GAINING MOMENTUM

2014 ANNUAL REPORT

tyler technologies

After years of disciplined preparation, our financial performance reached new heights in 2014.

In every economic climate, Tyler Technologies stays true to our business strategy. And in 2014, our resolute focus on our long-term strategic view fueled record results for our company as market activity returned to normal levels. Not only is Tyler Technologies gaining momentum — we're empowering the public sector to do the same.

TO OUR SHAREHOLDERS

In 2014, Tyler Technologies once again achieved record financial results by every meaningful measure. Our results were exceptional, and we are gratified to recognize that our enduring strategy continues to achieve results and has elevated Tyler to a new level of leadership in the public sector.

Tyler has always focused on the long-term strength of our company, staying true to our strategy through changing economic and market conditions. By continually strengthening our offerings through ongoing investments in product development, we've earned our competitive advantage through hard work. And now, we can say with confidence that Tyler is the clear leader in our key product areas.

Financial Highlights

The fourth quarter of 2014 marked our 16th consecutive quarter of year-over-year revenue growth — along with our 13th straight quarter of double-digit revenue growth. Revenues for the year were $493.1 million, up 18.4 percent over 2013.

While software licenses and royalty revenues showed very healthy growth of 20.1 percent, subscriptions continued to be our fastest-growing revenue stream, rising 42.0 percent to $87.8 million. These revenues include $32.1 million in transaction-based revenues from e-filing and online payments, as well as $55.7 million from cloud-based software as a service (SaaS) arrangements.

Both bookings and year-end backlog reached new highs in 2014. In fact, we recorded our highest quarterly bookings in company history during the second quarter as court case management software contracts in California helped drive a 63 percent increase year over year.

Tyler consistently outperformed expectations in 2014, ending the year with GAAP net income of $58.9 million, or $1.66 per diluted share, up 50.7 percent from 2013. Non-GAAP net income for the year rose 41.5 percent to $74.0 million, or $2.09 per diluted share. Cash flow was very strong, as cash flow from operations for the year increased 86.8 percent to $123.4 million. We used a portion of our cash flow to repurchase 294,000 shares of common stock during 2014.

Our balance sheet remains extremely healthy, and we finished the year with cash of $206.2 million and no debt. We believe that our balance sheet positions us well to take advantage of future opportunities to drive growth and create shareholder value, including investments in product development and strategic acquisitions.

Outperforming in a Solid Market

Following the challenges of a recession and slow recovery since mid-2012, market activity in the public sector has returned to pre-recession levels. Our marketplace is solid — and Tyler Technologies has been in a competitive position to outpace renewed economic momentum.

Each of our business units exceeded its plan for operating profits in 2014, and each major product group posted double-digit revenue growth. Of these, the Courts & Justice Division managed the fastest-growing product line in 2014, fueled in part by our e-filing agreement with the state of Texas. The eFileTexas.gov™ system began operations in late 2013 and ramped up throughout 2014 with $17 million in revenues, up from $3.8 million in 2013.

Our success in the court case management software market in California continued in 2014 as we signed

BOARD OF DIRECTORS

(Left to right)
Brenda A. Cline, Dustin R. Womble, J. Luther King Jr., John M. Yeaman, Donald R. Brattain, John S. Marr Jr., Glenn A. Carter

contracts with courts in 16 counties, and have now been selected by 25 out of 28 California courts over the past two years.

Tyler's achievements extended well beyond our courts and justice products. Win rates for other products, including our Munis® and Incode® ERP solutions; EnerGov™ planning, regulatory and maintenance solution; and Versatrans® school transportation solution, climbed to new highs in 2014.

A number of factors are contributing to Tyler's strong competitive position. Our exclusive focus on the public sector is reflected in the features and functionality that our clients select. Our financial strength allows us to consistently invest in product development, and all of our clients benefit from that innovation through our evergreen approach to upgrades. Tyler also has an unparalleled record of executing at a high level on complex implementations, with a team of professionals who possess deep domain expertise in the business of local government. Both current and prospective clients value these attributes, as they expect our relationships with them to last for decades.

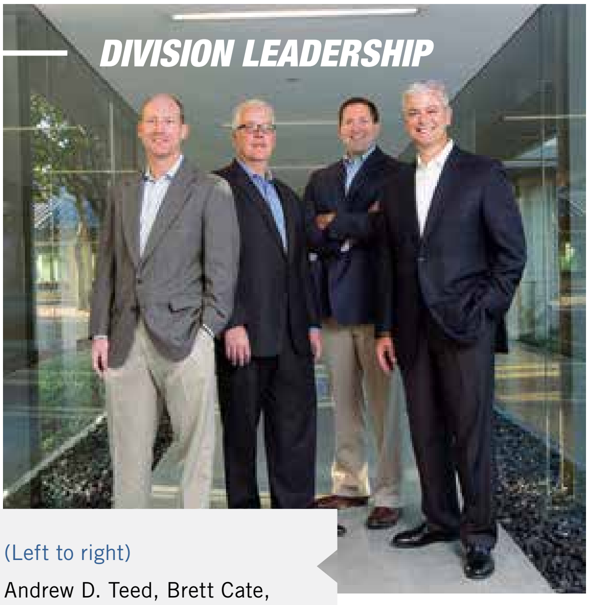
Strategic Investments

In August, we completed the acquisition of SoftCode, Inc., whose sophisticated civil process automation solutions primarily serve county sheriffs' departments. The acquisition broadens our portfolio of courts and justice solutions, providing robust functionality that complements our Odyssey® suite of products. With SoftCode's founding partners, management team and staff now a part of our Courts & Justice Division, we expect to significantly expand the product's reach.

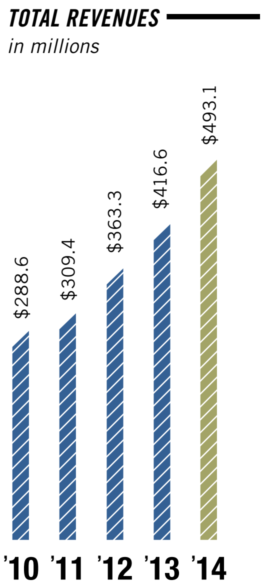
After the end of the year, in January 2015, we also acquired a 20 percent equity stake in Record Holdings, an Australian company specializing in digitizing the spoken word in courts throughout the world. Our $15 million convertible preferred stock investment will help Record Holdings expand its presence in North American courts. We also look forward to building on the international relationships already established by Record Holdings to make our Odyssey court case management solution more readily available beyond the U.S. market. These developments are excellent examples of our opportunistic acquisition strategy. We are constantly seeking strategic acquisition opportunities to broaden our product and service offerings or expand our client base. We are patient and disciplined in our approach to acquisitions as we seek the right combinations of strategic fit and valuation, and we believe Tyler is very well positioned to successfully take advantage of attractive acquisition opportunities in the future.

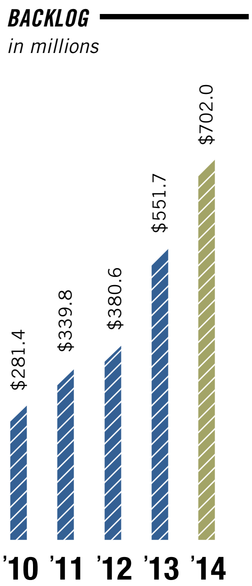
Meeting the Challenges of Growth

Along with strong bookings and backlog growth comes the challenge of ramping up our implementation capacity, a formidable task that has required



(Left to right)
Andrew D. Teed, Brett Cate, Christopher P. Hepburn, Bruce Graham





considerable planning and significant staffing increases. Tyler began the year with 2,573 employees, and by year's end we'd grown our employee base to 2,856. With a meaningful number of employees who are relatively new to Tyler, we take care to build our professional services teams around a strong core of experienced subject matter experts, with seasoned veterans leading our projects. As we have expanded our team to meet growing demands, Tyler has experienced some margin pressure as we absorb personnel costs during the onboarding period before new employees begin generating revenues.

To attract and retain the best and brightest employees, Tyler continues to focus on maintaining our reputation as an employer of choice. *The Dallas Morning News* named Tyler as No. 10 on its list of the Top 100 Places to Work in the Dallas/Fort Worth area, and we appeared in the top 10 in the Best Places to Work in Maine program managed by Best Companies Group. In addition, we were named to the *Forbes* list of America's Best Small Companies for the eighth time. We take pride in these honors because they reflect our commitment to both employee and client satisfaction. We go to great lengths to ensure employees are informed and engaged — and as we've grown, so have our career development opportunities. Every employee has an important role in our success, and we're committed to doing our part to continue providing a positive work environment.

An Enduring Strategy

While a healthy market certainly contributed to our exceptional results in 2014, Tyler's strategy and execution deserve the majority of credit for our performance. Our competitors don't appear to be enjoying the same degree of success as Tyler. Many companies that reduced investments in research and development during the recession are lagging behind in terms of their competitive positions. Some have even exited the market altogether. Conversely, Tyler continued to invest in our business at a high level when market conditions were challenging. As a result, our competitive position is better than ever, and win rates have increased across the board — a trend we expect to continue.

To every shareholder, employee and client of Tyler Technologies, we thank you for your support.

John S. Marr Jr.

President and Chief Executive Officer
March 27, 2015

(Left to right)

Robert J. Sansone, Samantha B. Crosby, Matthew B. Bieri, Dustin R. Womble, John M. Yeaman, John S. Marr Jr., Brian K. Miller, H. Lynn Moore Jr., Terri L. Alford, W. Michael Smith

For more information about our leadership team, please refer to inside back cover.

TYLER OVERVIEW

With nearly 2,900 employees and more than 13,000 government and school clients in all 50 states, Canada, the Caribbean, the United Kingdom, and other international jurisdictions, Tyler Technologies is the largest software company in the nation with an exclusive focus on the public sector. We're more than software developers — we're implementation and support partners whose client relationships span decades. From a $7 million reappraisal solution for the city of Detroit to a fast-track engagement that's bringing electronic court filing to every county in Texas, Tyler's comprehensive services and evergreen philosophy with no additional license fees toward upgrades empower our clients to serve the public with efficiency, accessibility and fiscal responsibility.

SCHOOL SOLUTIONS

STUDENT MANAGEMENT

Tyler offers a full suite of student management solutions to help educators and administrators put students first, including student information (grades, attendance and scheduling), data analytics, special education and student transportation. In fact, Tyler's Versatrans® solutions manage transportation for 1 out of every 10 U.S. school districts.

FINANCIAL

Tyler delivers integrated financial solutions that address the unique budgeting, procurement and payroll needs of education clients. By supporting our clients' most essential business functions, Tyler helps schools maximize their resources in the more than 1,350 school districts we serve.

STATE & LOCAL GOVERNMENT

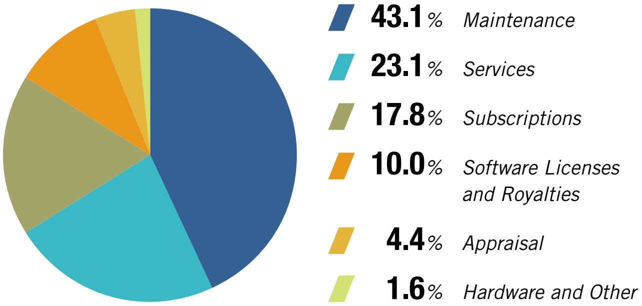
ERP / FINANCIAL

More than 4,500 government entities rely on Tyler's financial solutions for efficient management of their accounting, payroll and human resources functions as they manage $160 billion in public sector funds annually. Our human capital management solutions process payroll for more than 1 million public sector employees.

COURTS & JUSTICE

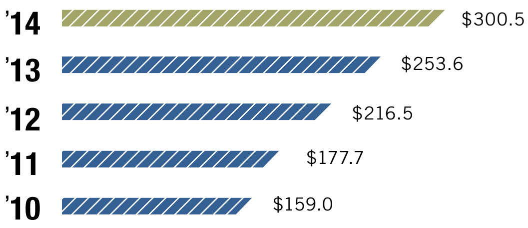
From paperless court case management to e-filing solutions, Tyler's courts and justice products offer a broad range of functionality for courts, prosecutors, law enforcement, corrections and supervision staff. More than 30 percent of the U.S. population lives in jurisdictions that have licensed Tyler's Odyssey® case management or e-filing solutions.

REVENUE MIX



RECURRING REVENUES

in millions



APPRAISAL & TAX

Tyler has served 1,300 taxing authorities throughout the United States and Canada with computer-assisted mass appraisal (CAMA) solutions, tax billing and collections software, and turnkey reassessment and revaluation services. Tyler's appraisal and tax solutions have facilitated the efficient management of 60 million parcels of property.

PUBLIC SAFETY

When it comes to public safety, timeliness and accuracy are paramount. Tyler's public safety solutions facilitate the sharing of mission-critical information and streamline records management for first responders, dispatchers, jails and others. Protecting more than 2 million citizens every day, Tyler solutions equip jurisdictions to take 1.6 million 911/dispatch calls annually.

PLANNING, REGULATORY & MAINTENANCE

Tyler's planning, regulatory and maintenance products centralize and connect processes across building departments, code enforcement, public works and other agencies, with 24-hour citizen access and mobile solutions that extend functionality into the field. These solutions serve approximately 25 million citizens in the United States and Canada.

RECORDS & DOCUMENTS

Our record and document solutions are instrumental in the management of land and vital records for 24 million citizens across the United States. Using Tyler solutions, our clients currently store and access more than 440 million land and vital records.

