may be increased up to $200.0 million subject to our obtaining commitments for such increase), with a $25.0 million sublimit for letters of credit. The Credit Facility matures on August 11, 2014. Borrowings under the Credit Facility may be used for general corporate purposes, including working capital requirements, acquisitions and share repurchases. In 2010 we paid $2.0 million in related debt issuance costs, which are included with sundry assets on the accompanying balance sheet.

Borrowings under the Credit Facility bear interest at a rate of either (1) the Bank of America's prime rate plus a margin of 1.50% to 2.75% or (2) the 30, 60, 90 or 180-day LIBOR rate plus a margin of 2.50% to 3.75%, with the margin determined by our consolidated leverage ratio. In 2010 and 2009 our effective average interest rate for borrowings was 3.4% and 1.8%, respectively. As of December 31, 2010 our interest rate was 2.7%. The Credit Facility is secured by substantially all of our assets, excluding real property. The Credit Facility requires us to maintain certain financial ratios and other financial conditions and prohibits us from making certain investments, advances, cash dividends or loans, and limits incurrence of additional indebtedness and liens. As of December 31, 2010, we were in compliance with those covenants.

As of December 31, 2010, we had $26.5 million in outstanding borrowings and unused available borrowing capacity of $115.2 million under the Credit Facility. In addition, as of December 31, 2010, our bank had issued outstanding letters of credit totaling $8.3 million to secure surety bonds required by some of our customer contracts. These letters of credit have been collateralized by $8.3 million of our available borrowing capacity and expire through mid-2011.

We paid income taxes, net of refunds received, of $15.8 million in 2010, $18.1 million in 2009, and $15.7 million in 2008.

Excluding acquisitions and investments in land or office buildings, we anticipate that 2011 capital spending will be between $5.0 million and $5.5 million. We expect the majority of our capital spending in 2011 will consist of computer equipment and software for infrastructure replacements and expansion. We currently do not expect to capitalize significant amounts related to software development in 2011, but the actual amount and timing of those costs, and whether they are capitalized or expensed may result in additional capitalized software development. Capital spending in 2011 is expected to be funded from existing cash balances and cash flows from operations.

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

We lease office facilities, as well as transportation, computer and other equipment used in our operations under non-cancelable operating lease agreements expiring at various dates through 2018. Most leases contain renewal options and some contain purchase options. Following are the future obligations under non-cancelable leases at December 31, 2010 (in thousands):

	2011	2012	2013	2014	2015	Thereafter	Total
Future rental payments under operating leases	$5,643	$4,659	$2,997	$2,323	$605	$1,204	$17,431

As of December 31, 2010, we do not have any off-balance sheet arrangements, guarantees to third parties or material purchase commitments, except for the operating lease commitments listed above.

CAPITALIZATION

At December 31, 2010, our capitalization consisted of $26.5 million in long-term obligations and $107.0 million of shareholders' equity. Our total debt-to-capital ratio was 19.9% at December 31, 2010.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market risk represents the risk of loss that may affect us due to adverse changes in financial market prices and interest rates. Our investments available-for-sale consist of auction rate municipal securities ("ARS") which are collateralized debt obligations supported by municipal agencies and do not include mortgage-backed securities.

As of December 31, 2010 we had $26.5 million in outstanding borrowings under the Credit Facility. These borrowings bear interest at a rate of either (1) the Bank of America's prime rate plus a margin of 1.50% to 2.75% or (2) the 30, 60, 90 or 180-day LIBOR rate plus a margin of 2.50% to 3.75%, with the margin determined by our consolidated leverage ratio. In 2010 and 2009 our effective average interest rate for borrowings was 3.4% and 1.8%, respectively. As of December 31, 2010 our interest rate was 2.7%. Assuming borrowings of $26.5 million, a hypothetical 10% increase in our interest rate at December 31, 2010 for a one year period would result in approximately $72,000 of additional interest rate expense.

Non-current investments available-for-sale consist of two ARS with stated maturities ranging from 21 to 32 years, for which the interest rate is designed to be reset through Dutch auctions approximately every 30 days which would have qualified as Level 1 under ASC 820, Fair Value Measurements. However, due to events in the credit markets, auctions for these securities have not occurred since February 2008. Therefore, quoted prices in active markets are no longer available and we determined the estimated fair values of these securities as of December 31, 2010, utilizing a discounted trinomial model.

In association with this estimate of fair value, we have recorded an after-tax temporary unrealized gain on our non-current ARS of $130,000, net of related tax effects of $70,000 in 2010, which is included in accumulated other comprehensive loss on our balance sheet. We consider the impairment in our ARS as temporary because we do not have the intent to sell, nor is it more-likely-than-not that we will be required to sell these securities before recovery of their cost basis. We believe that this temporary decline in fair value is due entirely to liquidity issues, because the underlying assets of these securities are supported by municipal agencies and do not include mortgage-backed securities, have redemption features which call for redemption at 100% of par value and have a current credit rating of A or AA. The ratings on the ARS take into account credit support through insurance policies guaranteeing each of the bonds' payment of principal and accrued interest, if it becomes necessary. In addition, both ARS have had very small partial redemptions at par in the period July 2009 through February 2011. Based on our cash and cash equivalents balance of $2.1 million, expected operating cash flows and a $150.0 million revolving credit line, we do not believe a lack of liquidity associated with our ARS will adversely affect our ability to conduct business, and believe we have the ability to hold the securities throughout the currently estimated recovery period. We will continue to evaluate any changes in the fair value of our ARS and in the future, depending upon existing market conditions, we may be required to record an other-than-temporary decline in market value.

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Evaluation of Disclosure Controls and Procedures — We maintain disclosure controls and procedures (as defined in Rule 13a-15(e) of the Securities Exchange Act) designed to provide reasonable assurance that the information required to be disclosed by us in the reports we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. These include controls and procedures designed to ensure that this information is accumulated and communicated to our management, including our chief executive officer and chief financial officer, as appropriate to allow timely decisions regarding required disclosures. Management, with the participation of the chief executive officer and chief financial officer, evaluated the effectiveness of our disclosure controls and procedures as of December 31, 2010. Based on this evaluation, the chief executive officer and chief financial officer have concluded that our disclosure controls and procedures were effective as of December 31, 2010.

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

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

Management assessed the effectiveness of Tyler's internal control over financial reporting as of December 31, 2010. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in *Internal Control — Integrated Framework.* Based on our assessment, we concluded that, as of December 31, 2010, Tyler's internal control over financial reporting was effective based on those criteria.

Tyler's internal control over financial reporting as of December 31, 2010 has been audited by Ernst & Young LLP, the independent registered public accounting firm who also audited Tyler's financial statements. Ernst & Young's attestation report on Tyler's internal control over financial reporting appears on page 40 hereof.

Changes in Internal Control Over Financial Reporting — During the quarter ended December 31, 2010, there were no changes in our internal control over financial reporting, as defined in Securities Exchange Act Rule 13a-15(f), that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Shareholders
Tyler Technologies, Inc.

We have audited Tyler Technologies, Inc.'s internal control over financial reporting as of December 31, 2010, based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Tyler Technologies, Inc.'s management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying "Management's Report on Internal Control Over Financial Reporting." Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

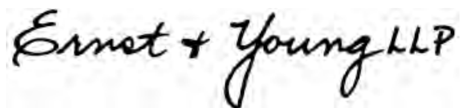
We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material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

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

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

In our opinion, Tyler Technologies, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2010, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the balance sheets of Tyler Technologies, Inc. as of December 31, 2010 and 2009, and the related statements of operations, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2010 and our report dated February 24, 2011 expressed an unqualified opinion thereon.



Dallas, Texas
February 24, 2011

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

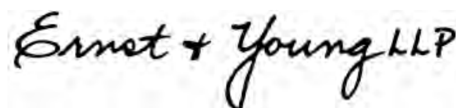
The Board of Directors and Shareholders
Tyler Technologies, Inc.

We have audited the accompanying balance sheets of Tyler Technologies, Inc. as of December 31, 2010 and 2009, and the related statements of operations, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2010. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Tyler Technologies, Inc. at December 31, 2010 and 2009, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2010, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Tyler Technologies, Inc.'s internal control over financial reporting as of December 31, 2010, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 24, 2011 expressed an unqualified opinion thereon.



Dallas, Texas
February 24, 2011

STATEMENTS OF OPERATIONS

For the years ended December 31,	2010	2009	2008
In thousands, except per share amounts			
Revenues:			
Software licenses	$ 34,913	$ 42,131	$ 41,490
Subscriptions	23,298	17,181	14,374
Software services	68,340	80,405	74,997
Maintenance	135,655	124,512	107,458
Appraisal services	20,554	18,740	19,098
Hardware and other	5,868	7,317	7,684
Total revenues	288,628	290,286	265,101
Cost of revenues:			
Software licenses	3,456	5,440	9,224
Acquired software	1,592	1,411	1,799
Software services, maintenance and subscriptions	138,085	137,199	126,247
Appraisal services	12,910	11,518	12,251
Hardware and other	4,268	5,955	5,793
Total cost of revenues	160,311	161,523	155,314
Gross profit	128,317	128,763	109,787
Selling, general and administrative expenses	69,480	70,115	62,923
Research and development expense	13,971	11,159	7,286
Amortization of customer and trade name intangibles	3,225	2,705	2,438
Non-cash legal settlement related to warrants	—	—	9,045
Operating income	41,641	44,784	28,095
Other (expense) income, net	(1,742)	(146)	1,181
Income before income taxes	39,899	44,638	29,276
Income tax provision	14,845	17,628	14,414
Net income	$ 25,054	$ 27,010	$ 14,862
Earnings per common share:			
Basic	$ 0.74	$ 0.77	$ 0.39
Diluted	$ 0.71	$ 0.74	$ 0.38
Basic weighted average common shares outstanding	34,075	35,240	37,714
Diluted weighted average common shares outstanding	35,528	36,624	39,184

See accompanying notes.

BALANCE SHEETS

December 31,	2010	2009
In thousands, except share and per share amounts		
ASSETS		
Current assets:		
Cash and cash equivalents	$ 2,114	$ 9,696
Restricted cash equivalents	—	6,000
Short-term investments available-for-sale	25	50
Accounts receivable (less allowance for losses of $1,603 in 2010 and $2,389 in 2009)	81,860	81,245
Prepaid expenses	7,801	7,921
Other current assets	3,543	1,437
Deferred income taxes	3,106	3,338
Total current assets	98,449	109,687
Accounts receivable, long-term portion	1,231	1,018
Property and equipment, net	34,851	35,750
Non-current investments available-for-sale	2,126	1,976
Other assets:		
Goodwill	92,831	90,258
Other intangibles, net	32,307	31,771
Sundry	2,237	210
	$264,032	$270,670
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 2,626	$ 3,807
Accrued liabilities	19,433	26,110
Deferred revenue	102,590	99,116
Income taxes payable	—	220
Total current liabilities	124,649	129,253
Revolving line of credit	26,500	—
Deferred income taxes	5,911	7,059
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 2010 and 2009	481	481
Additional paid-in capital	153,576	153,734
Accumulated other comprehensive loss, net of tax	(275)	(405)
Retained earnings	102,558	77,504
Treasury stock, at cost; 15,854,205 and 13,027,838 shares in 2010 and 2009, respectively	(149,368)	(96,956)
Total shareholders' equity	106,972	134,358
	$264,032	$270,670

See accompanying notes.

STATEMENTS OF SHAREHOLDERS' EQUITY

For the years ended December 31, 2010, 2009 and 2008

	Common Stock		Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Treasury Stock		Total Shareholders' Equity
	Shares	Amount				Shares	Amount	
In thousands								
Balance at December 31, 2007	48,148	$481	$149,568	$ —	$ 35,632	(9,528)	$ (48,470)	$137,211
Comprehensive income:								
Net income	—	—	—	—	14,862	—	—	14,862
Unrealized loss on investment securities, net of tax	—	—	—	(387)	—	—	—	(387)
Total comprehensive income								14,475
Issuance of shares pursuant to stock compensation plan	—	—	(3,495)	—	—	379	5,310	1,815
Stock compensation	—	—	3,820	—	—	—	—	3,820
Treasury stock purchases	—	—	—	—	—	(4,283)	(58,984)	(58,984)
Issuance of shares pursuant to Employee Stock Purchase Plan	—	—	(186)	—	—	101	1,376	1,190
Federal income tax benefit related to exercise of stock options	—	—	822	—	—	—	—	822
Issuance of shares in connection with legal settlement	—	—	455	—	—	802	10,595	11,050
Issuance of shares for acquisitions	—	—	261	—	—	196	2,602	2,863
Balance at December 31, 2008	48,148	481	151,245	(387)	50,494	(12,333)	(87,571)	114,262
Comprehensive income:								
Net income	—	—	—	—	27,010	—	—	27,010
Unrealized loss on investment securities, net of tax	—	—	—	(18)	—	—	—	(18)
Total comprehensive income								26,992
Issuance of shares pursuant to stock compensation plan	—	—	(3,774)	—	—	425	6,069	2,295
Stock compensation	—	—	5,045	—	—	—	—	5,045
Treasury stock purchases	—	—	—	—	—	(1,235)	(17,000)	(17,000)
Issuance of shares pursuant to Employee Stock Purchase Plan	—	—	(118)	—	—	115	1,546	1,428
Federal income tax benefit related to exercise of stock options	—	—	1,336	—	—	—	—	1,336
Balance at December 31, 2009	48,148	481	153,734	(405)	77,504	(13,028)	(96,956)	134,358
Comprehensive income:								
Net income	—	—	—	—	25,054	—	—	25,054
Unrealized gain on investment securities, net of tax	—	—	—	130	—	—	—	130
Total comprehensive income								25,184
Issuance of shares pursuant to stock compensation plan	—	—	(8,157)	—	—	615	11,338	3,181
Stock compensation	—	—	6,132	—	—	—	—	6,132
Treasury stock purchases	—	—	—	—	—	(3,559)	(65,793)	(65,793)
Issuance of shares pursuant to Employee Stock Purchase Plan	—	—	(218)	—	—	118	2,043	1,825
Federal income tax benefit related to exercise of stock options	—	—	2,085	—	—	—	—	2,085
Balance at December 31, 2010	48,148	$481	$153,576	$(275)	$102,558	(15,854)	$(149,368)	$106,972

See accompanying notes.