BLAZING **TRAILS**

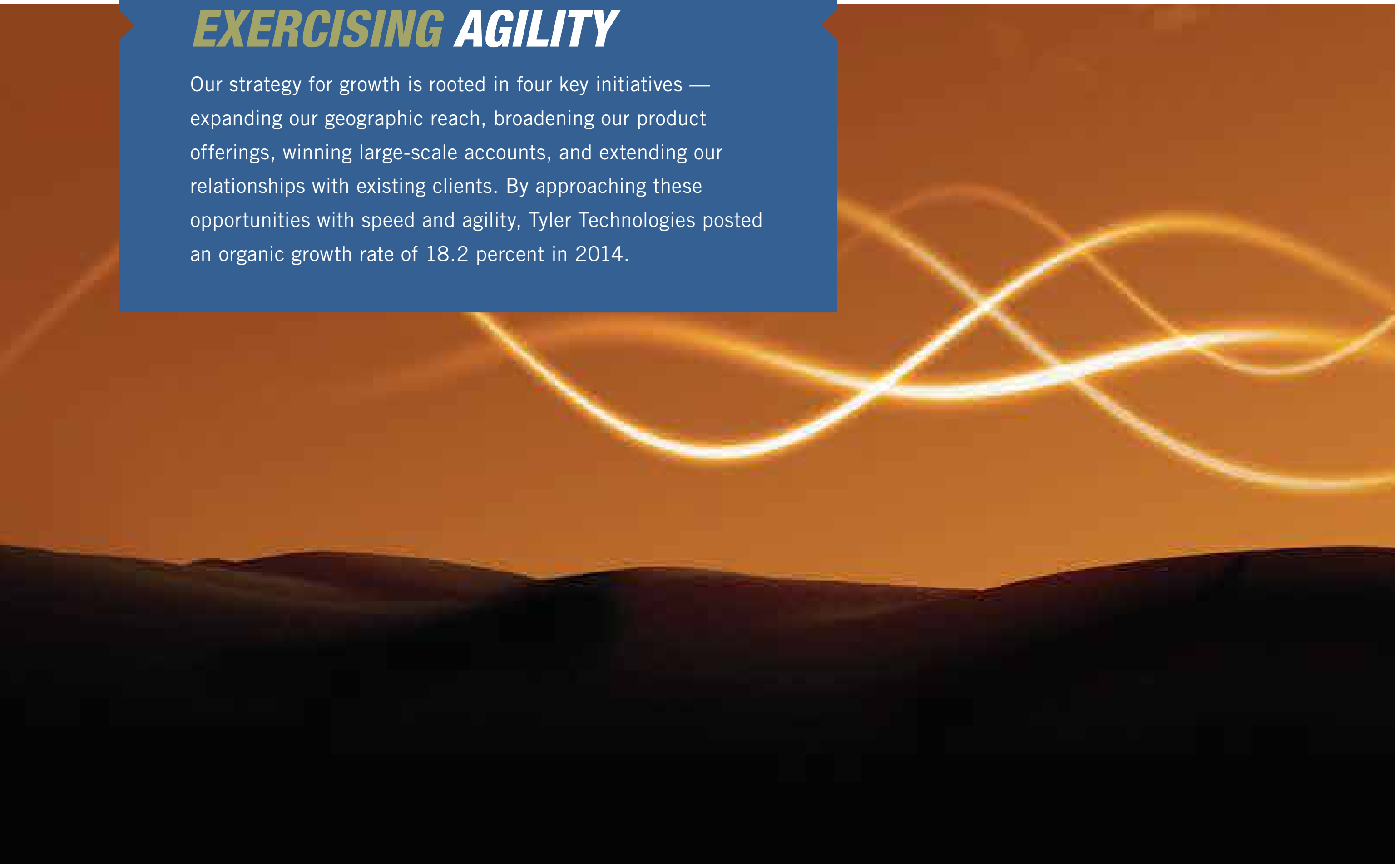
In order to maintain our competitive edge, Tyler Technologies is constantly expanding our capabilities and refining our offerings. We continued to invest in product development at a high level when many of our competitors were cutting back — and in 2014, those investments further elevated our position as a market leader. As always, the real-world needs of our clients inspire us to blaze new trails with new products, features and functionality.

Q&A:

The public sector market continued a trend of gradually improving conditions that began in 2012. In 2014, we leveraged our position as an industry leader to win a growing share of a healthy market. This question and answer format allows us to provide details and insights on the factors that contributed to an exceptional year.

What market trends and other key factors contributed to Tyler's performance in 2014?

Over the last two years, the market has returned to pre-recession levels — what we'd characterize as a normal level of activity. During that time, budget environments have generally improved in the public sector, and Tyler's strong competitive position fueled a level of growth that far outpaced the market as a whole in 2014. We achieved 18.2 percent organic growth overall in 2014. Organic software-related revenue growth was 19.4 percent, compared with our compound average growth rate of 12.7 percent organic growth and 14.6 percent total growth since 2002.



EXERCISING AGILITY

Our strategy for growth is rooted in four key initiatives — expanding our geographic reach, broadening our product offerings, winning large-scale accounts, and extending our relationships with existing clients. By approaching these opportunities with speed and agility, Tyler Technologies posted an organic growth rate of 18.2 percent in 2014.

What are your long-term targets for revenue and earnings growth?

Our targets are to consistently grow revenues in the low- to mid-teens annually, and by doing so, to achieve margin expansion that allows us to grow earnings in the high teens to low 20s annually. We significantly exceeded those targets in 2014, due to a combination of growth in recurring e-filing revenues for courts in Texas, together with very high win rates across our software products.

Why did eFileTexas.gov have such a strong influence on revenues and earnings in 2014?

As the statewide provider for mandatory electronic filing of civil court documents in Texas, Tyler incurred significant costs related to the 2013 startup of the eFileTexas.gov portal. Recurring revenues from this fixed-price contract ramped up in 2014, growing to $17 million from $3.8 million in 2013, contributing about 3 percentage points of our total revenue growth.

How has Tyler's competitive position evolved in recent years, and what are the takeaways with regard to performance?

Tyler is clearly winning a larger share of business than we have in years past. Bookings for the year reached a new high in 2014, with an increase of approximately 28 percent over the prior year.

When the new business environment was challenging in 2010 and 2011 as a result of the recession, Tyler had the financial strength and cash flow to increase our investment in product development, and we made the decision to modestly sacrifice some short-term earnings during that time period in order to strengthen our long-term competitive position. Our priorities were to fill gaps in the feature sets and functionality of our products, as well as to focus on product enhancements to increase the competitive distance between Tyler and other solution providers.

ERP/FINANCIAL

We expanded our market-leading presence with our Munis® and Incode® ERP product suites in 2014, adding more than 125 new clients. Jurisdictions frequently cited increased efficiencies and full integration as reasons for selecting Tyler ERP products. A master purchasing agreement awarded by Rhode Island enabled that state's school districts and municipalities to license Munis and Infinite Visions directly from Tyler at pre-negotiated prices and terms without going through a bid process.

Contracts included a seven-year, $11 million multisuite SaaS agreement, including Munis ERP, Incode courts, and EnerGov, with the city of Mobile, Alabama; and an $8 million contract with Marin County, California, for the Munis ERP solution. Other significant signings included a $4.1 million Munis contract with Jefferson County, the largest county in Alabama; Munis contracts with the cities of Miami Beach and Altamonte Springs in Florida; and a Munis contract with Oklahoma County, the largest county in that state.

With our Microsoft® Dynamics AX business, royalty revenues were virtually flat at $3 million, and revenues from our direct channel rose 140 percent to $5.3 million.

At the same time, many of our competitors pulled back on development as a cost-saving measure, which caused some to lose competitive ground, and others to lose relevance in the new business market. We believe that this is a major factor in our increasing win rates in the last three years. Importantly, Tyler's strong history of execution — particularly on large projects — continued to further strengthen our competitive position. Our successful performance has been the result of both strategic innovation to meet the needs of our clients and our proven ability to execute complex implementations.

What do your backlog and bookings say about current performance and future visibility?

Backlog was up 27.2 percent year over year at $702 million as of December 31, 2014. It's been growing well ahead of our revenue growth rate, with 54 percent of our backlog expected to be recognized in the next 12 months, and the remainder extending for as long as seven years. The growth in backlog gives us increased visibility into revenues for the next 12 months and beyond, with more than half of that backlog composed of recurring revenues.

Bookings for 2014 grew approximately 28 percent, excluding the effects of the eFileTexas.gov contract. To put this metric into context, we should note that bookings are calculated by the change in backlog plus revenues — and the resulting number can vary quite a bit from quarter to quarter, particularly with respect to the impact of large contracts. We encourage people who are looking at bookings to also look at them on a trailing 12-month basis to smooth out these spikes.

How are subscriptions performing in relation to traditional software licenses?

Subscriptions are our fastest-growing revenue area. These include revenues from cloud-based software as a service (SaaS) arrangements, as well as transaction-based revenues such as e-filing and e-payments. All of our major products are offered both as on-premises solutions and on a subscription basis. In 2014, slightly more than one-fourth of our new clients selected the SaaS model, while the rest selected the traditional on-premises model. We're generally seeing a distinct but gradual long-term shift toward SaaS, and in 2014 the total value of new SaaS contracts increased by nearly 60 percent from 2013. That said, we think it's important to provide solutions in whatever ways our clients need and want them, and we're still actively growing licenses while at the same time building a strong SaaS business. We expect that trend will continue over time, and SaaS will represent an increasing percentage of our new business.

Within your subscriptions business, how has your e-filing agreement with the state of Texas evolved?

We won this important business in 2012 when the state of Texas named Tyler Technologies as the statewide provider for mandatory e-filing of civil courts documents. When the mandate was handed down, some courts were concerned about their ability to meet the very aggressive timetable — but Tyler was prepared for the task and performed very well in the implementation. As of the end of 2014, eFileTexas.gov had more than 90,000 users and was processing approximately 100,000 filings each week.

COURTS & JUSTICE

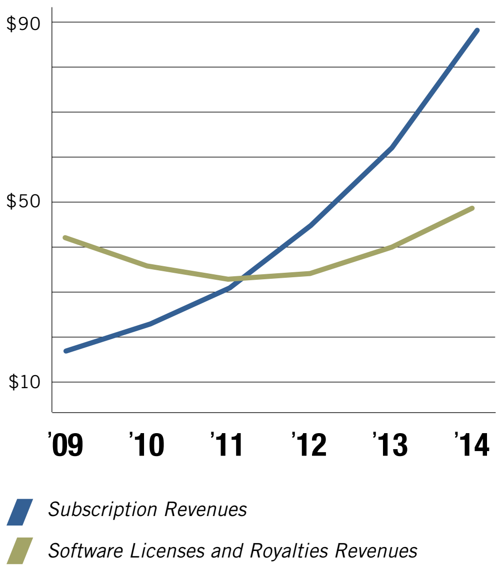
With our fastest-growing product line in 2014, our Courts & Justice Division began to reap significant financial results from Tyler's e-filing agreement with the state of Texas, with $17 million in revenues from eFileTexas.gov™. We kept our competitive momentum going with the launch of Odyssey® Guide & File, which provides courts with tools to guide self-represented litigants through the online filing process. The Georgia Council of Magistrate Court Judges became the first Tyler client to roll out this innovative solution. Another significant Georgia win was DeKalb County for Odyssey eFileGA. Other contract highlights included an e-filing pilot program in Massachusetts, an amended Odyssey contract with the state of Maryland to provide transaction-based e-filing, and a $32 million Odyssey contract in the nation's largest county with the Los Angeles Superior Court. Tyler's Incode® courts product was selected in Biloxi, Mississippi; Killeen, Texas; and Murfreesboro, Tennessee.

The eFileTexas.gov agreement differs from our other e-filing arrangements in that this is a fixed-price contract that added $72 million to our backlog in September 2013. We recognized $17 million of that revenue in 2014 and expect to recognize approximately $19 million in 2015. We believe the Texas implementation can serve as a model for other courts contemplating e-filing.

What other e-filing opportunities are on the horizon?

We currently are the dominant provider of court case management systems as well as the clear leader in e-filing for courts nationwide, and we expect to continue to expand our footprint with both offerings. E-filing is the fastest-growing part of our subscription business, and it's a low-penetration offering with a high degree of opportunity. As e-filing continues to gain momentum

TRANSITION TO CLOUD-BASED SERVICES
in millions



APPRAISAL & TAX

After introducing the iasWorld® Field Mobile solution for Windows 8 in 2013, Tyler successfully completed a pilot program in Greene County, Missouri, in 2014. Field Mobile is a tablet-based tool built on Windows 8 that allows appraisers to collect and update property characteristics in the field, both online and off, integrating directly with our iasWorld solution.

We marked the beginning of a major reappraisal cycle in the state of Indiana, with the signing of 27 counties for our CLT Appraisal Services™ totaling approximately $13.5 million. Other significant property appraisal agreements were Gwinnett County, Georgia, for $4.9 million, and a $7 million agreement for the first full reappraisal in 50 years for Detroit, Michigan. Internationally, we signed agreements for our iasWorld software with the Ministry of Home Affairs in Brunei, and the Ministry of Finance for the Government of The Bahamas. We also expanded geographically with a contract for the first Oregon Orion™ installation in Multnomah County (Portland) and the first iasWorld installation in South Carolina (Lexington County).

through both voluntary and mandatory channels, we expect it will replace paper filing in most courts over the next decade.

As we continue to grow this part of our business, we'll focus on three key areas — implementing e-filing with current Odyssey case management clients, selling e-filing in conjunction with new Odyssey case management contracts, and winning stand-alone e-filing engagements, as we did with the e-filing pilot program we launched in Massachusetts during the year.

The California courts market was especially active in 2014. How is this business evolving?

The California courts market opened up to us in early 2012 when the state abandoned a 10-year effort to develop a custom statewide case management system. Our position as the clear national leader in courts and justice software helped us win a great deal of business from the pent-up demand in California courts. Of the 28 courts in California that have signed contracts for new case management solutions since 2012, 25 have selected Tyler's Odyssey® court case management solution. Revenues from these contracts will be recognized over a number of quarters — or in some cases, years — providing increased visibility for future revenues. We expect the California market to be a significant contributor over the next three to five years.

What opportunities do you see in California beyond the initial Odyssey implementations?

Since not all of our initial contracts include all case types, we expect to expand our existing relationships to include additional types where applicable. We also expect that most of the 30 counties in California that have not yet committed to replacing their case management systems will eventually do so. In addition, we're pursuing a broad range of integrated criminal justice system opportunities with California counties beyond case management, adding applications for jails, prosecutors, public defenders and probation.