STATEMENTS OF CASH FLOWS

For the years ended December 31,	2010	2009	2008
In thousands			
Cash flows from operating activities:			
Net income	$ 25,054	$ 27,010	$ 14,862
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	10,788	9,497	12,611
Non-cash legal settlement related to warrants	—	—	9,045
Share-based compensation expense	6,132	5,045	3,820
Provision for losses – accounts receivable	1,161	1,538	1,764
Excess tax benefit from exercises of share-based arrangements	(2,000)	(1,125)	(666)
Deferred income tax benefit	(959)	(1,730)	(2,151)
Changes in operating assets and liabilities, exclusive of effects of acquired companies:			
Accounts receivable	(1,989)	(6,277)	(11,853)
Income tax payable	(34)	1,391	827
Prepaid expenses and other current assets	104	1,377	(338)
Accounts payable	(1,181)	1,190	(870)
Accrued liabilities	(5,200)	1,960	3,420
Deferred revenue	3,474	3,065	17,331
Net cash provided by operating activities	35,350	42,941	47,802
Cash flows from investing activities:			
Proceeds from sales of investments	75	2,500	45,065
Purchases of investments	—	—	(8,625)
Cost of acquisitions, net of cash acquired	(9,661)	(2,934)	(23,868)
Additions to property and equipment	(4,930)	(12,352)	(20,143)
Acquired lease	—	—	(1,387)
Decrease (increase) in restricted investments	6,000	(918)	(620)
(Increase) decrease in other	(178)	46	24
Net cash used by investing activities	(8,694)	(13,658)	(9,554)
Cash flows from financing activities:			
Increase (decrease) in net borrowings on revolving line of credit	26,500	(8,000)	8,000
Purchase of treasury shares	(65,793)	(18,263)	(59,847)
Contributions from employee stock purchase plan	1,901	1,494	1,233
Proceeds from exercise of stock options	3,181	2,295	1,815
Debt issuance costs	(2,027)	—	—
Excess tax benefit from exercise of share-based arrangements	2,000	1,125	666
Warrant exercise in connection with legal settlement	—	—	2,005
Net cash used by financing activities	(34,238)	(21,349)	(46,128)
Net (decrease) increase in cash and cash equivalents	(7,582)	7,934	(7,880)
Cash and cash equivalents at beginning of year	9,696	1,762	9,642
Cash and cash equivalents at end of year	$ 2,114	$ 9,696	$ 1,762

See accompanying notes.

(Tables in thousands, except per share data)

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

DESCRIPTION OF BUSINESS

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

CASH AND CASH EQUIVALENTS

Cash in excess of that necessary for operating requirements is invested in short-term, highly liquid, income-producing investments. Investments with original maturities of three months or less are classified as cash and cash equivalents, which primarily consist of money market funds. Cash and cash equivalents are stated at cost, which approximates market value. As of December 31, 2010, we had issued outstanding letters of credit totaling $8.3 million in connection with our surety bond program. These letters of credit are issued under our revolving line of credit and reduce our available borrowing capacity. We do not believe these letters of credit will be required to be drawn upon. These letters of credit expire through mid-2011.

INVESTMENTS

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

REVENUE RECOGNITION

Software Arrangements:

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

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

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

i. persuasive evidence of an arrangement exists;
ii. delivery has occurred;
iii. our fee is fixed or determinable; and
iv. collectability is probable.

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

Software Licenses

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

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

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

likely to occur on a contract. If the most likely profit margin cannot be precisely determined, the lowest probable level of profit in the range of estimates is used until the results can be estimated more precisely. These arrangements are often implemented over an extended time period and occasionally require us to revise total cost estimates. Amounts recognized in revenue are calculated using the progress-to-completion measurement after giving effect to any changes in our cost estimates. Changes to total estimated contract costs, if any, are recorded in the period they are determined. Estimated losses on uncompleted contracts are recorded in the period in which we first determine that a loss is apparent. For arrangements that include new product releases for which it is difficult to estimate final profitability except to assume that no loss will ultimately be incurred, we recognize revenue under the completed contract method. Under the completed contract method, revenue is recognized only when a contract is completed or substantially complete. Historically these amounts have been immaterial.

Subscription-Based Services

Subscription-based services primarily consist of revenues derived from application service provider ("ASP") arrangements and other hosted service offerings, software subscriptions and disaster recovery services.

We recognize revenue for ASP and other hosting services, software subscriptions, term license arrangements with renewal periods of twelve months or less and disaster recovery ratably over the period of the applicable agreement as services are provided. Disaster recovery agreements and other hosting services are typically renewable annually. ASP and software subscriptions are typically for periods of three to six years and automatically renew unless either party cancels the agreement. The majority of the ASP and other hosting services and software subscriptions also include professional services as well as maintenance and support. In certain ASP arrangements, the customer also acquires a license to the software.

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

Software Services

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

Computer Hardware Equipment

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

Postcontract Customer Support

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

Allocation of Revenue in Statement of Income

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

Appraisal Services:

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

Other:

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

Prepaid expenses and other current assets include direct and incremental costs, consisting primarily of commissions associated with arrangements for which revenue recognition has been deferred and third party subcontractor payments. Such costs are expensed at the time the related revenue is recognized.

USE OF ESTIMATES

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

PROPERTY AND EQUIPMENT, NET

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

RESEARCH AND DEVELOPMENT COSTS

We expensed research and development costs of $14.0 million during 2010, $11.2 million during 2009 and $7.3 million during 2008. We reduced our research and development expense by approximately $5.1 million in 2010, $3.5 million in 2009 and $1.8 million in 2008, which was the amount earned under the terms of our strategic alliance with a development partner.

INCOME TAXES

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

SHARE-BASED COMPENSATION

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

GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill

We have used the acquisition method of accounting for all of our business combinations. Our business acquisitions result in the allocation of the purchase price to goodwill and other intangible assets. We first allocate the cost of acquired companies 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.

We review goodwill impairment annually as of April or more frequently whenever events or changes in circumstances indicate its carrying value may not be recoverable. We have identified two reporting units for impairment testing. Our reporting units are the same as our reportable segments and consistent with the reporting units tested for impairment in prior years. Assets, liabilities and goodwill have been assigned to reporting units based on assets acquired and liabilities assumed as of the date of acquisition.

The provisions of ASC 350, Intangibles — Goodwill and Other, require that we perform a two-step impairment test on goodwill. In the first step, we compare the fair value of each reporting unit to its carrying value. If the fair value of the reporting unit exceeds the carrying value of the net assets assigned to that unit, goodwill is not considered impaired and we are not required to perform further testing. If the carrying value of the net assets assigned to the reporting unit exceeds the fair value of the reporting unit, then we must perform the second step of the impairment test in order to determine the implied fair value of the reporting unit's goodwill. If the carrying value of a reporting unit's goodwill exceeds the asset's implied fair value, then we would record an impairment loss equal to the difference. The fair values calculated in our impairment tests are determined using discounted cash flow models involving several assumptions. These assumptions include, but are not limited to, anticipated operating income growth rates, our long-term anticipated operating income growth rate and the discount rate. Our cash flow forecasts are based on assumptions that are consistent with the plans and estimates we are using to manage the underlying businesses. The assumptions that are used are based upon what we believe a hypothetical marketplace participant would use in estimating fair value. We evaluate the reasonableness of the fair value calculations of our reporting units by comparing the total of the fair value of all of our reporting units to our total market capitalization. We base our fair value estimates on assumptions we believe to be reasonable but that are unpredictable and inherently uncertain. A significant amount of judgment is involved in determining if an indicator of impairment has occurred between testing dates. Such indicators may include, among others: a significant decline in expected future cash flows; a sustained, significant decline in stock price and market capitalization; a significant adverse change in legal factors or in the business climate; unanticipated competition; and reductions in growth rates. In addition, products, capabilities, or technologies developed by others may render our software products obsolete or non-competitive. Any adverse change in these factors could have a significant impact on the recoverability of goodwill. Our annual goodwill impairment analysis, which we performed during the second quarter of 2010, did not result in an impairment charge.

Other Intangible Assets

We make judgments about the recoverability of purchased intangible assets other than goodwill whenever events or changes in circumstances indicate that an impairment may exist. Customer base constitutes approximately 85% of our purchased intangible assets other than goodwill. We review our customer turnover each year for indications of impairment. Our customer turnover has historically been very low. If indications of impairment are determined to exist, we measure the recoverability of assets by a comparison of the carrying amount of the asset to the estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of the assets exceeds their estimated future cash flows, an impairment charge is recognized for the amount by which the carrying amount of the assets exceeds the fair value of the assets. There have been no significant impairments of intangible assets in any of the periods presented.

IMPAIRMENT OF LONG-LIVED ASSETS

We periodically evaluate whether current facts or circumstances indicate that the carrying value of our property and equipment or other long-lived assets to be held and used may not be recoverable. If such circumstances are determined to exist, we measure the recoverability of assets to be held and used by a comparison of the carrying amount of the asset or appropriate grouping of assets and the estimated undiscounted future cash flows expected to be generated by the assets. If the carrying amount of the assets exceeds their estimated future cash flows, an impairment charge is recognized for the amount by which the carrying amount of the assets exceeds the fair value of

the assets. Assets to be disposed of would be separately presented in the balance sheet and reported at the lower of the carrying amount or fair value less costs to sell, and are no longer depreciated. The assets and liabilities of a disposed group classified as held for sale would be presented separately in the appropriate asset and liability sections of the balance sheet. There have been no significant impairments of long-lived assets in any of the periods presented.

COSTS OF COMPUTER SOFTWARE

We capitalize software development costs upon the establishment of technological feasibility and prior to the availability of the product for general release to customers. We did not capitalize any internal software development costs in 2010, 2009 or 2008. Software development costs primarily consist of personnel costs and rent for related office space. We begin to amortize capitalized costs when a product is available for general release to customers. Amortization expense is determined on a product-by-product basis at a rate not less than straight-line basis over the product's remaining estimated economic life, but not to exceed five years. Amortization of software development costs was approximately $430,000 in 2010, $743,000 in 2009, and $4.7 million in 2008, and is included in cost of software license revenue in the accompanying statements of operations.

FAIR VALUE OF FINANCIAL INSTRUMENTS

Cash and cash equivalents, accounts receivables, accounts payables, short-term obligations and certain other assets at cost approximate fair value because of the short maturity of these instruments. Our investments available-for-sale are recorded at fair value as of December 31, 2010 based upon the level of judgment associated with the inputs used to measure their fair value. See Note 3 — "Fair Value of Financial Instruments" for further information.

CONCENTRATIONS OF CREDIT RISK AND UNBILLED RECEIVABLES

Financial instruments that potentially subject us to significant concentrations of credit risk consist principally of cash and cash equivalents, investments in auction rate securities and accounts receivable from trade customers. Our cash and cash equivalents primarily consists of money market fund investments which are maintained at one major financial institution and the balances often exceed insurable amounts. As of December 31, 2010 we had cash and cash equivalents of $2.1 million. We perform periodic evaluations of the credit standing of this financial institution.

Concentrations of credit risk with respect to receivables are limited due to the size and geographical diversity of our customer base. Historically, our credit losses have not been significant. As a result, we do not believe we have any significant concentrations of credit risk as of December 31, 2010.

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

Years ended December 31,	2010	2009	2008
Balance at beginning of year	$ 2,389	$ 2,115	$ 1,851
Provisions for losses – accounts receivable	1,161	1,538	1,764
Collection of accounts previously written off	4	—	10
Deductions for accounts charged off or credits issued	(1,951)	(1,264)	(1,510)
Balance at end of year	$ 1,603	$ 2,389	$ 2,115

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

In connection with this activity, we have recorded unbilled receivables of $11.7 million and $13.8 million at December 31, 2010 and 2009, respectively. We also have recorded retention receivable of $2.4 million and $4.0 million at December 31, 2010 and 2009, respectively and these retentions become payable upon the completion of the contract or completion of our field work and formal hearings. Unbilled receivables and retention receivables expected to be collected in excess of one year have been included with accounts receivable, long-term portion in the accompanying balance sheets.

As of December 31, 2010 our accounts receivable balance includes $4.2 million associated with one customer that terminated its arrangement with us for convenience and, in addition, has disputed certain amounts we invoiced the customer prior to the termination of the arrangement. We believe the receivable is a valid and enforceable claim under the terms of the arrangement, and we intend to aggressively pursue collection.

INDEMNIFICATION

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

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

NEW ACCOUNTING PRONOUNCEMENTS

Effective January 1, 2010, we adopted the provisions of Accounting Standards Update (ASU) 2009-13, Multiple Element Arrangements. ASU 2009-13 updates the existing multiple-element revenue arrangements guidance currently included in ASC 605-25, Multiple Element Arrangements. The revised guidance provides for two significant changes to the existing multiple-element revenue guidance for arrangements that are not accounted for under ASC 985-605, Software Revenue Recognition. The first change relates to the determination of when the individual deliverables included in a multiple-element arrangement may be treated as separate units of accounting. The second change modifies the manner in which the transaction consideration is allocated across the separately identified deliverables. Together, these changes will result in earlier recognition of service revenue for certain of our ASP and hosting arrangements than under previous guidance. The adoption of this ASU did not have a material impact on our financial condition or results of operations.

(2) ACQUISITIONS

2010

On January 1, 2010 we acquired all of the assets of Wiznet, Inc. (“Wiznet”) for a cash purchase price of $9.5 million. Wiznet provides electronic document filing solutions for courts and law offices throughout the United States and is integrated with our primary courts and justice solution.

In connection with this transaction we acquired total tangible assets of approximately $867,000. We recorded goodwill of approximately $2.6 million, all of which is expected to be deductible for tax purposes, and other intangible assets of approximately $6.1 million. The $6.1 million of intangible assets is attributable to customer relationships and acquired software that will be amortized over a weighted average period of approximately nine years. Our balance sheet as of December 31, 2010 reflects the allocation of the purchase price to the assets acquired based on their estimated fair values at the date of acquisition.

The operating results of this acquisition are included in our results of operations from the date of acquisition.

2009

On July 16, 2009, we completed the acquisition of certain assets of KPL, Inc. d/b/a Parker-Lowe & Associates (“Parker-Lowe”) for $700,000 in cash. Parker-Lowe provides scanning and retrieval software and related services for land record and social services offices in local governments primarily in the North Carolina area. This acquisition was accounted for as a purchase of a business.

On April 3, 2009, we completed the acquisition of all of the capital stock of Assessment Evaluation Services, Inc. (“AES”). AES develops integrated property appraisal solutions and specializes in applications that deal with the unique provisions of the California Revenue and Taxation Code. The purchase price was approximately $1.1 million in cash.

In connection with these 2009 transactions we acquired total tangible assets of approximately $480,000 and assumed total liabilities of approximately $835,000, including $450,000 for contingent consideration for which we have paid $198,000 as of December 31, 2010. The remaining contingent consideration is expected to be paid through 2011. We recorded goodwill of approximately $1.3 million, all of which is expected to be deductible for tax purposes, and other intangible assets of approximately $820,000. The $820,000 of intangible assets is attributable to acquired software and customer relationships that will be amortized over a weighted average period of approximately nine years.

In 2009, we also paid approximately $1.1 million for certain software assets to complement our tax and appraisal solutions and our student information management solutions.

2008

In August 2008, we completed the acquisition of all the capital stock of School Information Systems, Inc., which develops and sells a full suite of student information and financial management systems for K-12 schools. The purchase price, including transaction costs and excluding cash balances acquired, was approximately $9.9 million in cash and approximately 70,000 shares of Tyler common stock valued at $1.2 million.

In the first quarter of 2008, we completed the acquisitions of all of the capital stock of VersaTrans Solutions Inc. ("VersaTrans") and certain assets of Olympia Computing Company, Inc. d/b/a Schoolmaster ("Schoolmaster"). VersaTrans is a provider of student transportation management software solutions for school districts and school transportation providers across North America, including solutions for school bus routing and planning, redistricting, GPS fleet tracking, fleet maintenance and field trip planning. Schoolmaster provides a full suite of student information systems, which manage such functions as grading, attendance, scheduling, guidance, health, admissions and fund raising. The combined purchase price for these transactions excluding cash acquired and including transaction costs was approximately $13.9 million in cash and approximately 126,000 shares of Tyler common stock valued at $1.7 million.