We further believe that e-filing for California courts represents a major opportunity. We've already signed courts in 17 California counties to transaction-based e-filing contracts, although it may be two to three years before we start to recognize significant revenues from those agreements, and we expect that most of the courts using Odyssey software will ultimately also choose our e-filing solution. The power of these recurring revenues is attractive, and we estimate that in many jurisdictions the recurring e-filing revenues will be as much as twice the annual software maintenance revenues.

We'll also continue to cultivate new business in other product areas throughout the state. We've had a great deal of success with our Munis, Incode and EnerGov solutions in California. And these expansion opportunities are not unique to California — they're simply powerful examples of our long-term growth strategy.

How does product development figure into your overall business strategy?

At Tyler Technologies, our product development efforts are focused and driven by client needs. We're committed to building best of breed systems that meet the needs of the public sector. If a client or employee identifies a gap or opportunity, we consider that in our product development plans. This powerful strategy has led Tyler to develop e-filing solutions ahead of our competitors, bring case management into the courtroom on a touchscreen device, and put mobile solutions into the hands of public safety officers, city inspectors, property assessors and others.

RECORDS & DOCUMENTS

Tyler Technologies provides a full suite of record and document solutions, including Document Pro™, Eagle™, Tyler Content Manager™ and Tyler Meeting Manager™. Our scalable, affordable solutions enable governments to provide the public with secure electronic access to land records, vital records and other official documents. They also facilitate electronic management of communications and archives, as well as planning, scheduling and document automation for public meetings. Major contract signings in 2014 included Tulsa County, Oklahoma; Erie County, Ohio; and Peoria County, Illinois.

DRIVING EXCELLENCE

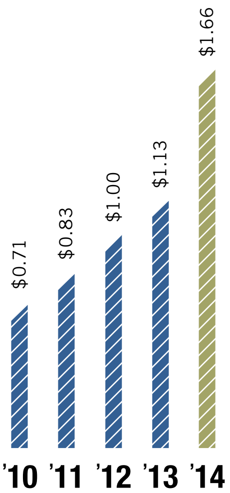
Strong momentum is only as valuable as the expert guidance that defines its course. Tyler Technologies is the nation's largest software provider with an exclusive focus on the public sector, offering an unrivaled depth of expertise in student management; school finance; enterprise resource planning; courts and justice; appraisal and tax; public safety; planning, regulatory and maintenance; and records and documents.

DELIVERING ***EFFICIENCY***

In everything we do, Tyler Technologies is committed to empowering the people who serve the public. Our solutions help schools and governments operate with efficiency and transparency, while enhancing their ability to provide responsive customer service. Even as technologies and public mandates continue to evolve, Tyler delivers evergreen solutions to keep our clients on track.

2014 QUARTERLY EARNINGS PER SHARE
in dollars

ANNUAL EARNINGS PER SHARE
in dollars



PLANNING, REGULATORY & MAINTENANCE

Within our planning, regulatory and maintenance business, Tyler is gaining traction with EnerGov™, which we acquired in 2012. We not only signed a number of stand-alone contracts for our community development and infrastructure software, but we also signed several EnerGov contracts in conjunction with Incode® and Munis® agreements. Contract highlights included a $5.8 million EnerGov agreement with Kansas City, Missouri, to replace its aging permitting software; a $2.3 million EnerGov contract with the Los Angeles County Department of Regional Planning; and significant contracts in Riverside County, California, and Charleston, South Carolina.

PUBLIC SAFETY

Tyler Technologies delivers truly integrated public safety solutions, including on-site and mobile solutions designed to improve situational awareness and enhance productivity. From our full-featured Odyssey® solutions to our innovative Tyler Public Safety™ iPad app, Tyler Technologies is helping police forces, sheriffs' departments and other first responders serve the public with speed and accuracy. Among contract highlights for 2014 were agreements with the cities of Brentwood, Tennessee, and Biloxi, Mississippi, for our Tyler Public Safety and Incode® court case management software suites.

How do you identify the public sector hot buttons that are shaping your initiatives?

First and foremost, our development team draws upon the deep domain expertise that Tyler is known for. By design, we're exclusively focused on the public sector, and many of our employees have firsthand experience in schools and governments. This deep industry expertise allows us to effectively pinpoint and anticipate user needs.

We also glean a great deal of our product development insights from Tyler Community — a valuable online resource reserved exclusively for Tyler clients. It provides a 24/7 forum for our public sector clients to share best practices, ask questions about Tyler products, and raise issues or point out needs that aren't being met. Our development team actively monitors the site to answer questions, address concerns, and take note of client suggestions. Additionally, Tyler regularly hosts user groups and focus groups in which product owners meet with users to learn more about the issues facing our clients — as well as the features and functionality that would make their jobs easier.

As win rates continue to rise, so does the pressure to deliver. What steps has Tyler taken to ramp up capacity?

Increasing our head count has been key in staying on top of implementations. In 2014 alone, Tyler added 283 employees — a move for which we were well prepared, both financially and operationally. We view our onboarding costs as a long-term investment. New hires enter a workplace where they're surrounded by seasoned professionals with firsthand experience in the public sector. At Tyler, employees at every level have tremendous opportunities for professional growth, both within each division and across the company. These are just a few of the reasons why more than 60 percent of Tyler employees who were with the company 10 years ago are still here today — and we're committed to maintaining our position as an employer of choice.

The preceding Q&A is a composite representation of the views of Tyler management with regard to company performance and market perspectives. For further information, visit tylertech.com or contact our investor relations team at info@tylertech.com.

SCHOOL FINANCIAL

Our financial solutions for K-12 schools empower clients to integrate a broad range of data and functionality into their operations — from financial, budgeting and procurement data to human resources and payroll processes. Contract highlights for the year included Infinite Visions® contracts with the Tucson Unified School District and Gilbert Public Schools in Arizona, as well as a master purchasing agreement with the state of Rhode Island, which satisfies the formal procurement process and lets school districts and municipalities bypass the bidding process to purchase our Munis® and Infinite Visions® products at pre-negotiated rates. Munis contracts included the Houston and Fayette County Boards of Education in Georgia; Mission Consolidated ISD, Texas; and Washington County School District, Maryland.

STUDENT MANAGEMENT

Our student management products provide K-12 schools with reliable solutions for managing student information, data analytics and special education. The products we released in 2013 — the Traversa® transportation management system and Tyler Telematic GPS™ device — continued to gain ground throughout 2014. Among our notable contracts for the year was a Versatrans® student transportation solution for Metropolitan Nashville Public Schools.

tyler technologies

Empowering people who serve the public®

2014 FINANCIAL INFORMATION

Our common stock is traded on the New York Stock Exchange under the symbol "TYL." At December 31, 2014, we had approximately 1,611 stockholders of record. A number of our stockholders hold their shares in street name; therefore, there are substantially more than 1,611 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
2013:	First Quarter	$ 61.60	$48.86
	Second Quarter	70.49	57.00
	Third Quarter	88.68	68.60
	Fourth Quarter	105.74	83.25
2014:	First Quarter	$107.99	$81.54
	Second Quarter	91.69	74.37
	Third Quarter	97.53	84.70
	Fourth Quarter	115.37	86.05

We did not pay any cash dividends in 2014 or 2013. 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 2014, we purchased approximately 294,000 shares of our common stock for an aggregate purchase price of $22.8 million. As of December 31, 2014, we had authorization to repurchase up to 1.4 million additional shares of Tyler common stock. The share repurchase program, which was approved by our board of directors, was announced in October 2002, and was amended at various times from 2003 through 2011. 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

SELECTED FINANCIAL DATA

	For the Years Ended December 31,				
(In thousands, except per share data)	2014	2013	2012	2011	2010
STATEMENT OF OPERATIONS DATA:					
Revenues	$493,101	$416,643	$363,304	$309,391	$288,628
Cost and expenses:					
Cost of revenues	259,730	223,440	195,602	167,479	160,311
Selling, general and administrative expenses	108,260	98,289	86,706	75,650	69,480
Research and development expense	25,743	23,269	20,140	16,414	13,971
Amortization of customer and trade name intangibles	4,546	4,517	4,279	3,331	3,225
Operating income	94,822	67,128	56,577	46,517	41,641
Other expenses, net	355	1,309	2,709	2,404	1,742
Income from operations before income taxes	94,467	65,819	53,868	44,113	39,899
Income tax provision	35,527	26,718	20,874	16,556	14,845
Net income	$ 58,940	$ 39,101	$ 32,994	$ 27,557	$ 25,054
Net income per diluted share	$ 1.66	$ 1.13	$ 1.00	$ 0.83	$ 0.71
Weighted average diluted shares	35,401	34,590	32,916	33,154	35,528
STATEMENT OF CASH FLOWS DATA:					
Cash flows provided by operating activities	$123,437	$ 66,090	$ 58,668	$ 56,435	$ 35,350
Cash flows used by investing activities	(11,555)	(25,658)	(34,736)	(28,809)	(8,694)
Cash flows provided (used) by financing activities	15,409	32,038	(18,852)	(28,414)	(34,238)
BALANCE SHEET DATA:					
Total assets	$573,982	$444,488	$338,666	$295,391	$264,032
Revolving line of credit	—	—	18,000	60,700	26,500
Shareholders' equity	336,973	246,319	145,299	78,110	106,972

FORWARD-LOOKING STATEMENTS

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

When used in this Annual Report, the words "believes," "expects," "anticipates," "foresees," "forecasts," "estimates," "plans," "intends," "continues," "may," "will," "should," "projects," "might," "could" or other similar words or phrases 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 clients, including software and hardware installation, data conversion, training and for certain clients, product modifications, along with continuing maintenance and support for clients using our systems. We also provide subscription-based services such as software as a service ("SaaS"), which utilizes the Tyler private cloud, and electronic document filing solutions ("e-filing"), which simplify the filing and management of court related documents. Revenues for e-filing are derived from transaction fees and in some cases fixed fee arrangements. We also provide property appraisal outsourcing services for taxing jurisdictions.

Our products generally automate five major functional areas: (1) financial management and education, (2) courts and justice, (3) property appraisal and tax, (4) planning, regulatory and maintenance, and (5) land and vital records management. We report our results in two segments. The Enterprise Software Solutions ("ESS") segment provides municipal and county governments and schools with software systems and services to meet their information technology and automation needs for mission-critical "back-office" functions such as financial management; courts and justice processes; planning regulatory and maintenance; and land and vital records management. 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.

Total organic revenues increased 18% in 2014 compared to 2013. On August 29, 2014, we acquired all of the capital stock of SoftCode, Inc. ("SoftCode"), which develops and sells civil solution software typically to county sheriff departments. The purchase price, net of cash acquired of $71,000, was $3.5 million in cash, of which $325,000 was accrued at December 31, 2014, and 16,540 shares of Tyler common stock valued at $1.5 million.

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

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

- Revenues – We derive our revenues from five primary sources: sale of software licenses and royalties; subscription-based arrangements; software services; maintenance and appraisal services. Subscriptions and maintenance are considered recurring revenue sources and comprised approximately 61% of our revenue in 2014. The number of new SaaS clients and the number of existing clients who convert from our traditional software arrangements to our SaaS model are a significant driver to our business, together with new software license sales and maintenance rate increases. In addition, we also monitor our customer base and churn as we historically have experienced very low customer turnover. During 2014, our customer turnover was approximately 2%.
- Cost of Revenues and Gross Margins – Our primary cost component is personnel expenses in connection with providing software implementation, subscription-based services, maintenance and support, and appraisal services to our clients. We can improve gross margins by controlling headcount and related costs and by expanding our revenue base, especially from those products and services that produce incremental revenue with minimal incremental cost, such as software licenses and royalties, subscription-based services, and maintenance and support. Our appraisal projects are cyclical in nature, and we often employ appraisal personnel on a short-term basis to coincide with the life of a project. As of December 31, 2014, our total employee count increased to 2,856 from 2,573 at December 31, 2013.
- Selling, General and Administrative ("SG&A") Expenses – The primary components of SG&A expenses are administrative and sales personnel salaries and commissions, share-based compensation expense, marketing expense, rent and professional fees. Sales commissions typically fluctuate with revenues and share-based compensation expense generally increases when the market price of our stock increases. Other administrative expenses tend to grow at a slower rate than revenues.
- Liquidity and Cash Flows – The primary driver of our cash flows is net income. Uses of cash include acquisitions, capital investments in property and equipment and discretionary purchases of treasury stock. 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 clients 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.

New Accounting Pronouncements

On May 28, 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09, "Revenue from Contracts with Customers." This ASU is the result of a convergence project between the FASB and the International Accounting Standards Board. The core principle behind ASU 2014-09 is that an entity should recognize revenue to depict the transfer of promised goods and services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for delivering those goods and services. This model involves a five-step process that includes identifying the contract with the customer, identifying the performance obligations in the contract, determining the transaction price, allocating the transaction prices to the performance obligations in the contract and recognizing revenue when (or as) the entity satisfies the performance obligations. The guidance in the ASU supersedes existing revenue recognition guidance and is effective for annual reporting periods beginning after December 15, 2016 with early application not permitted. The ASU allows two methods of adoption; a full retrospective approach where three years of financial information are presented in accordance with the new standard, and a modified retrospective approach where the ASU is applied to the most current period presented in the financial statements. We are currently assessing the financial impact of adopting the new standard and the methods of adoption; however, given the scope of the new standard, we are currently unable to provide a reasonable estimate regarding the financial impact or which method of adoption of the new standard we will elect.

Outlook

We believe activity in the local government market is good and has returned to normal, pre-recession levels. Although we expect to see some pressure on margin expansion in 2015 as we absorb onboarding costs associated with staffing additions in recent quarters, make some strategic incremental product investments, and continue to grow our SaaS and e-filing client bases, our expectation is that 2015 will be another year of very solid revenue and earnings growth.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

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

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

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

We use contract accounting, primarily the percentage-of-completion method, as discussed in ASC 605-35, Construction — Type and Certain Production — Type Contracts, for those software arrangements that involve significant production, modification or customization of the software, or where our software services are otherwise considered essential to the functionality of the software. We measure progress-to-completion primarily using labor hours incurred, or value added. In addition, we recognize revenue using the proportional performance method of revenue recognition for our property appraisal projects, some of which can range up to five years. These methods rely on estimates of total expected contract revenue, billings and collections and expected contract costs, as well as measures of progress toward completion. We believe reasonably dependable estimates of revenue and costs and progress applicable to various stages of a contract can be made. At times, we perform additional and/or non-contractual services for little to no incremental fee to satisfy customer expectations. If changes occur in delivery, productivity or other factors used in developing our estimates of expected costs or revenues, we revise our cost and revenue estimates, and any revisions are charged to income in the period in which the facts that give rise to that revision first become known. In connection with these and certain other contracts, we may perform the work prior to when the services are billable and/or payable pursuant to the contract. The termination clauses in most of our contracts provide for the payment for the value of products delivered and services performed in the event of an early termination.

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

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

Intangible Assets and Goodwill. Our business acquisitions typically result in the creation of goodwill and other intangible asset balances, and these balances affect the amount and timing of future period amortization expense, as well as expense we could possibly incur as a result of an impairment charge. The cost of acquired companies is allocated to identifiable tangible and intangible assets based on estimated fair value, with the excess allocated to goodwill. Accordingly, we have a significant balance of acquisition date intangible assets, including software, customer related intangibles, trade name and goodwill. These intangible assets (other than goodwill) are amortized over their estimated useful lives. We currently have no intangible assets with indefinite lives other than goodwill.

When testing goodwill for impairment quantitatively, we first compare the fair value of each reporting unit with its carrying amount. If the carrying amount of a reporting unit exceeds its fair value, a second step is performed to measure the amount of potential impairment. In the second step, we compare the implied fair value of reporting unit goodwill with the carrying amount of the reporting unit's goodwill. If the carrying amount of reporting unit goodwill exceeds the implied fair value of that goodwill, an impairment loss is recognized. The fair values calculated in our impairment tests are determined using discounted cash flow models involving several assumptions. The assumptions that are used are based upon what we believe a hypothetical marketplace participant would use in estimating fair value. We base our fair value estimates on assumptions we believe to be reasonable but that are unpredictable and inherently uncertain. We evaluate the reasonableness of the fair value calculations of our reporting units by comparing the total of the fair value of all of our reporting units to our total market capitalization.

Our annual goodwill impairment analysis, which we performed quantitatively during the second quarter of 2014, did not result in an impairment charge. During 2014, we did not identify any triggering events that would require an update to our annual impairment review.

All intangible assets (other than goodwill) are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of other intangible assets is measured by comparison of the carrying amount to estimated undiscounted future cash flows. The assessment of recoverability or of the estimated useful life for amortization purposes will be affected if the timing or the amount of estimated future operating cash flows is not achieved. Such indicators may include, among others: a significant decline in expected future cash flows; a sustained, significant decline in stock price and market capitalization; a significant adverse change in legal factors or in the business climate; unanticipated competition; and reductions in growth rates. In addition, products, capabilities, or technologies developed by others may render our software products obsolete or non-competitive. Any adverse change in these factors could have a significant impact on the recoverability of goodwill or other intangible assets.

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

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, 2014, 2013 and 2012.

	Percentage of Total Revenues		
Years ended December 31,	2014	2013	2012
Revenues:			
Software licenses and royalties	10.0%	9.8%	9.3%
Subscriptions	17.8	14.8	12.3
Software services	23.1	22.4	23.0
Maintenance	43.1	46.0	47.3
Appraisal services	4.4	5.0	6.2
Hardware and other	1.6	2.0	1.9
Total revenues	100.0	100.0	100.0
Operating Expenses:			
Cost of software licenses, royalties and acquired software	0.8	1.1	1.1
Cost of software services, maintenance and subscriptions	47.9	47.9	47.2
Cost of appraisal services	2.9	3.3	4.1
Cost of hardware and other	1.1	1.3	1.4
Selling, general and administrative expenses	22.0	23.6	23.9
Research and development expense	5.2	5.6	5.5
Amortization of customer and trade name intangibles	0.9	1.1	1.2
Operating income	19.2	16.1	15.6
Other expense, net	0.1	0.3	0.8
Income before income taxes	19.1	15.8	14.8
Income tax provision	7.2	6.4	5.7
Net income	11.9%	9.4%	9.1%

2014 Compared to 2013

Revenues

Software licenses and royalties.

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

			Change	
($ in thousands)	2014	2013	$	%
ESS	$46,047	$38,774	$7,273	19%
ATSS	3,018	2,067	951	46
Total software licenses and royalties revenue	$49,065	$40,841	$8,224	20%

Software license and royalties revenue growth was mainly due to a more active marketplace as the result of improvement in local government economic conditions, as well as our increasingly strong competitive position, which we attribute in part to our increased investments in product development over the past few years. An increase in the number of larger contracts, in particular in the courts and justice market, also contributed to the growth in license revenue.

The mix of new contracts between subscription-based and perpetual license arrangements can vary from quarter to quarter, which can negatively impact our software license growth rate if a growing number of clients choose our subscription-based options, rather than purchasing the software under a traditional perpetual software license arrangements. Subscription-based arrangements result in lower revenues in the initial year as compared to perpetual software license arrangements, but generate higher overall subscription-based revenue over the term of the contract. Our new client mix in 2014 was approximately 74% selecting perpetual software license arrangements and approximately 26% selecting subscription-based arrangements compared to a client mix in 2013 of approximately 68% selecting perpetual software license arrangements and approximately 32% selecting subscription-based arrangements. 138 new clients entered into subscription-based software arrangements in 2014 compared to 100 new clients in 2013.

Subscriptions.

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

			Change	
($ in thousands)	2014	2013	$	%
ESS	$84,322	$59,070	$25,252	43%
ATSS	3,526	2,794	732	26
Total subscriptions revenue	$87,848	$61,864	$25,984	42%

Subscription-based services revenue primarily consists of revenue derived from our SaaS arrangements, which utilize the Tyler private cloud. As part of our subscription-based services, we also provide electronic document filing solutions ("e-filing") that simplify the filing and management of court related documents for courts and law offices. E-filing revenue is derived from transaction fees and fixed fee arrangements.

Subscription-based services revenue increased 42% compared to 2013. E-filing services contributed approximately $13.3 million of the subscriptions revenue increase in 2014. Most of the e-filing revenue increase related to higher revenue from a contract with the Texas Office of Court Administration for our Odyssey File and Serve e-filing system for Texas courts ("eFileTexas.gov") for civil court filings. The state of Texas has mandated all counties use eFileTexas.gov and this contract, which took effect in September 2013, provided a recurring revenue stream that totaled $17.0 million in 2014 and is expected to total approximately $19.0 million in 2015. New SaaS clients as well as existing clients who converted to our SaaS model provided the remainder of the subscriptions revenue increase. In 2014, we added 138 new SaaS clients and 59 existing clients elected to convert to our SaaS model.

Software services.

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

			Change	
($ in thousands)	2014	2013	$	%
ESS	$104,146	$85,459	$18,687	22%
ATSS	9,675	7,808	1,867	24
Total software services revenue	$113,821	$93,267	$20,554	22%

Software services revenue primarily consists of professional services billed in connection with installing our software, converting client data, training client personnel, consulting and custom software development. New clients who purchase our proprietary software licenses generally also contract with us to provide for the related software services. Existing clients also periodically purchase additional training, consulting and minor programming services. Software services grew 22% in 2014 mainly due to much higher revenue from new proprietary software arrangements, slightly higher rates on certain services and additions to our professional services staff which increased our capacity to deliver backlog.

Maintenance.

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

			Change	
($ in thousands)	2014	2013	$	%
ESS	$195,881	$175,180	$20,701	12%
ATSS	16,815	16,540	275	2
Total maintenance revenue	$212,696	$191,720	$20,976	11%

We provide maintenance and support services for our software products and certain third-party software. Maintenance and support revenue increased mainly due to growth in our installed customer base from new software license sales as well as annual maintenance rate increases.

Appraisal services.

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

($ in thousands)	2014	2013	Change $	Change %
ESS	$ —	$ —	$ —	—%
ATSS	21,802	20,825	977	5
Total appraisal services revenue	$21,802	$20,825	$977	5%

The appraisal services business is somewhat cyclical and driven in part by statutory revaluation cycles in various states. Appraisal services revenue benefitted by the mid-year addition of several new revaluation contracts in New York and the current appraisal cycle in Indiana, which began in July. We expect appraisal revenue for 2015 will increase moderately compared to 2014.

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)	2014	2013	Change $	Change %
Software licenses and royalties	$ 1,900	$ 2,377	$ (477)	(20)%
Acquired software	1,858	2,078	(220)	(11)
Software services, maintenance and subscriptions	236,363	199,617	36,746	18
Appraisal services	14,284	13,809	475	3
Hardware and other	5,325	5,559	(234)	(4)
Total cost of revenues	$259,730	$223,440	$36,290	16%

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

Gross margin percentage	2014	2013	Change
Software licenses, royalties and acquired software	92.3%	89.1%	3.2%
Software services, maintenance and subscriptions	43.0	42.4	0.6
Appraisal services	34.5	33.7	0.8
Hardware and other	32.3	31.6	0.7
Overall gross margin	47.3%	46.4%	0.9%

Software licenses, royalties and acquired software. Costs of software licenses, royalties and acquired software are primarily comprised of third-party software costs and amortization expense for acquired software. We do not have any direct costs associated with royalties. In 2014, our software licenses, royalties and acquired software gross margin percentage increased compared to 2013 mainly due to higher revenues from proprietary software revenues, which have a higher gross margin than third-party software.

Software services, maintenance and subscription-based services. Cost of software services, maintenance and subscription-based services primarily consists of personnel costs related to installing our software, converting client data, training client personnel and support activities and various other services such as SaaS arrangements and e-filing. Maintenance and various other services such as SaaS costs typically grow at a slower rate than related revenue due to leverage in the utilization of our support and maintenance staff and economies of scale. The software services, maintenance and subscriptions gross margin percentage increased mainly due to revenue from a contract with the Texas

Office of Court Administration for eFileTexas.gov to manage e-filing of court documents. This contract began in September 2013, but we incurred initial startup costs in 2013 for which there were very limited related revenues. The addition of revenue from this contract since the prior year accounted for most of the gross margin increase. The gross margin increase was offset somewhat by costs related to accelerated hiring to ensure that we are well-positioned to deliver our current backlog and anticipated new business. Our implementation, development and support staff has increased by 215 employees since 2013. We expect our rate of hiring new implementation, development and support staff in 2015 will be slower than 2014.

Appraisal services. Appraisal services revenue is approximately 4% of total revenue. The appraisal services gross margin increased slightly compared to 2013. 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 2014 increased 0.9% from 2013. The gross margin increase was mainly due to a revenue mix that included more software license revenue and subscription revenue and in particular, increased revenue from e-filing in Texas. This improvement in gross margin was offset somewhat by expenses associated with increased hiring of implementation, development and support staff in order to expand our capacity to implement our contract backlog.

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)	2014	2013	$	%
Selling, general and administrative expenses	$108,260	$98,289	$9,971	10%

SG&A as a percentage of revenue was 22.0% in 2014 compared to 23.6% in 2013. Approximately one-third of the SG&A expense increase is from higher commission expense due to sales growth. Stock compensation expense contributed approximately one-quarter of the increase primarily due to increases in our stock price. The remaining increase consisted of higher bonuses related to operating results, annual wage adjustments and increased travel related expenses.

Research and Development Expense

Research and development expense consists primarily of salaries, employee benefits and related overhead costs associated with product development. The following table sets forth a comparison of our research and development expense for the years ended December 31:

			Change	
($ in thousands)	2014	2013	$	%
Research and development expense	$25,743	$23,269	$2,474	11%

Research and development expense consist mainly of costs associated with development of new products and technologies from which we do not currently generate revenue, as well as costs related to the ongoing development efforts for Microsoft Dynamics AX. In 2007, we entered into a Software Development and License Agreement, which provided for a strategic alliance with Microsoft Corporation ("Microsoft") to jointly develop core public sector functionality for Microsoft Dynamics AX to address the accounting needs of public sector organizations worldwide. This agreement and subsequent amendments granted Microsoft intellectual property rights in the software code provided and developed by Tyler into Microsoft Dynamics AX products to be marketed and sold outside of the public sector in exchange for reimbursement payments to partially offset the research and development costs and royalties on direct and indirect public-sector sales worldwide of the solutions co-developed under this arrangement. In addition, Tyler agreed to commit certain resources to the development of the next version of Dynamics AX. Tyler also receives software and maintenance royalties on direct and indirect public-sector sales worldwide of the solutions co-developed under this arrangement.

In 2014, research and development expense increased 11% compared to 2013 due to annual wage adjustments and efforts to maintain our competitive position. We expect that research and development expense will increase in 2015 at a lower rate than our expected revenue growth.

Amortization of Customer and Trade Name Intangibles

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

			Change	
($ in thousands)	2014	2013	$	%
Amortization of customer and trade name intangibles	$4,546	$4,517	$29	1%

In 2014, we completed one acquisition that increased amortizable customer and trade name intangibles by approximately $1.0 million. This amount is being amortized over a weighted average period of 12 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):

2015	$4,606
2016	4,606
2017	4,606
2018	4,457
2019	3,102

Other

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

			Change	
($ in thousands)	2014	2013	$	%
Other expense, net	$355	$1,309	$(954)	(73)%

Other expense is primarily comprised of interest expense, non-usage and other fees associated with a revolving line of credit agreement that matured in August 2014, offset by interest income associated with invested cash balances. Interest expense declined compared to the prior year because we repaid all borrowings under the revolving credit agreement in early 2013, and had no debt outstanding during 2014.