(3) FAIR VALUE OF FINANCIAL INSTRUMENTS

Assets recorded at fair value in the balance sheet as of December 31, 2010 are categorized based upon the level of judgment associated with the inputs used to measure their fair value. Hierarchical levels, defined by ASC 820, Fair Value Measurements and Disclosures, are directly related to the amount of subjectivity associated with the inputs to fair valuation of these assets, are as follows:

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

As of December 31, 2010 we held certain items that are required to be measured at fair value on a recurring basis. The following tables summarize the fair value of these financial assets:

	December 31, 2010			
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash and cash equivalents	$2,114	$2,114	$ —	$ —
Short-term investments available-for-sale	25	25	—	—
Non-current investments available-for-sale	2,126	—	—	2,126
	$4,265	$2,139	$ —	$2,126

	December 31, 2009			
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash and cash equivalents	$15,696	$15,696	$ —	$ —
Short-term investments available-for-sale	50	50	—	—
Non-current investments available-for-sale	1,976	—	—	1,976
	$17,722	$15,746	$ —	$1,976

Cash and cash equivalents consist primarily of money market funds with original maturity dates of three months or less, for which we determine fair value through quoted market prices. These money market funds did not experience any declines in fair value in 2010.

Non–current investments available-for-sale consist of two auction rate municipal securities ("ARS") which are collateralized debt obligations supported by municipal agencies and do not include mortgage-backed securities. Short-term investments available-for-sale consists of a portion of one of these ARS which was partially redeemed at par during the period January 1, 2011 through February 24, 2011. These ARS are debt instruments with stated maturities ranging from 21 to 32 years, for which the interest rate is designed to be reset through Dutch auctions approximately every 30 days. However, due to events in the credit markets, auctions for these securities have not occurred since February 2008. Both of our ARS have had very small partial redemptions at par in the period from July 2009 through February 2011. As of December 31, 2010 we have continued to earn and collect interest on both of our ARS.

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

The par and carrying values, and related cumulative unrealized loss for our non-current ARS as of December 31, 2010 are as follows:

	Par Value	Temporary Impairment	Carrying Value
Non-current investments available-for-sale	$2,550	$424	$2,126

In association with this estimate of fair value, we have recorded an after-tax temporary unrealized gain on our non-current ARS of $130,000, net of related tax effects of $70,000 in 2010, which is included in accumulated other comprehensive loss on our balance sheet.

We consider the impairment in our ARS as temporary because we do not have the intent to sell, nor is it more-likely-than-not that we will be required to sell these securities before recovery of their cost basis. We believe that this temporary decline in fair value is due entirely to liquidity issues, because the underlying assets of these securities are supported by municipal agencies and do not include mortgage-backed securities, have redemption features which call for redemption at 100% of par value and have a current credit rating of A or AA. The ratings on the ARS take into account credit support through insurance policies guaranteeing each of the bonds' payment of principal and accrued interest, if it becomes necessary. In addition, both ARS have had very small partial redemptions at par in the period July 2009 through February 2011. Based on our cash and cash equivalents balance of $2.1 million, expected operating cash flows, and a $150.0 million credit line, we do not believe a lack of liquidity associated with our ARS will adversely affect our ability to conduct business, and believe we have the ability to hold the securities throughout the currently estimated recovery period. We will continue to evaluate any changes in the fair value of our ARS and in the future, depending upon existing market conditions, we may be required to record an other-than-temporary decline in market value.

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

Balance as of December 31, 2007	$ —
Transfers into level 3	5,150
Transfers out of level 3	(775)
Unrealized losses included in accumulated other comprehensive loss	(596)
Balance as of December 31, 2008	3,779
Transfers into level 3	—
Transfers out of level 3	(75)
Purchases, sales, issuances and settlements	(1,700)
Unrealized losses included in accumulated other comprehensive loss	(28)
Balance as of December 31, 2009	1,976
Transfers into level 3	—
Transfers out of level 3	(25)
Purchases, sales, issuances and settlements	(25)
Unrealized gain included in accumulated other comprehensive loss	200
Balance as of December 31, 2010	$ 2,126

(4) PROPERTY AND EQUIPMENT, NET

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

	Useful Lives (Years)	2010	2009
Land	—	$ 3,959	$ 3,349
Building and leasehold improvements	5-39	26,396	26,208
Computer equipment and purchased software	3-5	23,408	21,394
Furniture and fixtures	5	7,601	6,467
Transportation equipment	5	305	329
		61,669	57,747
Accumulated depreciation and amortization		(26,818)	(21,997)
Property and equipment, net		$ 34,851	$ 35,750

Depreciation expense was $5.1 million during 2010, $4.4 million during 2009, and $3.5 million during 2008.

We own an office building in Yarmouth, Maine, which is currently leased to third-party tenants, and a building in Lubbock, Texas, of which a small portion is leased to a third-party tenant. These leases expire between 2011 and 2015 and are expected to provide rental income of approximately $1.2 million during 2011, $628,000 during 2012, $391,000 during 2013, $222,000 during 2014, $74,000 during 2015 and none thereafter. The lease agreements in Yarmouth, Maine, expire between 2011 and 2013, at which time we expect to begin occupying the facility. Rental income associated with third party tenants was $1.4 million in 2010, $1.3 million in 2009 and $662,000 in 2008, respectively and was included as a reduction of selling, general and administrative expenses.

(5) GOODWILL AND OTHER INTANGIBLE ASSETS

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

	2010	2009
Gross carrying amount of acquisition intangibles:		
Customer related intangibles	$ 44,992	$ 39,512
Software acquired	23,983	23,403
Trade name	1,971	1,971
Lease acquired	1,387	1,387
	72,333	66,273
Accumulated amortization	(40,311)	(35,217)
Acquisition intangibles, net	$ 32,022	$ 31,056
Post acquisition software development costs	$ 36,701	$ 36,701
Accumulated amortization	(36,416)	(35,986)
Post acquisition software costs, net	$ 285	$ 715
Total other intangibles	$ 32,307	$ 31,771

Total amortization expense, for acquisition related intangibles and post acquisition software development costs, was $5.5 million during 2010, $5.1 million during 2009, and $9.1 million during 2008.

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

	December 31, 2010			December 31, 2009		
	Gross Carrying Amount	Weighted Average Amortization Period	Accumulated Amortization	Gross Carrying Amount	Weighted Average Amortization Period	Accumulated Amortization
Non-amortizable intangibles:						
Goodwill	$92,831	—	$ —	$90,258	—	$ —
Amortizable intangibles:						
Customer related intangibles	44,992	17 years	17,163	39,512	18 years	14,022
Software acquired	23,983	5 years	21,492	23,403	5 years	19,900
Trade name	1,971	19 years	963	1,971	19 years	879
Lease acquired	1,387	5 years	693	1,387	5 years	416

The changes in the carrying amount of goodwill for the two years ended December 31, 2010 are as follows:

	Enterprise Software Solutions	Appraisal and Tax Software Solutions and Services	Total
Balance as of December 31, 2008	$84,080	$4,711	$88,791
Goodwill acquired during the year related to the purchase of AES	—	879	879
Goodwill acquired during the year related to the purchase of Parker-Lowe	430	—	430
Other	158	—	158
Balance as of December 31, 2009	84,668	5,590	90,258
Goodwill acquired during the year related to the purchase of Wiznet	2,573	—	2,573
Balance as of December 31, 2010	$87,241	$5,590	$92,831

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

Years ending December 31,	
2011	$4,468
2012	4,202
2013	3,637
2014	3,162
2015	2,983

(6) ACCRUED LIABILITIES

Accrued liabilities consist of the following at December 31:

	2010	2009
Accrued wages, bonuses and commissions	$11,762	$15,945
Other accrued liabilities	5,433	7,194
Accrued health claims	1,304	1,551
Accrued third party contract costs	934	1,420
	$19,433	$26,110

(7) REVOLVING LINE OF CREDIT

On August 11, 2010, we terminated our revolving bank credit agreement and a related pledge and security agreement which had been scheduled to mature October 19, 2010 and entered into a new $150.0 million Credit Agreement (the “Credit Facility”) and a related pledge and security agreement with a group of seven financial institutions with Bank of America, N.A., as Administrative Agent. The Credit Facility provides for a revolving credit line of $150.0 million (which may be increased up to $200.0 million subject to our obtaining commitments for such increase), with a $25.0 million sublimit for letters of credit. The Credit Facility matures on August 11, 2014. Borrowings under the Credit Facility may be used for general corporate purposes, including working capital requirements, acquisitions and share repurchases.