Income Tax Provision

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

			Change	
($ in thousands)	2014	2013	$	%
Income tax provision	$35,527	$26,718	$8,809	33%
Effective income tax rate	37.6%	40.6%		

The effective income tax rates were different from the statutory United States federal income tax rate of 35% due to state income taxes, non-deductible share-based compensation expense, the qualified manufacturing activities deduction, disqualifying incentive stock option dispositions and non-deductible meals and entertainment costs. The qualified manufacturing activities deduction increased in 2014 contributing to a lower effective tax rate.

We experienced significant stock option exercise activity in 2014 and 2013 that generated excess tax benefits of $19.4 million and $28.2 million, respectively. Excess tax benefits reduce tax payments but do not significantly reduce the effective tax rate and can result in limitations on other deductions. In 2013, limitations resulting from excess tax benefits eliminated the qualified manufacturing activities deduction, which negatively impacted our effective tax rate.

2013 Compared to 2012

Revenues

Software licenses and royalties.

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

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

In 2012, we acquired two companies which provide financial and human capital management software solutions to the K-12 education market and one company that provides enterprise permitting, land management, licensing and regulatory software solutions to government agencies. Excluding the impact of acquisitions, total software licenses and royalties revenue increased 12% compared to 2012. Approximately half of the growth was due to an increase of $2.3 million in royalties on sales of Microsoft Dynamics AX by other Microsoft partners compared to the prior year. Royalty revenue is dependent upon sales volume from Microsoft partners, as well as the timing of maintenance renewals, and can vary substantially from period to period. Software license revenues also grew 5% mainly due to increased investments in product development over the past few years. However, software license growth was reduced somewhat because of a growing number of clients choosing our subscription-based options, rather than purchasing the software under a traditional perpetual software license arrangement. We had 100 new software clients that entered into subscription-based arrangements in 2013 compared to 76 new clients in 2012.

Subscriptions.

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

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

Excluding the impact of acquisitions, subscription-based services revenue increased 37% compared to 2012. New SaaS clients as well as existing clients who converted to our SaaS model provided the majority of the subscription-based revenue increase. In 2013, we added 100 new clients and 63 existing clients elected to convert to our SaaS model. E-filing services also contributed approximately $5.0 million of the subscription revenue increase. E-filing revenue included $3.8 million related to a new contract with the Texas Office of Court Administration for our Odyssey File and Serve e-filing system for Texas courts, which was implemented in September 2013.

Software services.

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

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

Excluding the impact of acquisitions, software services increased 7% compared to 2012. The increase is attributable to growth in software license activity, as well as contract arrangements that included more programming and other services.

Maintenance.

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

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

Excluding the impact of acquisitions, maintenance revenue grew 9% from 2012. This increase was mainly due to growth in our installed customer base from new software license sales, as well as maintenance rate increases.

Appraisal services.

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

			Change	
($ in thousands)	2013	2012	$	%
ESS	$ —	$ —	$ —	—%
ATSS	20,825	22,543	(1,718)	(8)
Total appraisal services revenue	$20,825	$22,543	$(1,718)	(8)%

Appraisal services revenue declined 8% compared to 2012. The decline is mainly due to the completion in mid-2012, of a large contract in Pennsylvania.

Cost of Revenues and Gross Margins

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

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

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

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

Software licenses, royalties and acquired software. In 2013, our software license gross margin percentage increased compared to 2012 due to higher revenues from royalties. The margin also benefited from a product mix that included slightly more proprietary software revenues, which have a higher gross margin than third-party software.

Software services, maintenance and subscription-based services. In 2013, the software services, maintenance and subscriptions gross margin decreased compared to the prior year partly because we accelerated hiring in 2013 to ensure that we were well-positioned to deliver our backlog and anticipated new business. In addition, software services, maintenance and subscription-based services cost included initial startup costs related to the eFileTexas.gov contract. This contract began in September 2013, but we incurred initial startup costs in 2013 for which there were very limited related revenue. Excluding the limited revenue and costs incurred in connection with implementing eFileTexas.gov in 2013, our software services, maintenance and subscription services gross margin would have been approximately 42.8%. Our implementation and support staff increased by 202 employees since 2012. Most of these additions occurred mid-to late 2013.

Appraisal services. The appraisal services gross margin declined slightly compared to 2012. A high proportion of the costs of appraisal services revenue are variable, as we often hire temporary employees to assist in appraisal projects, whose term of employment generally ends with the projects' completion.

Our blended gross margin for 2013 increased 0.2% from 2012 mainly due to higher royalty revenue and also benefited from a product mix that included slightly higher proprietary software revenues than third-party software. Costs incurred related to our implementation of e-FileTexas.gov with minimal related revenues as well as increased hiring of implementation and support staff in order to expand our capacity to implement our contract backlog offset some of the positive impact of higher royalty and proprietary software revenue.

Selling, General and Administrative Expenses

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

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

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

Research and Development Expense

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

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

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

Amortization of Customer and Trade Name Intangibles

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

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

Other

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

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

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

Income Tax Provision

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

($ in thousands)	2013	2012	Change $	Change %
Income tax provision	$26,718	$20,874	$5,844	28%
Effective income tax rate	40.6%	38.8%		

The effective income tax rates were different from the statutory United States federal income tax rate of 35% due to state income taxes, non-deductible share-based compensation expense, the qualified manufacturing activities deduction, disqualifying incentive stock option dispositions and non-deductible meals and entertainment costs. We experienced significant stock option exercise activity in 2013 that generated $28.2 million excess tax benefits. Excess tax benefits reduce tax payments but do not significantly reduce the effective tax rate and can result in limitations on other deductions. In 2013, limitations resulting from excess tax benefits eliminated the qualified manufacturing activities deduction, which negatively impacted our effective tax rate.

FINANCIAL CONDITION AND LIQUIDITY

As of December 31, 2014, we had cash and cash equivalents of $206.2 million compared to $78.9 million at December 31, 2013. Cash and cash equivalents consist of cash on deposit with several domestic banks. As of December 31, 2014, we had no outstanding borrowings and an outstanding letter of credit totaling $2.0 million. We do not believe this letter of credit will be required to be drawn upon. We believe that cash from operating activities, cash on hand and access to the credit markets provides us with sufficient flexibility to meet our long-term financial needs.

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

($ in thousands)	2014	2013	2012
Cash flows provided (used) by:			
Operating activities	$123,437	$ 66,090	$ 58,668
Investing activities	(11,555)	(25,658)	(34,736)
Financing activities	15,409	32,038	(18,852)
Net increase in cash and cash equivalents	$127,291	$ 72,470	$ 5,080

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

In 2014, operating activities provided net cash of $123.4 million, primarily generated from net income of $58.9 million, non-cash depreciation and amortization charges of $14.6 million and non-cash share-based compensation expense of $14.8 million. Cash from operations also benefited from timing of payments on vendor invoices and income tax liabilities. In addition, deferred revenue balances were higher than 2013 mainly due to an increase in annual software maintenance billings as a result of growth in our installed customer base and growth in subscription-based arrangements. These increases in liabilities were offset somewhat by higher accounts receivable balances from annual software maintenance billings and prepaid commissions on large contracts.

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

At December 31, 2014, our days sales outstanding ("DSOs") were 80 days compared to DSOs of 87 days at December 31, 2013. 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 $11.6 million in 2014 compared to $25.7 million in 2013. In 2014, we completed the acquisition of SoftCode, Inc. for a purchase price of $3.5 million in cash, of which $325,000 was accrued at December 31, 2014, and 16,540 shares of Tyler common stock valued at $1.5 million. The remaining use of cash in 2014 was comprised primarily of capital expenditures related to computer equipment, furniture and fixtures in support of internal growth, particularly with respect to growth in our cloud-based offerings. Investing activities in 2013 and 2012 included $20.3 million and $2.3 million, respectively, paid in connection with the construction of an office building in Plano, Texas. These expenditures were funded from cash generated from operations and cash on hand.

In 2012, we also purchased four companies for a combined cash purchase price of $25.7 million and paid $2.6 million, which was comprised of $1.7 million in cash and land and a building valued at $900,000 for an office building in Moraine, Ohio. These expenditures were funded from cash generated from operations, cash on hand and borrowings under a revolving credit line.

Financing activities in 2014 provided cash of $15.4 million compared to $32.0 million in 2013. Financing activities in 2014 were comprised of collections of $18.8 million from stock option exercises and contributions from the employee stock purchase plan and $19.4 million excess tax benefit from exercises of share-based arrangements. These increases were offset somewhat by purchases of 294,000 shares of our common stock for an aggregate purchase price of $22.8 million. Financing activities in 2013 were comprised of collections of $21.8 million from stock option exercises and employee stock purchase plan activity and $28.2 million excess tax benefit from exercises of share-based arrangements, offset partially by $18.0 million in net payments on our revolving line of credit. Cash used in financing activities in 2012 was mainly comprised of $42.7 million in payments on our revolving line of credit offset by collections of $15.1 million from stock option exercises and contributions from the employee stock purchase plan and $8.8 million excess tax benefit from exercises of share-based arrangements.

The share repurchase program, which was approved by our board of directors, was announced in October 2002, and was amended at various times from 2003 through 2011. As of December 31, 2014, we had remaining authorization to repurchase up to 1.4 million additional shares of our common stock. Our share repurchase program allows us to repurchase shares at our discretion and market conditions influence the timing of the buybacks and the number of shares repurchased, as well as the volume of employee stock option exercises. Share repurchases are generally funded using our existing cash balances and may occur through open market purchases and transactions structured through investment banking institutions, privately negotiated transactions and/or other mechanisms. There is no expiration date specified for the authorization and we intend to repurchase stock under the plan from time to time.

In 2014, we issued 855,000 shares of common stock and received $14.7 million in aggregate proceeds upon exercise of stock options. In 2013, we issued 1.4 million shares of common stock and received $18.3 million in aggregate proceeds upon exercise of stock options. In 2012, we issued 1.2 million shares of common stock and received $12.4 million in aggregate proceeds upon exercise of stock options. In 2014, 2013 and 2012, we received $4.1 million, $3.5 million, and $2.6 million, respectively, from contributions to the Tyler Technologies, Inc. Employee Stock Purchase Plan.

We did not replace our revolving credit line of $150.0 million that matured on August 11, 2014.

As of December 31, 2014, we had an outstanding $2.0 million letter of credit, issued by a bank in favor of one of our clients. The letter of credit guarantees our performance under a software contract and expires in 2015. We do not believe this letter of credit will be required to be drawn upon.

We paid income taxes, net of refunds received, of $10.2 million in 2014, $9.3 million in 2013, and $13.1 million in 2012. We experienced significant stock option exercise activity in 2014 that generated $19.4 million excess tax benefits. Excess tax benefits reduce tax payments but do not significantly reduce the effective tax rate and can result in limitations on other deductions. In 2013 and 2012, excess tax benefits were $28.2 million and $8.8 million, respectively.

On February 4, 2015, we announced that our contractual research and development commitment to develop public sector functionality for Microsoft Dynamics AX expires with the release of Dynamics AX 7. We do not anticipate continuing research and development commitment, although we will continue to provide sustained engineering and technical support for the public sector functionality within Dynamics AX. We do not expect the expiration of this development commitment to materially impact operating results in 2015. We anticipate that license and maintenance royalties for all applicable domestic and international sales of Dynamics AX to public sector entities will continue under the terms of the contract.

On January 30, 2015, we made a $15.0 million investment in convertible preferred stock representing a 20% interest in Record Holdings Pty Limited, a privately held Australian company specializing in digitizing the spoken word in court and legal settings.

Excluding acquisitions, we anticipate that 2015 capital spending will be between $13.5 million and $14.5 million. We expect the majority of this capital spending will consist of computer equipment and software for infrastructure replacements and expansion. We currently do not expect to capitalize significant amounts related to software development in 2015, but the actual amount and timing of those costs, and whether they are capitalized or expensed may result in additional capitalized software development. Capital spending is expected to be funded from existing cash balances and cash flows from operations.

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

We lease office facilities, as well as transportation, computer and other equipment used in our operations under non-cancelable operating lease agreements expiring at various dates through 2021. Most leases contain renewal options and some contain purchase options.

Summarized in the table below are our obligations to make future payments under our long-term lease obligations at December 31, 2014 (in thousands):

	2015	2016	2017	2018	2019	Thereafter	Total
Lease obligations	$5,437	$5,136	$4,459	$2,270	$1,680	$2,005	$20,987

As of December 31, 2014, 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, 2014, our capitalization consisted of no outstanding borrowings and $337.0 million of shareholders' equity.

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. We have no outstanding debt at December 31, 2014 and we therefore are not subject to any interest risk.

CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures — We maintain disclosure controls and procedures (as defined in Rule 13a-15(e) of the Securities Exchange Act) designed to provide reasonable assurance that the information required to be disclosed by us in the reports we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. These include controls and procedures designed to ensure that this information is accumulated and communicated to our management, including our chief executive officer and chief financial officer, as appropriate to allow timely decisions regarding required disclosures. Management, with the participation of the chief executive officer and chief financial officer, evaluated the effectiveness of our disclosure controls and procedures as of December 31, 2014. 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, 2014.

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, 2014. 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 (2013 framework).* Based on our assessment, we concluded that, as of December 31, 2014, Tyler's internal control over financial reporting was effective based on those criteria.

Tyler's internal control over financial reporting as of December 31, 2014 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 38 hereof.

Changes in Internal Control Over Financial Reporting — During the quarter ended December 31, 2014, 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, 2014, based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO Criteria). Tyler Technologies, Inc.'s management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying "Management's Report on Internal Control Over Financial Reporting." Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

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

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

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

In our opinion, Tyler Technologies, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2014, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Tyler Technologies, Inc. as of December 31, 2014 and 2013, and the related consolidated statements of comprehensive income, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2014 and our report dated February 18, 2015 expressed an unqualified opinion thereon.

Ernst + Young LLP

Dallas, Texas
February 18, 2015

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Shareholders

Tyler Technologies, Inc.