Borrowings under the Credit Facility bear interest at a rate of either (1) the Bank of America’s prime rate plus a margin of 1.50% to 2.75% or (2) the 30, 60, 90 or 180-day LIBOR rate plus a margin of 2.50% to 3.75%, with the margin determined by our consolidated leverage ratio. In 2010 and 2009, our effective average interest rate for borrowings was 3.4% and 1.8%, respectively. As of December 31, 2010, our interest rate was 2.7%. The Credit Facility is secured by substantially all of our assets, excluding real property. The Credit Facility requires us to maintain certain financial ratios and other financial conditions and prohibits us from making certain investments, advances, cash dividends or loans, and limits incurrence of additional indebtedness and liens. As of December 31, 2010, we were in compliance with those covenants.

As of December 31, 2010, we had $26.5 million in outstanding borrowings and unused available borrowing capacity of $115.2 million under the Credit Facility. In addition, as of December 31, 2010, our bank had issued outstanding letters of credit totaling $8.3 million to secure surety bonds required by some of our customer contracts. These letters of credit reduce our available borrowing capacity and expire through mid-2011.

We paid interest of $689,000 in 2010 and $174,000 in 2009.

(8) INCOME TAX

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

Years ended December 31,	2010	2009	2008
Current:			
Federal	$13,552	$16,822	$14,320
State	2,252	2,536	2,245
	15,804	19,358	16,565
Deferred	(959)	(1,730)	(2,151)
	$14,845	$17,628	$14,414

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

Years ended December 31,	2010	2009	2008
Income tax expense at statutory rate	$13,965	$15,623	$10,247
State income tax, net of federal income tax benefit	1,218	1,634	1,089
Non-deductible business expenses	976	965	3,988
Qualified manufacturing activities	(728)	(586)	(700)
Research and development credit	(579)	—	—
Other, net	(7)	(8)	(210)
	$14,845	$17,628	$14,414

In 2008, non-deductible business expenses included the impact of a non-cash legal settlement related to warrants charge of $9.0 million, which was not tax deductible. See Note 14 — "Commitments and Contingencies" for more information.

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

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

	2010	2009
Deferred income tax assets:		
Operating expenses not currently deductible	$ 2,642	$ 2,068
Employee benefit plans	4,020	3,628
Capital loss carryforward	160	230
Property and equipment	195	230
Total deferred income tax assets	7,017	6,156
Deferred income tax liabilities:		
Intangible assets	(9,673)	(9,720)
Other	(149)	(157)
Total deferred income tax liabilities	(9,822)	(9,877)
Net deferred income tax liabilities	$(2,805)	$(3,721)

Although realization is not assured, we believe it is more likely than not that all the deferred tax assets at December 31, 2010 and 2009 will be realized. Accordingly, we believe no valuation allowance is required for the deferred tax assets. However, the amount of the deferred tax asset considered realizable could be adjusted in the future if estimates of reversing taxable temporary differences are revised.

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

We are subject to U.S. federal tax as well as income tax of multiple state and local jurisdictions. We are no longer subject to United States federal income tax examinations for years before 2007. We are no longer subject to state and local income tax examinations by tax authorities for the years before 2006.

We paid income taxes, net of refunds received, of $15.8 million in 2010, $18.1 million in 2009, and $15.7 million in 2008.

(9) SHAREHOLDERS' EQUITY

The following table details activity in our common stock:

	Years ended December 31,					
	2010		2009		2008	
	Shares	Amount	Shares	Amount	Shares	Amount
Purchases of common stock	(3,559)	$(65,793)	(1,235)	$(17,000)	(4,283)	$(58,984)
Stock option exercises	615	3,181	425	2,295	379	1,815
Employee stock plan purchases	118	1,825	115	1,428	101	1,190
Shares issued for acquisitions	—	—	—	—	196	2,863
Shares issued in connection with legal settlement	—	—	—	—	802	11,050

Subsequent to December 31, 2010 and through February 22, 2011, we repurchased 335,000 shares for an aggregate purchase price of $6.8 million. As of February 22, 2011 we had authorization from our board of directors to repurchase up to 2.4 million additional shares of our common stock.

In 2008, we settled outstanding litigation related to two Stock Purchase Warrants owned by Bank of America, N. A. ("BANA"). In July 2008, as a result of this settlement, BANA paid us $2.0 million and we issued to BANA 801,883 restricted shares of Tyler common stock. See Note 14 — "Commitments and Contingencies" for further information.

(10) SHARE-BASED COMPENSATION

Share-Based Compensation Plan

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

As of December 31, 2010, there were 4.3 million shares available for future grants under the plan from the 16.0 million shares previously approved by the stockholders.

Determining Fair Value of Stock Compensation

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

Expected Life. The expected life of awards granted represents the period of time that they are expected to be outstanding. As provided by ASC 718-10, Stock Compensation, we use the "simplified" method which is allowed for those companies that cannot reasonably estimate expected life of options based on its historical share option exercise experience. We use the "simplified" method to estimate expected life due to insufficient historical exercise data for the current optionee group. In 2005 we established a practice of granting options to a consistent optionee group. This optionee group has not been in place long enough to generate sufficient historical data to estimate the expected period of time an option award would be expected to be outstanding.

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

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

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

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

The following weighted average assumptions were used for options granted:

Years ended December 31,	2010	2009	2008
Expected life (in years)	6.7	6.5	6.5
Expected volatility	35.0%	37.2%	40.9%
Risk-free interest rate	2.7%	3.1%	3.5%
Expected forfeiture rate	3%	3%	3%

The following table summarizes share-based compensation expense related to share-based awards which is recorded in the statement of operations:

Years ended December 31,	2010	2009	2008
Cost of software services, maintenance and subscriptions	$ 739	$ 540	$ 364
Selling, general and administrative expense	5,393	4,505	3,456
Total share-based compensation expense	6,132	5,045	3,820
Tax benefit	(1,475)	(1,233)	(846)
Net decrease in net income	$ 4,657	$ 3,812	$2,974

Stock Option Activity

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

	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (Years)	Aggregate Intrinsic Value
Outstanding at December 31, 2007	3,972	$ 7.16		
Granted	1,750	14.38		
Exercised	(379)	4.79		
Forfeited	(34)	10.82		
Outstanding at December 31, 2008	5,309	9.69		
Granted	835	17.25		
Exercised	(425)	5.40		
Forfeited	(15)	7.80		
Outstanding at December 31, 2009	5,704	11.12		
Granted	765	18.82		
Exercised	(615)	5.17		
Forfeited	(18)	16.59		
Outstanding at December 31, 2010	5,836	12.74	7	$46,949
Exercisable at December 31, 2010	3,045	$ 9.64	5	$33,846

As of December 31, 2010, we had unvested options to purchase 2.7 million shares with a weighted average grant date value of $16.04. As of December 31, 2010, we had $16.7 million of total unrecognized compensation cost related to unvested options, net of expected forfeitures, which is expected to be amortized over a weighted average amortization period of four years.

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

	2010	2009	2008
Weighted average grant-date fair value of stock options granted	$ 7.70	$ 7.38	$ 6.73
Total intrinsic value of stock options exercised	8,119	4,656	3,929

Employee Stock Purchase Plan

Under our Employee Stock Purchase Plan ("ESPP") participants may contribute up to 15% of their annual compensation to purchase common shares of Tyler. The purchase price of the shares is equal to 85% of the closing price of Tyler shares on the last day of each quarterly offering period. As of December 31, 2010, there were 222,000 shares available for future grants under the ESPP from the 1.0 million shares originally reserved for issuance.

(11) EARNINGS PER SHARE

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

Years Ended December 31,	2010	2009	2008
Numerator for basic and diluted earnings per share			
Net income	$25,054	$27,010	$14,862
Denominator:			
Weighted-average basic common shares outstanding	34,075	35,240	37,714
Assumed conversion of dilutive securities:			
Stock options	1,453	1,384	1,470
Denominator for diluted earnings per share – Adjusted weighted-average shares	35,528	36,624	39,184
Earnings per common share:			
Basic	$ 0.74	$ 0.77	$ 0.39
Diluted	$ 0.71	$ 0.74	$ 0.38

Stock options representing the right to purchase common stock of 1.8 million shares in 2010, 2.6 million shares in 2009, and 1.6 million shares in 2008 were not included in the computation of diluted earnings per share because their inclusion would have had an anti-dilutive effect.

(12) LEASES

We lease office facilities for use in our operations, as well as transportation, computer and other equipment. We also have an office facility lease agreement with a shareholder. Most of our leases are non-cancelable operating lease agreements and they expire at various dates through 2018. In addition to rent, the leases generally require us to pay taxes, maintenance, insurance and certain other operating expenses.

Rent expense was approximately $5.4 million in 2010, $6.3 million in 2009, and $5.9 million in 2008, which included rent expense associated with related party lease agreements of $1.9 million in 2010, $2.0 million in 2009 and $1.8 million in 2008.

Future minimum lease payments under all non-cancelable leases at December 31, 2010 are as follows:

Years ending December 31,	
2011	$ 5,643
2012	4,659
2013	2,997
2014	2,323
2015	605
Thereafter	1,204
	$17,431

Included in future minimum lease payments are non-cancelable payments due to related parties of $1.8 million in 2011, $1.7 million in 2012, $1.7 million in 2013, $1.7 million in 2014, and none thereafter.

(13) EMPLOYEE BENEFIT PLANS

We provide a defined contribution plan for the majority of our employees meeting minimum service requirements. The employees can contribute up to 30% of their current compensation to the plan subject to certain statutory limitations. We contribute up to a maximum of 3% of an employee's compensation to the plan. We made contributions to the plan and charged operations $2.8 million during 2010, $2.6 million during 2009, and $2.0 million during 2008.

(14) COMMITMENTS AND CONTINGENCIES

On November 3, 2008, a putative collective action complaint was filed against us in the United States District Court for the Eastern District of Texas (the "Court") on behalf of current and former telephone and remote customer support personnel ("Category 1"), computer hardware and software set up and maintenance personnel ("Category 2"), implementation personnel ("Category 3"), sales support personnel ("Category 4"), and quality assurance analysts ("Category 5"). The petition alleges that we misclassified these groups of employees as "exempt" rather than "non-exempt" under the Fair Labor Standards Act and that we therefore failed to properly pay overtime wages. The suit was initiated by six former employees working out of our Longview, Texas, office and seeks to recover damages in the form of lost overtime pay, liquidated damages equal to the amount of lost overtime pay, interest, costs, and attorneys' fees. On June 23, 2009, the Court issued an Order granting plaintiffs' motion for conditional certification for the purpose of providing notice to potential plaintiffs about the litigation. Accordingly, notice was sent to all current and former employees who worked in the foregoing job classifications during the applicable time periods. On October 26, 2009, the "opt in" period for plaintiffs and potential plaintiffs closed. Since that time, a number of plaintiffs voluntarily withdrew their petition. During a mediation which occurred during the second quarter of 2010,

we reached a conditional settlement in principle with all of the plaintiffs in Categories 1, 2, 4, and 5 (24 plaintiffs in the aggregate). The terms of the settlement agreement, which are immaterial and confidential, were approved by the Court during the fourth quarter of 2010. In addition, during a mediation that occurred in January 2011, we reached a conditional settlement in principle with the remaining plaintiffs in Category 3 (30 plaintiffs in the aggregate). The terms of the settlement agreement, which are immaterial and confidential, are subject to Court approval.

On June 27, 2008, we settled outstanding litigation related to two Stock Purchase Warrants (the "Warrants") owned by Bank of America, N. A. ("BANA"). As disclosed in prior SEC filings, the Warrants entitled BANA to acquire 1.6 million shares of Tyler common stock at an exercise price of $2.50 per share. The Warrants expired on September 10, 2007. Prior to their expiration, BANA attempted to exercise the Warrants; however, the parties disputed whether or not BANA's exercise was effective. We filed suit for declaratory judgment seeking a court's determination on the matter, and BANA asserted numerous counterclaims against us, including breach of contract and misrepresentation. Following court-ordered mediation, in July 2008, BANA paid us $2.0 million and we issued to BANA 801,883 restricted shares of Tyler common stock. Accordingly, as a result of the settlement, we recorded a non-cash legal settlement related to warrants charge of $9.0 million, which was not tax deductible.

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

(15) SEGMENT AND RELATED INFORMATION

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

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

- financial management and education software solutions;
- financial management and municipal courts software solutions;
- courts and justice software solutions; and
- appraisal and tax software solutions and property appraisal services.

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

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

Segment assets include net accounts receivable, prepaid expenses and other current assets, net property and equipment and intangibles associated with their acquisition. Corporate assets consist of cash and investments, prepaid insurance, deferred income taxes and net property and equipment mainly related to unallocated information and technology assets.

ESS segment capital expenditures in 2009 and 2008 include $11.2 million and $16.0 million, respectively for the purchase of buildings in connection with plans to consolidate workforces and support long-term growth.

In 2009 and 2008 the ATSS segment had one appraisal services customer which accounted for 10.4% and 12.6%, respectively, of this segment's total revenues. The ATSS segment did not have any customers in 2010 that accounted for 10% or more of their total revenues.

In 2010 we transferred a small tax and appraisal software solution from the ESS segment to the ATSS segment and reclassified segment revenues and segment operating profit in 2009 and 2008 to conform to current year presentation.

As of and year ended December 31, 2010	Enterprise Software Solutions	Appraisal and Tax Software Solutions and Services	Corporate	Totals
Revenues				
Software licenses	$ 32,757	$ 2,156	$ —	$ 34,913
Subscriptions	22,975	323	—	23,298
Software services	58,371	9,969	—	68,340
Maintenance	120,764	14,891	—	135,655
Appraisal services	—	20,554	—	20,554
Hardware and other	5,727	6	135	5,868
Intercompany	1,978	—	(1,978)	—
Total revenues	$242,572	$47,899	$ (1,843)	$288,628
Depreciation and amortization expense	8,903	683	1,202	10,788
Segment operating income	51,942	8,883	(14,367)	46,458
Capital expenditures	2,960	350	310	3,620
Segment assets	373,432	45,957	(155,357)	264,032

As of and year ended December 31, 2009	Enterprise Software Solutions	Appraisal and Tax Software Solutions and Services	Corporate	Totals
Revenues				
Software licenses	$ 39,484	$ 2,647	$ —	$ 42,131
Subscriptions	16,870	311	—	17,181
Software services	70,041	10,364	—	80,405
Maintenance	110,404	14,108	—	124,512
Appraisal services	—	18,740	—	18,740
Hardware and other	6,113	135	1,069	7,317
Intercompany	1,618	—	(1,618)	—
Total revenues	$244,530	$46,305	$ (549)	$290,286
Depreciation and amortization expense	8,031	608	858	9,497
Segment operating income	54,825	7,763	(13,688)	48,900
Capital expenditures	13,361	192	614	14,167
Segment assets	220,135	25,597	24,938	270,670