We have audited the accompanying consolidated balance sheets of Tyler Technologies, Inc. as of December 31, 2014 and 2013, and the related consolidated statements of comprehensive income, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2014. 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, 2014 and 2013, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2014, 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, 2014, based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated February 18, 2015 expressed an unqualified opinion thereon.

Ernst + Young LLP

Dallas, Texas
February 18, 2015

Consolidated Statements of Comprehensive Income

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

For the years ended December 31,	2014	2013	2012
In thousands, except per share amounts			
Revenues:			
Software licenses and royalties	$ 49,065	$ 40,841	$ 33,928
Subscriptions	87,848	61,864	44,618
Software services	113,821	93,267	83,408
Maintenance	212,696	191,720	171,851
Appraisal services	21,802	20,825	22,543
Hardware and other	7,869	8,126	6,956
Total revenues	493,101	416,643	363,304
Cost of revenues:			
Software licenses and royalties	1,900	2,377	1,983
Acquired software	1,858	2,078	1,888
Software services, maintenance and subscriptions	236,363	199,617	171,584
Appraisal services	14,284	13,809	14,889
Hardware and other	5,325	5,559	5,258
Total cost of revenues	259,730	223,440	195,602
Gross profit	233,371	193,203	167,702
Selling, general and administrative expenses	108,260	98,289	86,706
Research and development expense	25,743	23,269	20,140
Amortization of customer and trade name intangibles	4,546	4,517	4,279
Operating income	94,822	67,128	56,577
Other expense, net	355	1,309	2,709
Income before income taxes	94,467	65,819	53,868
Income tax provision	35,527	26,718	20,874
Net income	$ 58,940	$ 39,101	$ 32,994
Earnings per common share:			
Basic	$ 1.79	$ 1.23	$ 1.09
Diluted	$ 1.66	$ 1.13	$ 1.00
Unrealized gains on investment securities available-for-sale	$ —	$ 341	$ 134
Income tax benefit related to components of other comprehensive income	—	119	47
Other comprehensive income, net of tax	$ —	$ 222	$ 87
Comprehensive income	$ 58,940	$ 39,323	$ 33,081

See accompanying notes.

CONSOLIDATED BALANCE SHEETS

December 31,	2014	2013
In thousands, except par value and share amounts		
ASSETS		
Current assets:		
Cash and cash equivalents	$206,167	$ 78,876
Accounts receivable (less allowance for losses of $1,725 in 2014 and $1,113 in 2013)	112,660	106,570
Prepaid expenses	17,851	13,522
Income tax receivable	19	9,721
Other current assets	339	787
Deferred income taxes	9,674	7,759
Total current assets	346,710	217,235
Accounts receivable, long-term portion	1,761	588
Property and equipment, net	65,910	64,844
Other assets:		
Goodwill	124,142	121,011
Other intangibles, net	34,722	38,986
Sundry and other	737	1,824
	$573,982	$444,488
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 4,119	$ 2,533
Accrued liabilities	39,508	32,839
Deferred revenue	189,212	156,738
Total current liabilities	232,839	192,110
Deferred income taxes	4,170	6,059
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 2014 and 2013	481	481
Additional paid-in capital	201,389	182,176
Accumulated other comprehensive loss, net of tax	(46)	(46)
Retained earnings	261,150	202,210
Treasury stock, at cost; 14,678,782 and 15,309,940 shares in 2014 and 2013, respectively	(126,001)	(138,502)
Total shareholders' equity	336,973	246,319
	$573,982	$444,488

See accompanying notes.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

For the years ended December 31, 2014, 2013 and 2012

	Common Stock		Additional	Accumulated Other	Retained	Treasury Stock		Total
	Shares	Amount	Paid-in Capital	Comprehensive Income (Loss)	Earnings	Shares	Amount	Shareholders' Equity
In thousands								
Balance at December 31, 2011	48,148	$481	$152,859	$(355)	$130,115	(18,176)	$(204,990)	$ 78,110
Net income	—	—	—	—	32,994	—	—	32,994
Unrealized gain on investment securities, net of tax	—	—	—	87	—	—	—	87
Issuance of shares pursuant to stock compensation plan	—	—	(17,018)	—	—	1,218	29,461	12,443
Stock compensation	—	—	7,411	—	—	—	—	7,411
Issuance of shares pursuant to employee stock purchase plan	—	—	639	—	—	81	2,002	2,641
Federal income tax benefit related to exercise of stock options	—	—	8,798	—	—	—	—	8,798
Issuance of shares for acquisition	—	—	1,329	—	—	60	1,486	2,815
Balance at December 31, 2012	48,148	481	154,018	(268)	163,109	(16,817)	(172,041)	145,299
Net income	—	—	—	—	39,101	—	—	39,101
Unrealized gain on investment securities, net of tax	—	—	—	222	—	—	—	222
Issuance of shares pursuant to stock compensation plan	—	—	(13,742)	—	—	1,443	32,031	18,289
Stock compensation	—	—	11,653	—	—	—	—	11,653
Issuance of shares pursuant to employee stock purchase plan	—	—	2,034	—	—	64	1,508	3,542
Federal income tax benefit related to exercise of stock options	—	—	28,213	—	—	—	—	28,213
Balance at December 31, 2013	48,148	481	182,176	(46)	202,210	(15,310)	(138,502)	246,319
Net income	—	—	—	—	58,940	—	—	58,940
Issuance of shares pursuant to stock compensation plan	—	—	(17,449)	—	—	855	32,129	14,680
Stock compensation	—	—	14,819	—	—	—	—	14,819
Issuance of shares pursuant to employee stock purchase plan	—	—	2,235	—	—	53	1,909	4,144
Federal income tax benefit related to exercise of stock options	—	—	19,415	—	—	—	—	19,415
Treasury stock purchases	—	—	—	—	—	(294)	(22,817)	(22,817)
Issuance of shares for acquisition	—	—	193	—	—	17	1,280	1,473
Balance at December 31, 2014	48,148	$481	$201,389	$ (46)	$261,150	(14,679)	$(126,001)	$336,973

See accompanying notes.

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended December 31,	2014	2013	2012
In thousands			
Cash flows from operating activities:			
Net income	$ 58,940	$ 39,101	$ 32,994
Adjustments to reconcile net income to cash provided by operations:			
Depreciation and amortization	14,605	13,786	12,711
Share-based compensation expense	14,819	11,653	7,411
Provision for losses – accounts receivable	1,897	729	961
Excess tax benefit from exercises of share-based arrangements	(19,402)	(28,207)	(8,764)
Deferred income tax benefit	(3,804)	(1,497)	(215)
Changes in operating assets and liabilities, exclusive of effects of acquired companies:			
Accounts receivable	(8,912)	(7,488)	(6,825)
Income tax receivable	29,117	18,898	7,791
Prepaid expenses and other current assets	(3,696)	(4,154)	110
Accounts payable	1,586	(574)	(369)
Accrued liabilities	6,326	7,655	(530)
Deferred revenue	31,961	16,188	13,393
Net cash provided by operating activities	123,437	66,090	58,668
Cash flows from investing activities:			
Proceeds from sale of investments	808	1,090	75
Cost of acquisitions, net of cash acquired	(3,242)	(181)	(25,680)
Additions to property and equipment	(9,343)	(26,858)	(9,102)
Decrease (increase) in other	222	291	(29)
Net cash used by investing activities	(11,555)	(25,658)	(34,736)
Cash flows from financing activities:			
Purchase of treasury shares	(22,817)	—	—
Contributions from employee stock purchase plan	4,144	3,542	2,641
Proceeds from exercise of stock options	14,680	18,289	12,443
Decrease in net borrowings on revolving line of credit	—	(18,000)	(42,700)
Excess tax benefit from exercises of share-based arrangements	19,402	28,207	8,764
Net cash provided (used) by financing activities	15,409	32,038	(18,852)
Net increase in cash and cash equivalents	127,291	72,470	5,080
Cash and cash equivalents at beginning of period	78,876	6,406	1,326
Cash and cash equivalents at end of period	$206,167	$ 78,876	$ 6,406

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 software as a service ("SaaS") arrangements, which utilize the Tyler private cloud, and electronic document filing solutions ("e-filing"). In addition, we also provide property appraisal outsourcing services for taxing jurisdictions.

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include our parent company and a subsidiary, which is wholly-owned. All significant intercompany balances and transactions have been eliminated in consolidation.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of cash on deposit with several domestic banks. Cash and cash equivalents are stated at cost, which approximates market value.

REVENUE RECOGNITION

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

Software Arrangements:

For the majority of our software arrangements, we provide services that range from installation, training, and basic consulting to software modification and customization to meet specific customer needs. If the arrangement does not require significant production, modification or customization or where the software services are not considered essential to the functionality of the software, revenue is recognized when all of the following conditions are met:

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

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

Software Licenses and Royalties

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

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

For arrangements that involve significant production, modification or customization of the software, or where software services are otherwise considered essential, we recognize revenue using contract accounting and apply the provisions of the Construction — Type and Production — Type Contracts as discussed in ASC 605-35, Multiple Elements Arrangements. We generally use the percentage-of-completion method to recognize revenue from these arrangements. We measure progress-to-completion primarily using labor hours incurred, or value added. The percentage-of-completion method generally results in the recognition of reasonably consistent profit margins over the life of a contract because we have the ability to produce reasonably dependable estimates of contract billings and contract costs. We use the level of profit margin that is most likely to occur on a contract. If the most likely profit margin cannot be precisely determined, the lowest probable level of profit in the range of estimates is used until the results can be estimated more precisely. These arrangements are often implemented over an extended time period and occasionally require us to revise total cost estimates. Amounts recognized in revenue are calculated using the progress-to-completion measurement after giving effect to any changes in our cost estimates. Changes to total estimated contract costs, if any, are recorded in the period they are determined. Estimated losses on uncompleted contracts are recorded in the period in which we first determine that a loss is apparent. For arrangements that include new product releases for which it is difficult to estimate final profitability except to assume that no loss will ultimately be incurred, we recognize revenue under the completed contract method. Under the completed contract method, revenue is recognized only when a contract is completed or substantially complete. Historically these amounts have been immaterial.

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

Software Services

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

Computer Hardware Equipment

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

Post Contract Customer Support

Our customers generally enter into PCS agreements when they purchase our software licenses. PCS includes telephone support, bug fixes, and rights to upgrades on a when-and-if available basis. Our PCS agreements are typically renewable annually. Revenue allocated to PCS is recognized on a straight-line basis over the period the PCS is provided. All significant costs and expenses associated with PCS are expensed as incurred.

Subscription-Based Services:

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

For SaaS arrangements, we evaluate whether the customer has the contractual right to take possession of our software at any time during the hosting period without significant penalty and whether the customer can feasibly maintain the software on the customer's hardware or enter into another arrangement with a third-party to host the software. In cases where the customer has the contractual right to take possession of our software at any time during the hosting period without significant penalty and the customer can feasibly maintain the software on the customer's hardware or enter into another arrangement with a third-party to host the software, we recognize the license, professional services and hosting services revenues pursuant to ASC 985-605, Software Revenue Recognition.

For SaaS arrangements that do not meet the criteria for recognition under ASC 985-605, we account for the elements under ASC 605-25, Multiple Element Arrangements, using all applicable facts and circumstances, including whether (i) the element has stand-alone value, (ii) there is a general right of return and (iii) the revenue is contingent on delivery of other elements. We allocate contract value to each element of the arrangement that qualifies for treatment as a separate element based on VSOE, and if VSOE is not available, third-party evidence, and if third-party evidence is unavailable, estimated selling price. We recognize hosting services ratably over the term of the arrangement, which range from one to 10 years but are typically for a period of three to six years. For professional services associated with SaaS arrangements that we determine do not have stand-alone value to the customer or are contingent on delivery of other elements, we recognize the services revenue ratably over the remaining contractual period once we have provided the customer access to the software and we may begin billing for hosting services. We record amounts that have been invoiced in accounts receivable and in deferred revenue or revenues, depending on whether the revenue recognition criteria have been met.

Electronic filing transaction fees primarily pertain to documents filed with the courts by attorneys and other third-parties via our e-filing services and retrieval of filed documents via our access services. The elements for these arrangements are accounted for under ASC 605-25. For each document filed with a court, the filer generally pays a transaction fee and a court filing fee to us and we remit a portion of the transaction fee and the filing fee to the court. We record as revenue the transaction fee, while the portion of the transaction fee remitted to the courts is recorded as cost of sales as we are acting as a principal in the arrangement. Court filing fees collected on behalf of the courts and remitted to the courts are recorded on a net basis and thus do not affect the statement of comprehensive income. In some cases, we are paid on a fixed fee basis and recognize the revenue ratably over the contractual period.

Costs of performing services under subscription-based arrangements are expensed as incurred, except for certain direct and incremental contract origination and set-up costs associated with SaaS arrangements. Such direct and incremental costs are capitalized and amortized ratably over the related SaaS hosting term.

Appraisal Services:

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

Allocation of Revenue in Statements of Comprehensive Income

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

Other

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

Prepaid expenses and other current assets include direct and incremental costs such as commissions associated with arrangements for which revenue recognition has been deferred. Such costs are expensed at the time the related revenue is recognized.

USE OF ESTIMATES

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

PROPERTY AND EQUIPMENT, NET

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

RESEARCH AND DEVELOPMENT COSTS

We expensed research and development costs of $25.7 million during 2014, $23.3 million during 2013, and $20.1 million during 2012. We reduced our research and development expense by approximately $1.0 million in 2012, which was the amount earned under the terms of a strategic alliance with a development partner.

INCOME TAXES

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

SHARE-BASED COMPENSATION

We have a stock option plan that provides for the grant of stock options to key employees, directors and non-employee consultants. Stock options generally vest after three to six years of continuous service from the date of grant and have a contractual term of 10 years. We account for share-based compensation utilizing the fair value recognition pursuant to ASC 718, Stock Compensation. See Note 9 — "Share-Based Compensation" for further information.

GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill

Goodwill represents the excess of the purchase price over the fair value of net assets acquired, including identifiable intangible assets, in connection with our business combinations. Upon acquisition, goodwill is assigned to the reporting unit that is expected to benefit from the synergies of the business combination, which is the reporting unit to which the related acquired technology is assigned. A reporting unit is the operating segment, or a business unit one level below that operating segment, for which discrete financial information is prepared and regularly reviewed by executive management. We assess goodwill for impairment annually as of April, or more frequently whenever events or changes in circumstances indicate its carrying value may not be recoverable.

When testing goodwill for impairment quantitatively, we first compare the fair value of each reporting unit with its carrying amount. If the carrying amount of a reporting unit exceeds its fair value, a second step is performed to measure the amount of potential impairment. In the second step, we compare the implied fair value of reporting unit goodwill with the carrying amount of the reporting unit's goodwill. If the carrying amount of reporting unit goodwill exceeds the implied fair value of that goodwill, an impairment loss is recognized. The fair values calculated in our impairment tests are determined using discounted cash flow models involving several assumptions. The assumptions that are used are based upon what we believe a hypothetical marketplace participant would use in estimating fair value. We evaluate the reasonableness of the fair value calculations of our reporting units by comparing the total of the fair value of all of our reporting units to our total market capitalization.

Our annual goodwill impairment analysis, which we performed quantitatively during the second quarter of 2014, did not result in an impairment charge.

Other Intangible Assets

We make judgments about the recoverability of purchased intangible assets other than goodwill whenever events or changes in circumstances indicate that an impairment may exist. Customer base constitutes approximately 80% of our purchased intangible assets other than goodwill. We review our customer turnover each year for indications of impairment. Our customer turnover has historically been very low. If indications of impairment are determined to exist, we measure the recoverability of assets by a comparison of the carrying amount of the asset to the estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of the assets exceeds their estimated future cash flows, an impairment charge is recognized for the amount by which the carrying amount of the assets exceeds the fair value of the assets. There have been no significant impairments of intangible assets in any of the periods presented.

IMPAIRMENT OF LONG-LIVED ASSETS

We periodically evaluate whether current facts or circumstances indicate that the carrying value of our property and equipment or other long-lived assets to be held and used may not be recoverable. If such circumstances are determined to exist, we measure the recoverability of assets to be held and used by a comparison of the carrying amount of the asset or appropriate grouping of assets and the estimated undiscounted future cash flows expected to be generated by the assets. If the carrying amount of the assets exceeds their estimated future cash flows, an impairment charge is recognized for the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of would be separately presented in the balance sheet and reported at the lower of the carrying amount or fair value less costs to sell, and are no longer depreciated. The assets and liabilities of a disposed group classified as held for sale would be presented separately in the appropriate asset and liability sections of the balance sheet. There have been no significant impairments of long-lived assets in any of the periods presented.

COSTS OF COMPUTER SOFTWARE

We capitalize software development costs upon the establishment of technological feasibility and prior to the availability of the product for general release to customers. Software development costs primarily consist of personnel costs and rent for related office space. We begin to amortize capitalized costs when a product is available for general release to customers. Amortization expense is determined on a product-by-product basis at a rate not less than straight-line basis over the product's remaining estimated economic life, but not to exceed five years. We have not capitalized any internal software development costs in any of the periods presented.

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.

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 and accounts receivable from trade customers. Our cash and cash equivalents primarily consists of operating account balances, which are maintained at several major domestic financial institutions and the balances often exceed insured amounts. As of December 31, 2014 we had cash and cash equivalents of $206.2 million. We perform periodic evaluations of the credit standing of these financial institutions.

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, 2014.

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,	2014	2013	2012
Balance at beginning of year	$ 1,113	$ 1,621	$ 990
Provisions for losses – accounts receivable	1,897	729	961
Deductions for accounts charged off or credits issued	(1,285)	(1,237)	(330)
Balance at end of year	$ 1,725	$ 1,113	$1,621

The termination clauses in most of our contracts provide for the payment for the value of products delivered or services performed in the event of early termination. Our property appraisal outsourcing service contracts can range up to three years and, in a few cases, as long as five years, in duration. In connection with these contracts, as well as certain software service contracts, we may perform work prior to when the software and services are billable and/or payable pursuant to the contract. We have historically recorded such unbilled receivables (costs and estimated profit in excess of billings) in connection with (1) property appraisal services contracts accounted for using proportional performance accounting in which the revenue is earned based upon activities performed in one accounting period but the billing normally occurs subsequently and may span another accounting period; (2) software services contracts accounted for using the percentage-of-completion method of revenue recognition using labor hours as a measure of progress towards completion in which the services are performed in one accounting period but the billing for the software element of the arrangement may be based upon the specific phase of the implementation; (3) software revenue for which we have objective evidence that the customer-specified objective criteria has been met but the billing has not yet been submitted to the customer; (4) some of our contracts provide for an amount to be withheld from a progress billing (generally between 5% and 20% 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 $14.8 million and $10.8 million at December 31, 2014 and 2013, respectively. We also have recorded retention receivables of $4.7 million and $2.6 million at December 31, 2014 and 2013, respectively, and these retentions become payable upon the completion of the contract or completion of our fieldwork and formal hearings. Unbilled receivables and retention receivables expected to be collected in excess of one year have been included with accounts receivable, long-term portion in the accompanying consolidated balance sheets.

INDEMNIFICATION

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

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

RECLASSIFICATIONS

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

(2) ACQUISITIONS

2014

On August 29, 2014, we acquired all of the capital stock of SoftCode, Inc. ("SoftCode"), which develops and sells civil process management software, typically to county sheriff departments. The purchase price, net of cash acquired of $71,000, was $3.5 million in cash, of which $325,000 was accrued at December 31, 2014, and 16,540 shares of Tyler common stock valued at $1.5 million, based on the stock price on the acquisition date. In December 2014, we finalized the purchase price allocation, which resulted in additional goodwill of $125,000. As a result, we acquired total tangible assets of approximately $301,000 and assumed liabilities of approximately $531,000. We have recorded total goodwill of approximately $3.1 million, all of which is expected to be deductible for tax purposes, and other intangible assets of approximately $2.1 million. The $2.1 million of intangible assets is attributable to customer relationships, acquired software and trade name and will be amortized over a weighted average period of approximately eight years. We believe this transaction will broaden our courts and justice software solutions with a tracking and management solution for civil court documents. We believe that likely market participants for this transaction would be software companies with a presence in the courts and justice market. Therefore, the goodwill of $3.1 million arising from this acquisition is primarily attributable to our ability to integrate SoftCode software solutions with our existing portfolio and maximize the value of the customer base through Tyler's Odyssey software suite that targets the courts and justice market and to a much lesser extent, the assembled workforce of SoftCode. Our balance sheet as of December 31, 2014 reflects the allocation of the purchase price to the assets acquired based on their fair value at the date of acquisition. The fair value of the assets and liabilities acquired are based on valuations using level three, unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. The operating results of this acquisition are included in our results of operations from the date of the acquisition.

2012

In November 2012, we acquired all of the capital stock of EnerGov Solutions, L.L.C. that develops and sells enterprise permitting, land management, licensing and regulatory software solutions to governmental agencies. The purchase price, net of cash acquired of $15,000, was $10.5 million in cash and 60,000 shares of Tyler common stock valued at $2.8 million, based on the stock price on the acquisition date.

In April 2012, we acquired all of the capital stock of Computer Software Associates, Inc. ("CSA") for a cash purchase price of $9.4 million, net of cash acquired of $437,000. CSA is a reseller of Tyler's Infinite Visions school enterprise solution, and sells proprietary CSA tax and recording solutions to county governments, primarily in the Northwest.

In March 2012, we acquired all the capital stock of UniFund, L.L.C. ("Unifund") for a cash purchase price of $4.6 million, net of cash acquired of $780,000. UniFund provides enterprise resource planning solutions to schools and local governments, primarily in the Northeast. UniFund is also a reseller of Tyler's Infinite Visions school enterprise solution.

In January 2012, we acquired substantially all of the assets of Akanda Innovation, Inc., a provider of web-based solutions to the public sector, which are integrated, with our property tax software, for a total purchase price of $2.9 million. The purchase price included certain liabilities we assumed of approximately $800,000, resulting in net cash paid to the sellers of $2.1 million, of which $900,000 was paid prior to December 31, 2011.

2015

On January 30, 2015, we made a $15.0 million investment in convertible preferred stock representing a 20% interest in Record Holdings Pty Limited, a privately held Australian company specializing in digitizing the spoken word in court and legal settings.

(3) PROPERTY AND EQUIPMENT, NET

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

	Useful Lives (Years)	2014	2013
Land	—	$ 7,736	$ 7,800
Building and leasehold improvements	5-39	51,309	50,523
Computer equipment and purchased software	3-5	34,058	27,071
Furniture and fixtures	5	11,812	10,834
Transportation equipment	5	238	241
		105,153	96,469
Accumulated depreciation and amortization		(39,243)	(31,625)
Property and equipment, net		$ 65,910	$ 64,844

Depreciation expense was $7.9 million during 2014, $6.4 million during 2013, and $5.6 million during 2012.

We own office buildings in Yarmouth, Maine; Lubbock and Plano, Texas; and Moraine, Ohio. We lease some space in these buildings to third-party tenants. These leases expire between 2015 and 2017 and are expected to provide rental income of approximately $685,000 during 2015, $319,000 during 2016, and $46,000 during 2017. Rental income associated with third-party tenants was $945,000 in 2014, $704,000 in 2013, and $586,000 in 2012, and was included as a reduction of selling, general and administrative expenses.

(4) GOODWILL AND OTHER INTANGIBLE ASSETS

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

	2014	2013
Gross carrying amount of acquisition intangibles:		
Customer related intangibles	$ 61,325	$ 60,547
Acquired software	33,103	32,003
Trade name	3,331	3,109
Lease acquired	—	1,387
	97,759	97,046
Accumulated amortization	(63,037)	(58,060)
Total intangibles, net	$ 34,722	$ 38,986

Total amortization expense for intangibles was $6.4 million in 2014, $6.8 million in 2013, and $6.5 million during 2012.

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

	December 31, 2014			December 31, 2013		
	Gross Carrying Amount	Weighted Average Amortization Period	Accumulated Amortization	Gross Carrying Amount	Weighted Average Amortization Period	Accumulated Amortization
Non-amortizable intangibles:						
Goodwill	$124,142	—	$ —	$121,011	—	$ —
Amortizable intangibles:						
Customer related intangibles	61,325	15 years	33,194	60,547	15 years	28,864
Acquired software	33,103	5 years	28,441	32,003	5 years	26,584
Trade name	3,331	15 years	1,402	3,109	15 years	1,225
Lease acquired	—	—	—	1,387	5 years	1,387

The changes in the carrying amount of goodwill for the two years ended December 31, 2014 are as follows:

	Enterprise Software Solutions	Appraisal and Tax Software Solutions and Services	Total
Balance as of December 31, 2012 and December 31, 2013	$114,454	$6,557	$121,011
Goodwill acquired during 2014 related to the purchase of SoftCode	3,131	—	3,131
Balance as of December 31, 2014	$117,585	$6,557	$124,142

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

2015	$ 6,430
2016	6,331
2017	5,353
2018	4,677
2019	3,248

(5) ACCRUED LIABILITIES

Accrued liabilities consist of the following at December 31:

	2014	2013
Accrued wages, bonuses and commissions	$30,977	$ 25,471
Other accrued liabilities	8,531	7,368
	$39,508	$ 32,839

(6) REVOLVING LINE OF CREDIT

Our revolving line of credit matured on August 11, 2014 and we have not entered into any new credit agreements.

As of December 31, 2014, we had an outstanding $2.0 million letter of credit issued by a bank in favor of one of our clients. The letter of credit guarantees our performance under a software contract and expires in 2015.

(7) INCOME TAX

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

Years ended December 31,	2014	2013	2012
Current:			
Federal	$34,504	$25,625	$19,113
State	4,827	2,590	1,976
	39,331	28,215	21,089
Deferred	(3,804)	(1,497)	(215)
	$35,527	$26,718	$20,874

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

Years ended December 31,	2014	2013	2012
Federal income tax expense at statutory rate	$33,064	$23,037	$18,854
State income tax, net of federal income tax benefit	2,867	2,371	1,365
Non-deductible business expenses	1,485	1,110	1,087
Qualified manufacturing activities	(1,720)	—	(717)
Other, net	(169)	200	285
	$35,527	$26,718	$20,874

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

	2014	2013
Deferred income tax assets:		
Operating expenses not currently deductible	$ 9,093	$ 7,360
Stock option and other employee benefit plans	9,815	7,089
Capital loss and credit carryforward	177	185
Property and equipment	46	149
Total deferred income tax assets	19,131	14,783
Deferred income tax liabilities:		
Intangible assets	(13,424)	(12,910)
Other	(203)	(173)
Total deferred income tax liabilities	(13,627)	(13,083)
Net deferred income tax asset	$ 5,504	$ 1,700

In 2014, we utilized approximately $650,000 of net operating loss carryforwards for federal income tax reporting purposes. The full amount of the net operating loss utilized was attributable to excess tax benefits related to share-based arrangements for which authoritative guidance prohibited the recognition of a deferred tax asset in 2013. In 2014, this tax benefit was accounted for as an increase to shareholders' equity and a reduction in income tax payable. In total, we recognized approximately $19.4 million and $28.2 million of excess tax benefits related to share-based arrangements in 2014 and 2013, respectively, as a credit to shareholders' equity and a reduction in income taxes payable.

Although realization is not assured, we believe it is more likely than not that all the deferred tax assets at December 31, 2014 and 2013 will be realized. Accordingly, we believe no valuation allowance is required for the deferred tax assets. However, the amount of the deferred tax asset considered realizable could be adjusted in the future if estimates of reversing taxable temporary differences are revised.

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

The Internal Revenue Service ("IRS") is examining our U.S. income tax return for the year 2012. As of February 18, 2015, no significant adjustments have been proposed by the IRS. We are unable to make a reasonable estimate as to when cash settlements, if any, will occur.