As of and year ended December 31, 2008	Enterprise Software Solutions	Appraisal and Tax Software Solutions and Services	Corporate	Totals
Revenues				
Software licenses	$ 39,215	$ 2,275	$ —	$ 41,490
Subscriptions	14,352	22	—	14,374
Software services	63,508	11,489	—	74,997
Maintenance	94,546	12,912	—	107,458
Appraisal services	—	19,098	—	19,098
Hardware and other	6,354	26	1,304	7,684
Intercompany	777	181	(958)	—
Total revenues	$218,752	$46,003	$ 346	$265,101
Depreciation and amortization expense	11,596	510	505	12,611
Segment operating income	49,298	3,847	(11,768)	41,377
Capital expenditures	17,563	420	2,160	20,143
Segment assets	208,868	24,409	18,484	251,761

Reconciliation of reportable segment operating income to the Company's consolidated totals:	2010	2009	2008
Total segment operating income	$46,458	$48,900	$41,377
Amortization of acquired software	(1,592)	(1,411)	(1,799)
Amortization of customer and trade name intangibles	(3,225)	(2,705)	(2,438)
Non-cash legal settlement related to warrants	—	—	(9,045)
Other (expense) income	(1,742)	(146)	1,181
Income before income taxes	$39,899	$44,638	$29,276

(16) QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

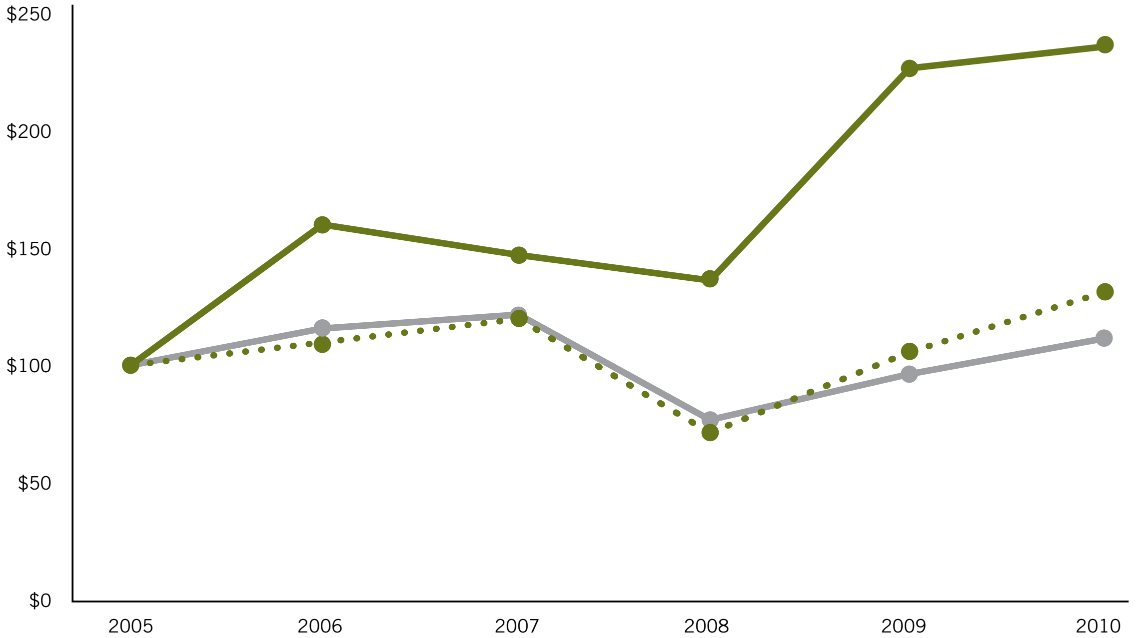
The following table contains selected financial information from unaudited statements of operations for each quarter of 2010 and 2009.

	2010				2009			
Quarters ended	Dec. 31	Sept. 30	June 30	Mar. 31	Dec. 31	Sept. 30	June 30	Mar. 31
Revenues	$72,439	$73,769	$72,600	$69,820	$74,217	$74,332	$72,172	$69,565
Gross profit	32,616	33,207	32,475	30,019	33,239	33,235	31,997	30,292
Income before income taxes	10,159	11,263	10,383	8,094	10,922	12,421	11,334	9,961
Net income	7,210	6,723	6,249	4,872	6,656	7,475	6,873	6,006
Earnings per diluted share	0.21	0.19	0.17	0.13	0.18	0.20	0.19	0.16
Shares used in computing diluted earnings per share	33,895	35,410	36,203	36,655	36,600	36,487	36,723	36,747

Performance Graph

The following table compares total Shareholder returns for Tyler over the last five years to the Standard and Poor's 500 Stock Index and the Standard and Poor's 600 Information Technology Index assuming a $100 investment made on December 31, 2005. Each of the three measures of cumulative total return assumes reinvestment of dividends. The stock performance shown on the graph below is not necessarily indicative of future price performance.

COMPARISON OF CUMULATIVE FIVE YEAR TOTAL RETURN



	2005	2006	2007	2008	2009	2010
Tyler Technologies, Inc.	100	160.14	146.81	136.45	226.77	236.45
S&P 500 Index	100	115.79	122.16	76.96	97.33	111.99
S&P 600 Information Technology Index	100	109.43	119.61	71.32	105.67	131.66

Tyler Technologies, Inc.

S&P 500 Index

S&P 600 Information Technology Index

Corporate Officers

John M. Yeaman
Chairman of the Board

John S. Marr, Jr.
President and Chief Executive Officer

Dustin R. Womble
Executive Vice President

Brian K. Miller
Executive Vice President
Chief Financial Officer and Treasurer

H. Lynn Moore, Jr.
Executive Vice President
General Counsel and Secretary

Matthew B. Bieri
Vice President
Chief Information Officer

Samantha B. Crosby
Vice President
Marketing & Communications

Robert J. Sansone
Vice President
Human Resources

W. Michael Smith
Vice President
Chief Accounting Officer

Terri L. Alford
Controller

Board of Directors

John M. Yeaman[1]
Chairman of the Board
Tyler Technologies, Inc.

John S. Marr, Jr.[1]
President and Chief Executive Officer
Tyler Technologies, Inc.

Donald R. Brattain[2,3]
President
Brattain and Associates, LLC

J. Luther King, Jr.[2,4]
Chief Executive Officer
Luther King Capital Management

G. Stuart Reeves[2,3,4]
Retired Executive Vice President
Electronic Data Systems Corporation

Michael D. Richards[3,4]
Executive Vice President
Republic Title of Texas, Inc.

Dustin R. Womble[1]
Executive Vice President
Tyler Technologies, Inc.

[1] *Executive Committee*
[2] *Audit Committee*
[3] *Nominating and Governance Committee*
[4] *Compensation Committee*

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Independent Registered Public Accounting Firm

Ernst & Young LLP
Dallas, Texas

Annual Meeting of Stockholders

Our Annual Meeting will be held on Tuesday, May 10, 2011, at 9:30 a.m. Central Time at The Park City Club, 5956 Sherry Lane, Suite 1700, Dallas, Texas 75225.

Certifications

We submitted an unqualified Annual CEO Certification to the New York Stock Exchange (NYSE) as required by the NYSE Listed Company rules. We also filed with the Securities and Exchange Commission the Chief Executive Officer and Chief Financial Officer certifications required under Section 302 of the Sarbanes-Oxley Act as exhibits to our Annual Report on Form 10-K.

Investor Information

Our Annual Report on Form 10-K is available on the company's website at www.tylertech.com. A copy of the Form 10-K or other information may also 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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