We are subject to U.S. federal tax as well as income tax of multiple state and local jurisdictions. We are no longer subject to United States federal income tax examinations for years before 2011. We are no longer subject to state and local income tax examinations by tax authorities for the years before 2010.

We paid income taxes, net of refunds received, of $10.2 million in 2014, $9.3 million in 2013, and $13.1 million in 2012.

(8) SHAREHOLDERS' EQUITY

The following table details activity in our common stock:

	Years ended December 31,					
	2014		2013		2012	
	Shares	Amount	Shares	Amount	Shares	Amount
Stock option exercises	855	$ 14,680	1,443	$18,289	1,218	$12,443
Purchases of common stock	(294)	(22,817)	—	—	—	—
Employee stock plan purchases	53	4,144	64	3,542	81	2,641
Shares issued for acquisition	17	1,473	—	—	60	2,815

As of February 18, 2015, we had authorization from our board of directors to repurchase up to 1.4 million additional shares of our common stock.

(9) SHARE-BASED COMPENSATION

Share-Based Compensation Plan

We have a stock option plan that provides for the grant of stock options to key employees, directors and non-employee consultants. Stock options generally vest after three to six years of continuous service from the date of grant and have a contractual term of 10 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, 2014, there were 468,000 shares available for future grants under the plan from the 16.0 million shares previously approved by the stockholders.

Determining Fair Value of Stock Compensation

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

Expected Life. The expected life of awards granted represents the period of time that they are expected to be outstanding. The expected life represents the weighted-average period the stock options are expected to be outstanding based primarily on the options' vesting terms, remaining contractual life and the employees' expected exercise based on historical patterns.

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 more than 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,	2014	2013	2012
Expected life (in years)	6.0	6.4	6.7
Expected volatility	30.9%	32.4%	32.6%
Risk-free interest rate	1.8%	1.4%	1.0%
Expected forfeiture rate	3%	3%	3%

The following table summarizes share-based compensation expense related to share-based awards which is recorded in the statements of comprehensive income:

Years ended December 31,	2014	2013	2012
Cost of software services, maintenance and subscriptions	$ 2,177	$ 1,509	$ 1,084
Selling, general and administrative expenses	12,642	10,144	6,327
Total share-based compensation expenses	14,819	11,653	7,411
Tax benefit	(4,237)	(3,363)	(2,040)
Net decrease in net income	$10,582	$ 8,290	$ 5,371

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, 2011	6,059	$15.31		
Granted	930	43.53		
Exercised	(1,218)	10.22		
Forfeited	(60)	28.07		
Outstanding at December 31, 2012	5,711	20.86		
Granted	1,453	67.08		
Exercised	(1,443)	12.68		
Forfeited	(1)	68.17		
Outstanding at December 31, 2013	5,720	34.66		
Granted	675	94.15		
Exercised	(855)	17.17		
Forfeited	(3)	37.44		
Outstanding at December 31, 2014	5,537	44.61	7	$358,897
Exercisable at December 31, 2014	2,017	24.85	5	$170,633

We had unvested options to purchase 3.3 million shares with a weighted average grant date exercise price of $55.61 as of December 31, 2014 and unvested options to purchase 3.5 million shares with a weighted average grant date exercise price of $44.55 as of December 31, 2013. As of December 31, 2014, we had $55.3 million of total unrecognized compensation cost related to unvested options, net of expected forfeitures, which is expected to be amortized over a weighted average amortization period of four years.

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

	2014	2013	2012
Weighted average grant-date fair value of stock options granted	$ 31.32	$ 23.27	$ 15.24
Total intrinsic value of stock options exercised	69,768	99,393	40,589

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, 2014, there were 940,000 shares available for future grants under the ESPP from the 2.0 million shares previously approved by the stockholders.

(10) EARNINGS PER SHARE

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

Years Ended December 31,	2014	2013	2012
Numerator for basic and diluted earnings per share:			
Net income	$58,940	$39,101	$32,994
Denominator:			
Weighted-average basic common shares outstanding	33,011	31,891	30,327
Assumed conversion of dilutive securities:			
Stock options	2,390	2,699	2,589
Denominator for diluted earnings per share – Adjusted weighted-average shares	35,401	34,590	32,916
Earnings per common share:			
Basic	$ 1.79	$ 1.23	$ 1.09
Diluted	$ 1.66	$ 1.13	$ 1.00

Stock options representing the right to purchase common stock of 481,000 shares in 2014, 62,000 shares in 2013, and 463,000 shares in 2012 were not included in the computation of diluted earnings per share because their inclusion would have had an anti-dilutive effect.

(11) LEASES

We lease office facilities for use in our operations, as well as transportation, computer and other equipment. We also have an office facility lease agreement with an entity owned by an executive's father and brother. The executive does not have an interest in the entity that leases the property to us and the lease arrangement existed at the time we acquired the business unit that occupies this property. Most of our leases are non-cancelable operating lease agreements and they expire at various dates through 2021. In addition to rent, the leases generally require us to pay taxes, maintenance, insurance and certain other operating expenses.

Rent expense was approximately $6.7 million in 2014, $7.5 million in 2013, and $7.2 million in 2012, which included rent expense associated with related party lease agreements of $1.7 million in 2014, $1.7 million in 2013, and $1.7 million in 2012.

Future minimum lease payments under all non-cancelable leases at December 31, 2014 are as follows:

Years ending December 31,	
2015	$ 5,437
2016	5,136
2017	4,459
2018	2,270
2019	1,680
Thereafter	2,005
	$ 20,987

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

(12) EMPLOYEE BENEFIT PLANS

We provide a defined contribution plan for the majority of our employees meeting minimum service requirements. The employees can contribute up to 30% of their current compensation to the plan subject to certain statutory limitations. We contribute up to a maximum of 3% of an employee's compensation to the plan. We made contributions to the plan and charged operating results $4.3 million during 2014, $3.8 million during 2013, and $3.3 million during 2012.

(13) COMMITMENTS AND CONTINGENCIES

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

(14) SEGMENT AND RELATED INFORMATION

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

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

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

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

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

ESS segment capital expenditures in 2013 and 2012 included $19.6 million, and $3.0 million, respectively for the construction of a new building and purchase of an existing building and land. ATSS segment capital expenditures in 2012 included $2.6 million for the purchase of a building and land to support long-term growth.

As of the year ended December 31, 2014	Enterprise Software Solutions	Appraisal and Tax Software Solutions and Services	Corporate	Totals
Revenues				
Software licenses and royalties	$ 46,047	$ 3,018	$ —	$ 49,065
Subscriptions	84,322	3,526	—	87,848
Software services	104,146	9,675	—	113,821
Maintenance	195,881	16,815	—	212,696
Appraisal services	—	21,802	—	21,802
Hardware and other	5,398	11	2,460	7,869
Intercompany	2,812	—	(2,812)	—
Total revenues	$438,606	$54,847	$ (352)	$493,101
Depreciation and amortization expense	$ 11,140	$ 866	$ 2,599	$ 14,605
Segment operating income	$114,993	$11,603	$ (25,370)	$101,226
Capital expenditures	$ 3,644	$ 359	$ 5,446	$ 9,449
Segment assets	$170,369	$16,463	$387,150	$573,982

As of the year ended December 31, 2013	Enterprise Software Solutions	Appraisal and Tax Software Solutions and Services	Corporate	Totals
Revenues				
Software licenses and royalties	$ 38,774	$ 2,067	$ —	$ 40,841
Subscriptions	59,070	2,794	—	61,864
Software services	85,459	7,808	—	93,267
Maintenance	175,180	16,540	—	191,720
Appraisal services	—	20,825	—	20,825
Hardware and other	6,342	—	1,784	8,126
Intercompany	2,899	—	(2,899)	—
Total revenues	$367,724	$50,034	$ (1,115)	$416,643
Depreciation and amortization expense	$ 10,569	$ 1,028	$ 2,189	$ 13,786
Segment operating income	$ 85,045	$ 9,428	$ (20,750)	$ 73,723
Capital expenditures	$ 22,457	$ 250	$ 3,438	$ 26,145
Segment assets	$161,923	$16,244	$266,321	$444,488

As of the year ended December 31, 2012	Enterprise Software Solutions	Appraisal and Tax Software Solutions and Services	Corporate	Totals
Revenues				
Software licenses and royalties	$ 32,060	$ 1,868	$ —	$ 33,928
Subscriptions	43,319	1,299	—	44,618
Software services	76,103	7,305	—	83,408
Maintenance	155,290	16,561	—	171,851
Appraisal services	—	22,543	—	22,543
Hardware and other	5,297	—	1,659	6,956
Intercompany	2,249	—	(2,249)	—
Total revenues	$314,318	$49,576	$ (590)	$363,304
Depreciation and amortization expense	$ 9,929	$ 958	$ 1,824	$ 12,711
Segment operating income	$ 71,135	$ 8,498	$ (16,889)	$ 62,744
Capital expenditures	$ 5,469	$ 3,382	$ 1,865	$ 10,716
Segment assets	$134,160	$18,464	$186,042	$338,666

Reconciliation of reportable segment operating income to the Company's consolidated totals:	2014	2013	2012
Total segment operating income	$101,226	$73,723	$62,744
Amortization of acquired software	(1,858)	(2,078)	(1,888)
Amortization of customer and trade name intangibles	(4,546)	(4,517)	(4,279)
Other expense, net	(355)	(1,309)	(2,709)
Income before income taxes	$ 94,467	$65,819	$53,868

(15) QUARTERLY FINANCIAL INFORMATION (unaudited)

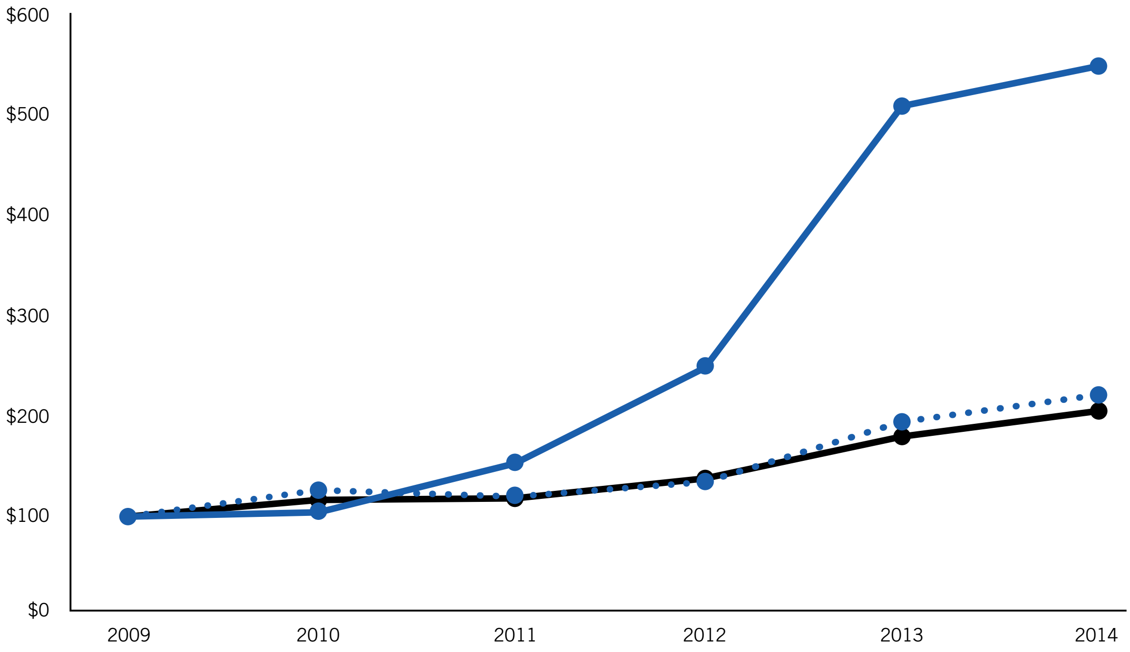
The following table contains selected financial information from unaudited statements of income for each quarter of 2014 and 2013.

	2014				2013			
Quarters ended	Dec. 31	Sept. 30	June 30	Mar. 31	Dec. 31	Sept. 30	June 30	Mar. 31
Revenues	$127,440	$128,664	$124,371	$112,626	$110,735	$107,021	$103,088	$ 95,799
Gross profit	60,491	61,792	58,558	52,530	52,767	49,549	47,042	43,845
Income before income taxes	24,760	26,698	23,406	19,603	19,062	17,572	15,053	14,132
Net income	15,317	17,000	14,740	11,883	10,512	11,049	9,047	8,493
Earnings per diluted share	0.43	0.48	0.42	0.33	0.30	0.32	0.26	0.25
Shares used in computing diluted earnings per share	35,661	35,284	35,161	35,500	35,348	34,764	34,290	33,948

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, 2009. 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



	100	104.27	151.23	243.29	512.96	549.67
	100	115.06	117.49	136.30	180.44	205.14
	100	124.60	119.59	133.96	194.13	219.93

Tyler Technologies, Inc.

S&P 500 Stock Index

S&P 600 Information Technology Index

STOCKHOLDER INFORMATION

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
Chief Marketing Officer

Robert J. Sansone
Vice President
Human Resources

W. Michael Smith
Vice President
Chief Accounting Officer

Terri L. Alford
Controller

Division Leadership

Andrew D. Teed
President
Appraisal & Tax and
ERP & School Divisions

Bruce Graham
President
Courts & Justice Division

Christopher P. Hepburn
Senior Vice President
ERP & School Division

Brett Cate
President
Local Government Division

Board of Directors

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

Donald R. Brattain[2,3,4]
President
Brattain and Associates, LLC

Glenn A. Carter[3,4]
Retired Chief Executive Officer
DataProse, Inc.

Brenda A. Cline[2,3]
Executive Vice President
Kimbell Art Foundation

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

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

Tuesday, May 12, 2015
9:30 a.m. CDT
Plano Marriott at Legacy Town Center
7121 Bishop Road
Plano, Texas 75024

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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